



CP – 156 – Central Bank approach to innovation engagement in financial services

Irish Life and Canada Life Companies Submission – February 2024

INTRODUCTION

ABOUT IRISH LIFE AND CANADA LIFE

Canada Life was founded as Canada's first life insurance company in 1847. It has now grown into one of the world's largest and most financially secure providers of life insurance. Since 2003, Canada Life has been a part of Great-West Lifeco Inc., one of the leading financial service providers in Canada. Great-West Lifeco Inc. cares for more than 28 million clients around the world.

Irish Life empowers its customers to look to the future with more confidence and certainty. We manage the financial needs of more than 1.6 million Irish customers. We think ahead to find opportunities and anticipate challenges to help deliver more security and certainty for their futures. We have over 80 years' experience serving corporate and private customers in Ireland. So we pride ourselves on having a deep understanding of our customers' needs, interests and concerns for themselves and their families.

Irish Life Group (ILG) includes inter alia Irish Life Assurance and Irish Life Health as well as its associated companies Irish Life Investment Managers and Setanta Asset Management. We currently have 2,400 people working at our campuses in Dublin and Dundalk, and we continue to grow.

Canada Life Assurance Europe plc has been operating in Germany since the year 2000. It supports over 600,000 customers and is authorised by the Central Bank of Ireland and regulated by the German regulator Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) for conduct of business rules.

Irish Life Group and the Canada Life companies welcome the opportunity to share its views in relation to the Central Bank approach to innovation engagement in financial services.

Submission - Questions to stakeholders

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

We are generally supportive of any enhancements that drive innovation, improve efficiency, and provide value to customers. Hence we welcome this Consultation document and the proposals set out therein that might further enhance and encourage innovation into the future. In particular, the ability to engage in consultation with the Central Bank to gather feedback on the regulatory aspects of innovation projects will be of great value for future developments. The willingness for the Central Bank Innovation Hub to also participate in projects hosted by other organisations and industry bodies is also of significance so that a regulatory perspective can be gained earlier within the project lifecycle.

However, for this value to be maximised it will be fundamental that there is close alignment between the Innovation Hub and other departments within the Central Bank to ensure there is a consistent regulatory understanding between the Innovation Hub and then later the desk teams of regulated entities.

Consideration should also be given to further enhancements of the Innovation Hub such as providing more guidance and feedback to innovators, facilitating peer-to-peer learning and collaboration, and strengthening the link with other international innovation hubs

It's important for the Innovation Hub to stay ahead of the curve and continue to push the boundaries of what's possible in our industry.

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 proposal to establish an Innovation Sandbox Programme is a positive and welcome step. An Innovation Sandbox Programme can provide a controlled environment for testing new ideas and technologies, which can help drive innovation and improve efficiency. This, in turn, can support the Central Bank in meeting its overall objectives, including the needs of consumers and the wider economy. By providing a safe space for experimentation, an Innovation Sandbox Programme can help foster a culture of innovation and encourage the development of new products and services that benefit consumers and the economy as a whole.

However, we would note that the current Sandbox is far more limited than that provided by the UK financial regulator, the Financial Conduct Authority (FCA), which allows firms to test innovative propositions in the market with real consumers. The Sandbox is open for applications from all sectors of the financial services market and provides firms with access to regulatory expertise and a set of tools to facilitate testing¹.

The FCA can also grant waivers or modifications to its rules for firms that are eligible for the Sandbox, which means that they can test their products or services without complying with certain regulatory requirements that would otherwise apply. However, the FCA does not give derogations from the UK or EU legislation, as it does not have the power to do so. The FCA can only waive or modify its own rules, which are derived from the legislation.

The limited nature of the proposed sandbox therefore will restrict its value to financial services providers within the market and put them at a disadvantage to those that may have access to more flexible Sandboxes in other jurisdictions. Without the ability to test innovative propositions with real customers it will be of much limited value to the industry and may inhibit Horizon 2 and 3 innovation.

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

The operating model of the Innovation Sandbox Programme should be designed to be flexible and adaptable to the needs of different participants. A one-size-fits-all approach may not be appropriate for startups and incumbents.

The ability to test on consumers should be considered to ensure that the benefits of the sandbox are not impeded. Additionally, relaxation of regulatory requirements within the sandbox would provide participants with the flexibility they need to test and develop their ideas. The sandbox could also be used to promote collaboration between startups and incumbents, to solve consumer problems and drive innovation in the industry.

Further we note that competitive considerations may limit the ability of commercial organisations to contribute fully to the innovation sandbox as currently proposed. The proposal to have 'themes' considered within the Sandbox will need to be very carefully assessed to ensure it does not breach the parameters of competition law. This might fundamentally limit the themes to matters that do not impact on customers, products, price or service and may only be of benefit for broader non-commercial themes.

We would propose the following operating model of the Innovation Sandbox Programme consisting of the four stages: application, assessment, testing and evaluation.

It would be helpful to clarify the roles and responsibilities of different regulators, as well as the mechanisms for cross-border cooperation and information sharing. Of particular benefit would be details on how the Innovation Sandbox Programme will interact with other regulators, such as the European Central Bank, the European Banking Authority, or the Data Protection Commission.

The consultation paper confirms that there will be no derogations or waivers for innovators who participate in the Innovation Sandbox Programme. It would be beneficial to explore the possibility of granting some regulatory flexibility or exemptions for testing purposes, provided they do not compromise the Central Bank's objectives or consumer protection.

If live testing on customers will not be considered, then need to consider other mechanisms to consumers to solicit their feedback. It would be useful to include some mechanisms for consumer engagement, such as surveys, focus groups, or online platforms, to gather insights on the needs, preferences, and expectations of consumers, as well as to measure the impact and outcomes of the innovations tested in the programme. This could also enhance the trust and confidence of consumers in the fintech sector and the Central Bank's innovation approach.

The Consultation states that the Innovation Sandbox Programme will work via an annual 'Call for Proposals' relating to different areas/themes of innovation as decided by the Central Bank. Given the current fast pace of technological change, it might be worth considering having more frequent calls for proposals. In addition, competition considerations will have to be carefully considered on the areas/themes selected.

We hope that the Sandbox concept can quickly move to an ability for individual companies and organisations to test specific commercial initiatives.

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

The Central Bank Innovation Sandbox Programme could address a wide range of themes and areas of innovation, depending on its goals and priorities. Some potential areas of focus could include:

- Financial inclusion and access to financial services
- Digital payments and remittances
- Blockchain and distributed ledger technology re Digital Identity
- Open insurance and API-driven innovation
- GenAI application to increase financial literacy
- Improving onboarding / identity
- Improving underwriting
- Embedding insurance
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In addition to the themes and areas of innovation mentioned above, the Central Bank Innovation Sandbox Programme could also address issues that are universal to the industry, including scam phone calls, emails, and messages. These issues are a growing concern for consumers and financial institutions alike, and the sandbox could be used to test and develop innovative solutions to combat fraud and protect consumers. For example, the sandbox could explore the use of advanced analytics, machine learning, and artificial intelligence to detect and prevent fraudulent activity, as well as the development of secure communication channels and authentication methods to protect consumers from scams.

Conclusion

Irish Life Group and Canada Life Europe would welcome the opportunity to meet with the Central Bank to discuss any of the matters set out above and to clarify the position as detailed above. We would strongly recommend a review of the current proposals to allow for live customer testing within the Sandbox and regulatory flexibility for testing purposes.