Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Our Approach to Supervision

February 2025

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1. Introduction

The Central Bank of Ireland's mission is to serve the public interest by maintaining monetary and financial stability while ensuring that the financial system operates in the best interests of consumers and the wider economy. We are part of the European System of Financial Supervision (ESFS) as well as being part of European Central Bank Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). As an integrated central bank and regulator we have a very broad mandate. We are responsible for the regulation and supervision of a wide range of sectors encompassing over 13,000 entities[1] of varying size and complexity serving consumers and investors in Ireland, Europe and globally.

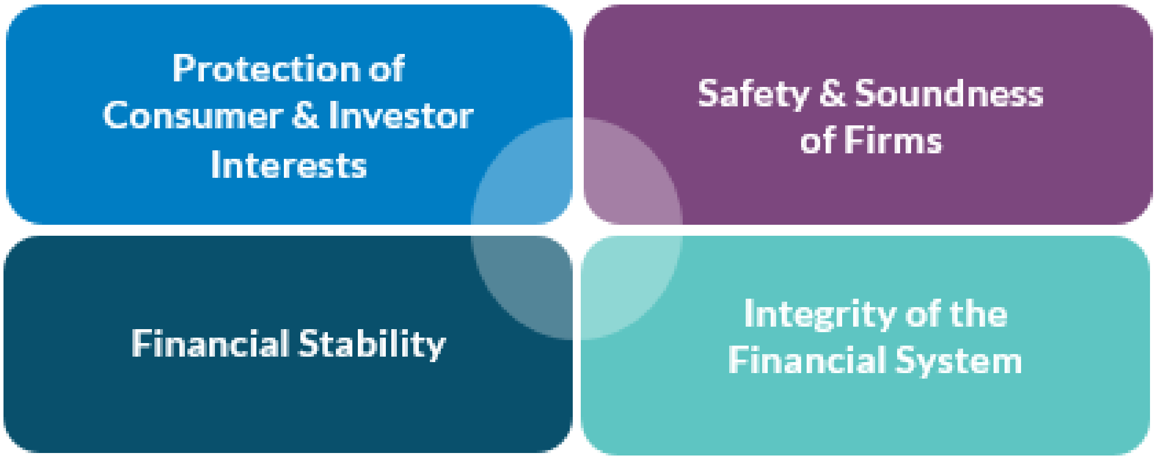
1.1 Outcomes Focused, Risk-Based Supervision

Financial regulation is designed to support a well-functioning financial system that delivers for citizens and the economy. Ireland's financial services sector is subject to a range of domestic and international regulation, which provide an important framework to protect consumers of financial services, to ensure the integrity of the financial system is upheld, and that firms are safe and sound.

While financial regulation plays an important and necessary role, on its own, it is not sufficient to achieve our four safeguarding outcomes: protection of consumer and investor interests, the integrity of the financial system, the safety and soundness of firms, and financial stability. Supervision, that involves engagement, analysis and oversight of financial services firms, together with the implementation, monitoring and enforcement of regulations, is therefore crucial.

[1] This figure includes approximately 9,000 investment funds.

Figure 1: The Central Bank's Safeguarding Outcomes



Given the size and complexity of the financial sector, the Central Bank takes a risk-based, outcomes focused approach to supervision. This allows us to deploy our finite resources in a manner that will achieve the best outcomes and to the areas that pose the greatest risks to our safeguarding outcomes. The Central Bank does not operate a no-failures regime, but rather works to ensure the effective management of risks and the mitigation of impacts on consumers and the wider economy should risks crystallise.

Risk-based supervision focuses on the most material risks. It involves using data, judgement, insight, and challenge. It does not mean adopting a defensive or reactive strategy i.e. one that is focused on risk elimination or preventing negative things from happening. On the contrary, it means adopting a proactive and forward-looking approach, involves setting clear objectives and then identifying and responding to the risks occurring that can prevent the achievement of those objectives.

Risk-based supervision is focused on remediating issues and delivering positive outcomes. It is underpinned by the use of, and escalation through, our full supervisory toolkit – including enforcement – and ensures firms are taking responsibility for managing the inherent risks of their business, to their own sustainability, to consumers/investors and to the wider financial system.

1.2 Evolution of Our Supervisory Approach

The Central Bank introduced risk-based supervision (PRISM) in 2011, as part of our response to the lessons of the financial crisis[2]. Since that time, both our regulatory responsibilities, and the sectors we supervise, have changed significantly. This is particularly true in recent years, given the rapid change the financial sector has undergone, to become bigger, more complex, more interconnected and more digital.

Innovation, digitalisation, and an increasingly interconnected risk landscape, is reshaping the risk environment of the sectors we supervise and the consumers we work to protect. We recognised this in our strategy, and have responded through the development of a new supervisory approach.

