



# Insurance Ireland Response to CP156 – Central Bank Approach to Innovation Engagement in Financial Services

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## 4. Summary

## Introduction:

Insurance Ireland is the representative body of the Irish insurance industry. Insurance Ireland's members represent around 95% of the companies operating in the Irish market, making Insurance Ireland a strong leadership voice for the sector. Our members are progressive, innovative and inclusive, providing competitive and sustainable products and services to customers and businesses across the Life and Pensions, General, Health and Reinsurance sectors, both in Ireland and around the world. Ireland is also home to a number of back-office service centres, as well as R&D and innovation centres, operated by insurance groups. Insurance Ireland's role is to advocate on behalf of our members within Ireland, in Europe and internationally. We engage with the policymakers, regulators, other statutory bodies and media by emphasising the positive role that insurance plays in business and for consumers, and we highlight the issues of concern for our members and their customers.

Ireland is a thriving global hub for insurance, reinsurance and Insurtech. Ireland is the fourth largest market for insurance services in the EU. Irish insurers are the top exporters of life and non-life insurance across the European Economic Area (EEA) and Ireland is one of the major reinsurance and captive destinations. At the same time, Ireland has a very competitive life and non-life insurance market domestically. The sector employs some 35,000 people in skilled and well-paid jobs and contributes in excess of €2.7 billion annually to the Irish Exchequer.

Insurance Ireland is an important stakeholder in the Government's "Ireland for Finance" strategy for the development of the financial services sector from Ireland with the theme of Fintech and Digital Finance one of the biggest topics for progression within the strategy out to 2026, ensuring Ireland continues to be a top tier destination of choice for innovating financial service firms. Insurance Ireland is also a founder member of Instech.ie, which is aiming to make Ireland a leading European Insurtech hub, with innovation an important element in promoting efficiency and enhancing competitiveness in the market, with the capacity to bring many benefits to consumers, businesses and wider society.

## Overall Observations:

Insurance Ireland welcomes this consultation on the Central Bank's approach to Innovation Engagement, signalling the open and engaged nature of the Central Bank for interactions with innovative financial services firms. The Consultation Paper itself suggests that the thinking of the Central Bank has advanced with evident reflection on how the Central Bank can improve its own innovation engagement with the financial services sector. It is encouraging that the Central Bank recognises the need to deepen its engagement with innovators and the wider innovation ecosystem, as well as the stakeholders within it.

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 financial services. This also reflects the important role the regulator plays in fostering an innovative culture and contributes to a more dynamic and productive exchange of ideas and concepts which ultimately supports innovation that benefits consumers, businesses, the economy and builds on Ireland's reputation globally as a centre of excellence for innovation in financial services. The financial services sector is also becoming increasingly aware of EU-wide initiatives that include efforts directly promoting the establishment of regulatory sandboxes for specific fields, for example the European Blockchain Sandbox, the DLT Pilot Regime Regulation and the EU Artificial Intelligence (A.I) Act.

Innovation hubs are widespread across the EEA and regulatory sandboxes are active in a number of countries. The Joint ESA's Report on Innovation Facilitators on Innovation Hubs and Regulatory Sandboxes<sup>1</sup> outlined that the majority of the innovation hubs were established between 2016 and 2019. 11 EU Member States and one EEA country operate regulatory sandboxes, with most of the regulatory sandboxes established between 2020 and 2021. In relation to the inquiries received by innovation hubs and regulatory sandboxes between 2018 and 2022, the most common types of inquiries received were related to (i) whether or not a certain activity required licensing authorisation or registration and (ii) information and analysis about specific regulatory and supervisory obligations.

Innovation in financial services such as insurance is developing in a number of ways such as the use of Fintech/Insurtech that is driven primarily by start-ups; in others, it is most often deployed by large technology conglomerates and incumbent insurance undertakings. The way in which insurance products are developed and how they are delivered to consumers is undergoing transformational change which accelerated significantly during the Covid-19 pandemic. The concepts, developments and efficiencies that new entrants and incumbents can bring with the development of innovative product and service offerings are key drivers of swift access to insurance products and produce cost efficiencies, all of which is in the consumers' best interests and align with the public policy objectives of the Central Bank.

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<sup>1</sup> [https://www.esma.europa.eu/sites/default/files/2023-12/ESA\\_2023\\_27\\_Joint\\_ESAs\\_Report\\_on\\_Innovation\\_Facilitators\\_2023.pdf](https://www.esma.europa.eu/sites/default/files/2023-12/ESA_2023_27_Joint_ESAs_Report_on_Innovation_Facilitators_2023.pdf)

## **Funding:**

Insurance Ireland note the Central Bank strategy around funding and the move to full industry funding with the recovery rates applied to each sector dependent on their share of financial regulation costs. The insurance sector has moved to full industry funding for a number of years. While it is welcome that there is no new methodology proposed at this point in time, it is unclear what the estimated costs of the enhanced approach to the Innovation Hub and the development of the Innovation Sandbox Programme, either in its establishment or the projected annual running costs.