We want to continue to deliver an effective approach to supervision, which remembers the lessons of the past, anticipates future risks, and seeks to continuously improve. Our new approach builds on the strong foundations of our existing risk-based approach to supervision, incorporates our European and international supervisory responsibilities, and the domestic and European regulatory framework in which we operate. The new approach does not change the safeguarding outcomes we are pursuing, however, it recognises the changing nature of the financial system – which increasingly transcends traditional regulatory distinctions such as 'prudential', 'conduct', 'anti money laundering' etc. – and delivers a more integrated approach to supervision, with multi-disciplinary teams working together to deliver our supervisory priorities in a more effective way.

The evolution to our new approach was based on the following design considerations:

- Outcomes focused and risk-based supervision – remaining fundamental to our approach
- Integrated supervision – supervising sectors and firms on a holistic basis, for all our safeguarding outcomes, undertaken by supervisory teams from vertical and horizontal areas

[2]https://inquiries.oireachtas.ie/banking/wp-content/uploads/2014/12/Honohan-2010.pdf

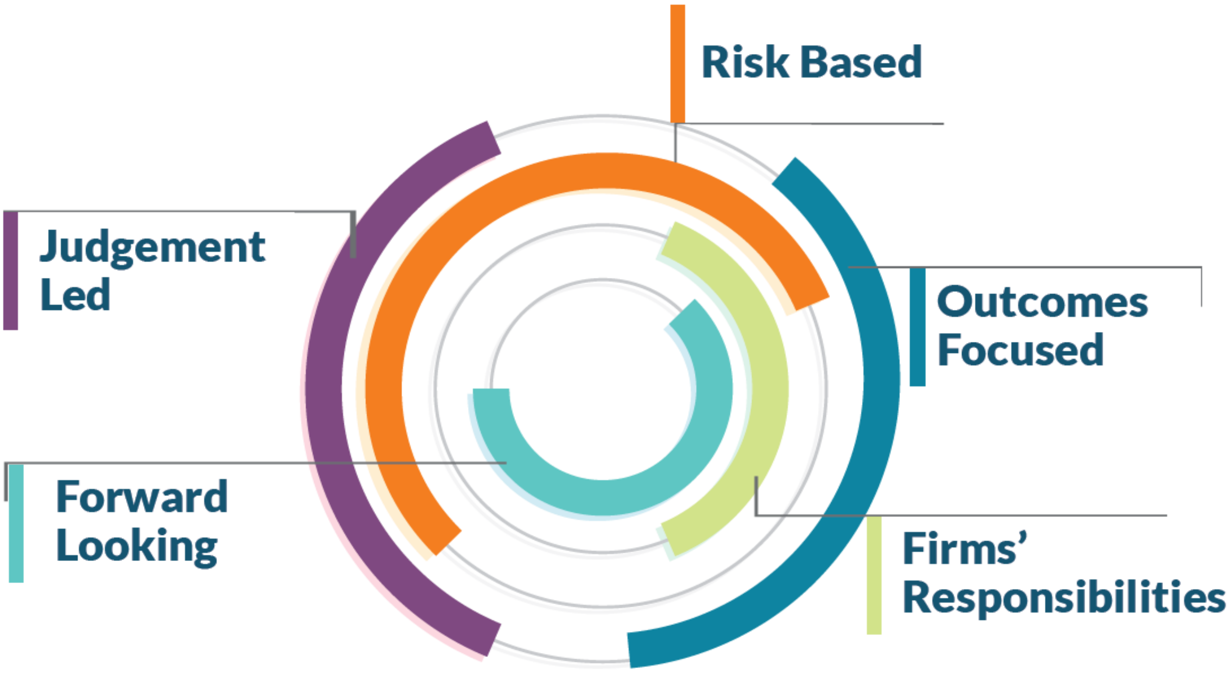
- Risk response and remediation - taking a more agile approach to intervening, using appropriate escalation within our supervisory toolkit, up to and including enforcement
- Supervisory effectiveness – building on the integrated nature of our central banking and regulatory mandate, and as part of the ESFS, to achieve greater effectiveness
- Supervisory efficiency – integrating to the greatest extent possible, to deliver efficiencies in our supervisory approach.

How we deliver on our mandate will look and feel different for us and for the sectors and firms we supervise under our new, integrated framework. This document provides an overview of our supervisory framework, including details of our supervisory principles and practices.

2. Our Supervisory Approach

Our Supervisory Principles provide a common understanding of how we approach delivering on our safeguarding outcomes. They also enable the public and our stakeholders to understand how, at a macro level, the Central Bank approaches supervision.

Figure 2: Supervisory Principles



Outcomes Focused:

Our supervision is outcomes focused. We clearly communicate our supervisory concerns to sectors and firms, highlighting the outcomes we want to see and the timelines in which we expect them to be achieved. We use our regulatory and supervisory powers proportionately, escalating as required, to achieve our desired outcomes.

Risk-Based:

We focus our supervisory efforts on material risks to our safeguarding outcomes. We deploy supervisory effort towards the greatest potential impacts of risks, threats or vulnerabilities, to ensure that the financial system operates in a manner that supports the effective and sustainable functioning of the economy, delivers positive outcomes for the users of financial services and protects the integrity of the financial system.

Judgement Led:
Our approach to supervision uses data, analysis and information we receive in the course of our activities and is informed by our professional judgement. This increases our ability to react to new developments, intervene in a timely manner, leverage our integrated mandate, and escalate where, and when necessary.

Forward Looking:
We take a longer-term view, anticipating the impact of current trends and emerging risks in a national and international context, so that we are better positioned to respond quickly and effectively.

Firms' Responsibilities:

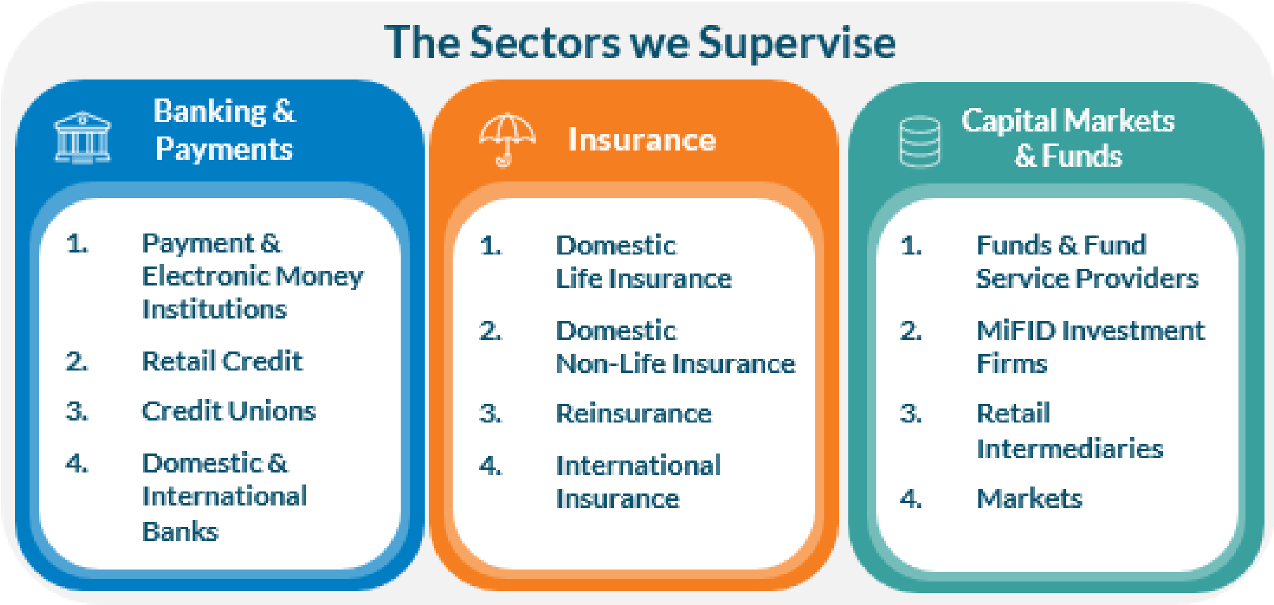
The focus of our work is resilience, adaptability and trustworthiness in the provision of financial services. Responsibility for risk identification, management and mitigation rests first and foremost with the board and management teams of firms.

2.1 Supervision at a Sectoral Level

Our supervisory approach uses a common framework to provide a structured means of assessing different risks. The framework takes into account the prevailing risk landscape, our risk appetite and tolerance, as well as the nature and scale of the firms, sectors, and products that we supervise.

Under our supervisory framework, we consider the financial system as consisting of three overarching industry categories of related products and services. These are: Banking & Payments, Insurance, and Capital Markets & Funds. Each category contains a number of sectors which cover all supervised entities.

Figure 3: The Sectors we Supervise



Each sector is supervised in an integrated, holistic way with a multi-year supervisory strategy. These strategies articulate the targeted outcomes we seek to achieve, and the proportionate supervisory or regulatory actions we will take at a sectoral, or an individual firm level. The strategies are refreshed annually to ensure current and emerging risks, threats and vulnerabilities are considered.