If this is clearly set out it would provide undertakings a greater insight into the annual work programme of the Central Bank's innovation unit and mitigate any "expectation gap" between regulator and the regulated and fintech community given the developments over the past number of years which have increased the pace, scope, and impact of innovation in the area of financial services.

While all financial services entities will ultimately benefit from an enhanced innovative environment, high level projected costings should be made available on an annual basis post establishment. Regarding the Sandbox Programme specifically, the proposal supports only a small number of entities at any given time and given the costs involved in set up, establishment and ongoing development of the sandbox programme, indicative costs would be welcome.

## **Scope of the Innovation Sandbox Programme:**

Ireland is one of the leading jurisdictions for (re)insurance in the EU, with a considerable number of our members selling products into other EU member states and third-country jurisdictions such as the UK. Given both the cross border nature of insurance and innovation where new technologies, business models and new products and services are likely to interact with consumer across borders, it would be beneficial to outline whether the programme is applicable to firms where their consumers are regulated under conduct of business rules where the products are distributed in another jurisdiction, or how regulatory interaction would take place in the host state.

When looking at how Innovation Hub and Sandboxes that have been deployed elsewhere they all have faced similar difficulties in measuring success, but it will be important that the Central Bank set out a clear vision on what success will look like from a supervisory perspective as a result of increased engagement via the Innovation Hub and the learnings and developments taken from the Sandbox Programme. We suggest that the CBI also makes every effort to share ongoing experiences, practices and learnings regularly, perhaps with the annual report, so that the financial services sector can understand how both the Hub and the Programme develops and evolves over time, ensuring that new innovations can benefit from the CBI's approach.

## 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?

Insurance Ireland fully support the enhancements underway with the Innovation Hub. It is a welcome step in fostering a deeper communication and engagement model between the regulator, market incumbents, startups, Big Tech and third level institutions. It will enable all stakeholders to leverage the work of the Hub and develop a shared knowledge approach which should strengthen and improve the understanding of how innovation operates within the regulatory framework and will be an increased platform to provide feedback on the latest developments or trends.

It also enables firms innovating in financial services to engage with the regulator outside of existing 'formal' regulator/firm engagement processes. The launch of the Innovation Hub in 2018 was a positive first step, but it is recognised by our members and the Central Bank itself that there is a need to evolve the engagement approach against the backdrop of increasing maturity of the innovation ecosystem. Over the past two years the majority of engagements with the Innovation Hub have been in the payments, blockchain and crypto sectors rather than by insurance undertakings or Insurtech.

The approach to the enhancements seem sensible. While implied in the consultation paper, a more explicit link-up and visibility between incumbent firms and startups/new entrants would be beneficial to the market and consumers in general. The focus of the consultation paper is understandably around the regulatory engagement model but there are wider benefits to an Innovation Hub which can be realised, including synergies with other stakeholders throughout the enhanced outreach, regional roundtables, themed workshops, and participation in innovation activities to better understand evolving innovation trends including pre and post event follow-up engagements. The Digital Centre for Knowledge Sharing under the umbrella of the Innovation Hub will also become a significant repository of information over time.

The proposed enhancements should bring a greater structure and improve the cadence of the interaction between innovating insurance undertakings and the Hub, which to date have been at a lower level when compared to other financial services sectors. We recognise that the enhancements to the Innovation hub are an indication of a progressive, technology-friendly regulator which is open to innovation in financial services. The Hub is an important point of contact where firms can engage with the Central Bank outside of the formal regulatory and supervisory processes when it comes to potential innovative projects firms they may be considering. The Hub has been helpful to startups helping them understand what being regulated entails so firms can build regulatory requirements and mitigations into their early stage development.

Based on the annual updates of the activity of the Innovation Hub published by the Central Bank, the majority of inquiries tend to come from start-ups seeking insights into regulatory frameworks applicable to their business models, predominately from the payments and digital asset sectors. These initial interactions not only clarify the regulatory landscape but also acquaint firms with the Central Bank's processes, equipping them for future applications.

The enhanced Innovation Hub should have a clear tangible objective. Normally, it is considered as a need to better understand the Fintech/Insurtech ecosystem, monitor developments, and provide advice and guidance to firms. We have also seen that Innovation hubs generally conduct outreach and engagement to gather intelligence and insights, and monitor trends and developments. The objective is to identify where new technologies might create policy gaps or where existing supervisory policy might be unnecessarily inhibitive to innovation.

A key tenet of the Hub should be to enable firms innovating in financial services to engage with the regulator outside of existing 'formal' regulator/firm engagement processes. Some firms or startups have expectations that are outside of the scope, mandate and support offered by the innovation hubs and it is important that the Central Bank lay out the parameters of deeper engagement of the Hub which should outline it will not deal with i.e.;

- Inquiries not related to innovation.
- Applications where the required criteria are not fully described, which slows down decision engagement.
- Queries that are not of a regulatory nature and do not fit with the scope or parameters of the Innovation Hub.

For innovative financial services firms there is also a logical and coherent path forward post Hub engagement. The firm may (i) apply for an authorisation (ii) adjust its business model and operation in order to be compliant with the existing legal and regulatory framework without the need for any application, or (iii) pursue further dialogue with the Central Bank including possible application to the Innovation Sandbox Programme.

The ESAs report found that the establishment and operation of innovation hubs in the EEA have achieved a certain degree of maturity and that the Fintech sector perceives hubs as positively contributing to regulatory and supervisory clarity. The report also outlined the primary objectives of innovation hubs:

- Enhancing firms' understanding of the regulation and supervisory expectations.
- Providing guidance on the conformity of innovators proposed business models with regulatory requirements.
- Getting insights on potential need to adjust regulatory framework.
- Establishing a deeper network between the Central Bank and financial service firms to foster innovation.
- Emphasising Ireland's openness to innovation.

The enhancements to the Innovation Hub should align with these objectives.

**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?**

This is a positive development and should help the CBI realise its stated objectives. It would be helpful to outline examples (or draw on previously completed innovation activities) to demonstrate the areas that could be covered, case study engagements and outcomes thus far, to help demonstrate how the programme can work in practice. We also feel this would be a useful tool for the CBI to identify, and inform the market, of perceived protection gaps, which would allow insurers to develop products which address an identified need. Sandboxes are more generally utilised where technologies and business models are substantially novel and require regulatory authorities to have a greater understanding of risks and benefits so in many cases are framed towards startups.

The development of an Innovation Sandbox programme is a welcome addition to the innovation ecosystem. Insurance Ireland have called for its establishment for a number of years. We recognise that the development of the innovation sandbox will be delivered effectively within the Central Bank's mandate, and we support the ambition to operate it in 2024 and harness the learnings from that experience to consider its effectiveness and future enhancements.

The fundamental benefit of the operation of the Innovation Sandbox programme for the user will be having a close contact with Central Bank for the purpose of testing and gaining better appreciation of the application of the regulatory framework and supervisory expectations regarding the innovative proposition at early stage development.

**Consumer Testing:**

The Consultation Paper outlines that the Innovation Sandbox programme, as it is proposed, will not provide any derogation or waivers from regulation but will seek to apply the applicable regulatory frameworks proportionally with an outcome focused, risk-based approach and that there will also not be any digital testing of products with consumers in the proposed programme. In our view this will limit the effectiveness and ambition of the Programme. The ESA's joint report noted that the majority of firms participating in regulatory sandboxes are able to test their propositions in a 'live' environment (with real consumers or companies) within the agreed parameters of the test.

Regarding the testing itself, some NCAs participate as an observer in the most significant tests. In this way they can give suggestions on how to improve the solution tested at a technical or design level, improve the usability of the solution, and make it a better fit in the regulatory framework if the product service or technology is to be launched to market. All the Regulatory Sandboxes analysed by the ESA's included specific means to protect consumers. To do so, admitted firms have to provide (i) a clear exit plan setting out how consumers will be treated on exit and (ii) a clear communication explaining the nature of the test and the implications for consumers. Compensation or redress measures, should any consumer detriment be suffered in the context of testing, are also very considered.



The test and-learn method allows regulators to gain a more accurate understanding of the impact of new technology, product or service offering on a selection of consumers, that can inform policymaking. For the innovating firms, the goal of utilising the CBI's Innovation Sandbox Programme is to enhance their understanding of the application of the existing regulatory framework to the innovative technology product or service they propose to test. Where testing with a selected number of consumers does take place, it should include specific consumer protection measures to enable the Central Bank to terminate the testing if the participating firm in the programme fails to comply with the agreed testing plan or testing parameters.

For example the Financial Conduct Authority (FCA) regulatory sandbox provides innovators with the ability to test products and services in a controlled environment and gives the opportunity to learn whether a particular technology works in a market or if a business model is attractive to consumers with the FCA providing access to regulatory expertise which supports firms in identifying consumer protection safeguards that should be built into any new products or services. This then aligns with the policy objective of ensuring financial services operates in the best interests of consumers and the wider economy.