We use a structured process to facilitate the identification and prioritisation of risks, threats and vulnerabilities. This risk assessment process involves scanning the broader external macro environment, as well as identification of threats and vulnerabilities specific to a sector or an individual firm. We take an integrated approach to the prioritisation of risks, where we focus on those risks most likely to threaten the delivery of our safeguarding outcomes and/or those risks significantly beyond our risk tolerance levels.

As part of our engagement on our prioritised risks, we publish an annual Regulatory & Supervisory Outlook report which sets out the Central Bank's perspective on the key trends and risks that are shaping the financial sector operating landscape and our consequent regulatory and supervisory priorities.

Given the range of firms subject to supervision under the Central Bank's mandate, the sectoral supervisory strategies ensure that there is consistency in our approach to supervision. We deliver supervision through a broad range of supervisory actions and interventions, which are used to prevent or mitigate risks posed to our safeguarding outcomes.

These actions and interventions, range from awareness and expectation setting activities, to programmatic supervision with individual firms and sectors, escalating to policy and/or enforcement and resolution actions.

Programmatic supervision includes:

- Direct engagement with sectors, firms and individuals
- Thematic reviews, onsite inspections, deep dives / investigations, risk analysis and assessment
- Activities in line with our European and international responsibilities (e.g. the Supervisory Review & Evaluation Process)
- Firm specific risk assessments (e.g. Business Model & Strategy risk)
- Monitoring and review of submissions (e.g. regulatory returns, breach and incident reports)
- Ensuring firms take appropriate risk mitigation actions to address issues identified
- Identifying and communicating best practices to drive continuous improvement in the financial system.

2.2 Risk Mitigation and Remediation

Where issues or concerns are identified, we communicate these to individual firm(s) or sector(s) and explain the outcomes we want to achieve.

This may take the form of, for example, a '*Dear CEO'* letter, issuance of a risk mitigation programme, requiring a firm to prepare a skilled person report, or at the higher end of our escalation toolkit, the utilisation of direction-making powers.

The multi-year supervisory strategies include appropriate, holistic escalation of supervisory actions, and consideration of proportionality, to deliver effective remediation. For example, taking into account the capability of a firm to address an issue, the pace of implementation and potential impact of the issue identified, we may increase the intensity and frequency of supervisory engagement and/or utilise our enforcement powers such as the Administrative Sanctions Procedure.[3]

We take a targeted and proportionate approach to the use of our enforcement powers. Enforcement cases where significant action is merited are prioritised and this is determined by considering, e.g. the seriousness of the suspected breach (including the harm or potential harm involved) and alignment with our supervisory priorities and safeguarding outcomes. Strong enforcement outcomes serve to hold regulated firms and individuals to account, deter poor practices, achieve compliance, and promote the behaviours the Central Bank expects of the financial services sector.

2.3 Additional Supervision for the Most Significant Firms

Our supervisory approach recognises that certain firms could have a significant impact on the achievement of our safeguarding outcomes. These firms are closely supervised on a continuous basis, at an individual firm level, by integrated supervision teams. This cohort of firms is determined based on a number of factors including:

- Their systemic nature, including the risk that a disorderly financial or operational failure would negatively impact financial stability directly or through potential contagion, whether domestically or globally
- The materiality of the risk that their ongoing operations present to consumers and investors in Ireland and throughout Europe - through scale, and/or, the nature of the products sold, and/or, the nature of their customer (e.g. retail or wholesale) and/or limitations in the timely substitutability of services

[3] https://www.centralbank.ie/regulation/how-we-regulate/enforcement/administrative-sanctions-procedure

- Arising out of the nature and scale of their activities, the extent that they are exposed to heightened financial crime risks that can significantly undermine the integrity of the system
- Our supervisory experience with those firms and our judgement on their capacity to manage the above risks.

These firms will be subject to close supervisory engagement and continuous assessment across a number of specific risk categories; Business Model & Strategy Risk; Culture, Governance & Risk Management; Operational Resilience Risk; Financial Resilience Risk and Financial Crime Risk. The Central Bank will have a set level of engagement with key individuals in these firms on an annual basis. Each of these firms will continue to have direct communication from their supervision team on supervisory activities for the period ahead.

3. Conclusion

Through our system of regulation and effective supervision, we seek to achieve our four critical and overarching safeguarding outcomes: the protection of consumer and investor interests; the integrity of the financial system, the safety and soundness of firms; and financial stability.

As the financial system evolves and new risks continue to emerge, our supervisory approach positions us to achieve these safeguarding outcomes in a changing and increasingly complex and interconnected financial landscape. It helps us challenge ourselves and the sectors we supervise in a constructive fashion.

Building on strong foundations, our new supervisory approach sets us up for the future – enabling us to continue to deliver on our mandate - ensuring the financial system operates in the best interests of consumers and the wider economy.

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