If the Central Bank envisages expanding the parameters of the Innovation Sandbox Programme where an iterative approach is taken to the Programme, where it has built scale and developed over time, then access to and testing with consumers in limited and controlled manner is the next logical step for the Innovation Sandbox Programme.

### **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. The intention that the Programme will be open to a wide range of applications from all sectors i.e. authorised firms, start-ups, new entrants, and academic projects is ambitious and to be welcomed.

Based on the ESA's joint report the phases of the operating models for sandboxes generally focus on application, preparation, testing, exit and evaluation. The preparation phase will be important to ensure it is coherent with the eligibility criteria for the programme. The Innovation Sandbox Programme should also have clear policies and procedures in place to protect the intellectual property and business secrets of an individual entity. The most common criteria used to assess an innovating firm seeking access to the Programme should be the firms readiness to conduct tests, the overall innovativeness of the proposition, and the benefits to the consumers that it may arise.

It would be beneficial to outline a target number of cohorts and the expected time commitments to help potential participants gauge the amount of resources required to participate. As an example, the Lloyd's Lab in the London market has a 10 week accelerator innovation programme and runs 1-2 per year with approximately 10 participants per cohort.

Running the Innovation Sandbox programme in conjunction with third parties has also provided differing views among our members. Incumbents and large Insurance Groups generally have access to expertise both in-house and through professional advisory services. However, smaller undertakings and startups, might find it more beneficial to deliver it in conjunction with a third party as they may not have access to the same resources as larger firms.

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.

#### **Outcomes:**

We welcome the proposal of the Central Bank to share the outcomes of all sandbox activity with stakeholders on an annual basis to ensure transparency and to share knowledge and learnings from the programme, as it will help harness the culture of innovation across the financial services industry. It will also be informative and manage the risks of an uneven playing field where potentially small number of sandbox approved innovators have access to unique information and insights.

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

Insurance Ireland agree that the thematic approach will enable the Central Bank to focus the Innovation Sandbox Programme on areas of particular concern that may provide worthwhile to consider addressing in line with public policy objectives. From the basis of our discussions with members and other trade associations in the financial services sectors a number of common policy themes (not exhaustive) could be considered a good fit to address through the Innovation Sandbox Programme;

- Anti-Money Laundering (AML).
- Build Resilience & The Protection Gap
- ESG
- Fraud
- Open Finance/FiDA
- Financial Inclusion and access to financial services
- Digitalisation and Communication with Consumers
- Artificial Intelligence (A.I) and its applicability to the financial services sector.

The recently approved EU AI Act includes additional measures that are also proposed to support innovation, which include measures to encourage Member States to establish A.I regulatory sandboxes. The themes should be considered significantly innovative or which, through the use of new technologies, contribute to offering services, across the specific areas of the financial services sectors that are novel and different from what is already present in the market and sit within the realm of the Central Bank’s supervisory framework.

Insurance Ireland agree that a thematic approach seems to be the desired approach in line with the public policy objectives of the Bank, but note that the ESA joint report also analysed Sandboxes that had a general, rather than a thematic scope. Such an approach allows NCAs to observe a broad range of innovative solutions and technological developments with some NCAs

considering that by choosing particular themes, NCAs could, in some way, be limiting and/or structuring innovation in financial services outside of the organic manner in which it generally manifests.

### **Holistic Approach.**

It is important when undertaking a thematic approach to be mindful of the interconnectedness of ongoing approaches and strategies towards fostering innovation by Government and State agencies such as the IDA and Enterprise Ireland. The technology and innovation pillar of the Government's International Financial Services Strategy "Ireland for Finance" focuses on providing a collaborative approach to addressing emerging challenges and opportunities in technological developments, which is actioned by the cross-government Fintech Steering Group and the Joint Fintech Group and similar themes may be discussed by these groups.

Insurance Ireland would propose that the themes selected for the Innovation Sandbox Programme are decided upon by the Central Bank in conjunction with the CBI Financial Industry Forum Innovation Forum Sub-Group to support the ambition and the public policy objectives of both industry and Central Bank.

### **Summary**

Insurance Ireland welcome the increased engagement from the Central Bank in the area of Innovation and the proposals put forward in this Consultation Paper. Insurance Ireland feel our members may get a more material benefit from the proposed enhancements to the Innovation Hub, with the Sandbox (initially) geared towards start-up or Fintechs rather than long established and mature insurance undertakings.

It will be important to continuously evaluate the functioning of Innovation Hubs and Innovation Sandbox Programme to ensure that both approaches work simultaneously and effectively, while also evolving the methods of engagement and communication with regulated and unregulated innovating entities. It would also be helpful from an industry perspective to get a view from the Central Bank of how it envisages the Sandbox Programme will develop over time, or what is the vision and strategy is for its development over a five year period.

ENDS.

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