



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem



Innovation Hub

2023 Update

Information about the Central Bank's Innovation Hub, including any upcoming events, is available at www.centralbank.ie/regulation/innovation-hub



Future Focused

In April 2018, the Central Bank of Ireland launched its Innovation Hub. In 2024, the Central Bank is evolving and enhancing its Innovation Engagement Facilities.

Our Approach to Innovation

Being future focused is one of the themes in the Central Bank's [Strategy 2022 - 2026](#). In April 2018, the Central Bank established its external-facing Innovation Hub with a two-fold purpose:

- i. to facilitate engagement and access by providing a direct point of contact for the innovation ecosystem¹ to engage with the Central Bank on innovation;
- ii. to provide the Central Bank with early intelligence on innovations, especially where those innovations are developed outside of the regulatory perimeter.

By the end of 2023, the Central Bank Innovation Hub held 389 engagements with the innovation ecosystem across a number of sectors, including Payments, RegTech², Blockchain and Crypto, and InsurTech. Innovators acknowledge the benefit of having a dedicated point of contact for innovation related matters. This early engagement has helped firms better understand our regulatory expectations and helped us to better understand innovation as it happens in the financial system.

Since the Innovation Hub was established, our financial system has changed significantly – in part driven by innovation. This has brought in new entrants, new products and new ways of serving customers and the economy. Ireland's position as an international financial centre and hub for global technology firms reflects the growth of fintech in the jurisdiction. While this growth offers many potential opportunities for Ireland and Europe, it also presents risks.

The Central Bank's Innovation Hub has facilitated 389 engagements with the innovation ecosystem since 2018.

¹ Innovation Ecosystem is a broad term to cover all stakeholders involved in innovation including *inter alia* innovators, facilitators, industry and professional bodies, consumer advocacy groups and academic institutions

² RegTech: any range of applications of technology-enabled innovation for regulatory, compliance and reporting requirements implemented by a regulated institution.

Enhancing the Central Bank's Innovation Approach

The Central Bank recognises the many benefits of financial innovation, but also recognises the risks. It is only by adequately managing the risks that we can fully benefit from the opportunities.

The Central Bank has embraced this challenge, which has involved doing things differently and learning new skills. It has also involved a shift in our strategic outlook – to be more future-focused, so as to anticipate and support innovation; and to remain open, in order to strengthen our engagement with external stakeholders.

This engagement is a way for us to better deliver on our mission to serve the public interest, in particular by:

- Deepening our understanding of innovation in the financial services sector – so that we can better understand the opportunities and risks for consumers and the economy.
- Better informing our regulatory approach – allowing us to ensure the proper and effective regulation of financial services providers and markets, aligned with a well-functioning financial system based on appropriate levels of competition and innovation.
- Better explaining to innovative firms what being regulated entails – so firms can build regulatory requirements and safeguards into their early stage development, and are better prepared for any future authorisation process and the responsibilities that come as a regulated firm.
- Embedding a regulatory culture in regulated firms – as firms with strong governance and risk management frameworks are set up well for growth and innovation.

The Innovation Hub will deliver deeper, clearer and more informed engagement with the innovation ecosystem in 2024 and beyond

Public Consultation (CP156)

In November 2023, we consulted on plans to:

1. Enhance our Innovation Hub to deliver deeper, clearer and more informed engagement with the innovation ecosystem;
2. Establish an Innovation Sandbox Programme, which will involve informing the early stage development of selected innovative initiatives (which are consistent with public policy objectives) by providing regulatory advice and support within the programme.

During the public consultation period for CP156 we held 26 information sessions (either in person or virtually) with various stakeholders across the innovation ecosystem as part of our outreach engagement programme.

The consultation closed on 8 February 2024. The feedback received was comprehensive, reflecting good support for the proposed enhancements in both the Innovation Hub and the establishment of the Innovation Sandbox Programme.

Next Steps

The Central Bank will continue to enhance its Innovation Hub to facilitate deeper engagement with the innovation ecosystem. We have commenced the rollout of our enhanced Innovation Hub facilities.

[See our enhanced Innovation Hub here](#)

- In March 2024, we launched a new application form to engage with the Innovation Hub to ensure a more structured and productive engagement for both innovators and for the Central Bank.
- In April 2024, we launched new Innovation Hub content on our [webpage](#).
- We have updated our approach to engagement with the Innovation Hub, including timelines, so that innovators are clear in advance on what to expect from the Innovation Hub.
- Over the remainder of 2024, we will continue to add additional innovation-related content online.

We have seen an uplift in the number of engagements that we have had through the Innovation Hub, with 22 engagements held in the first four months of 2024 compared to 14 in the same period last year.

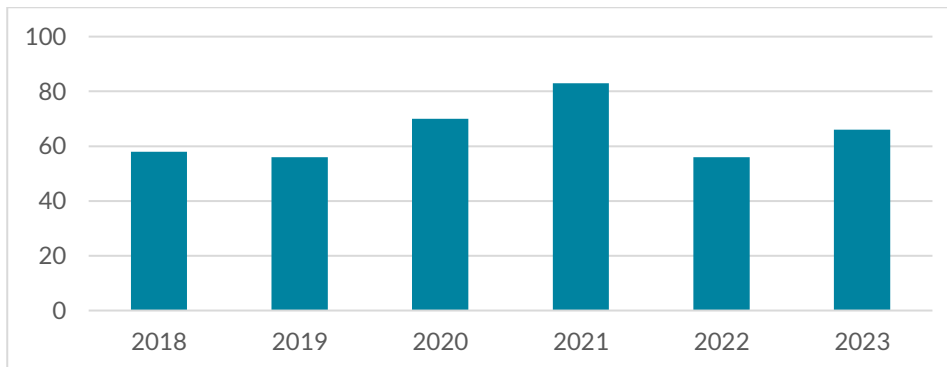
In 2024, the Central Bank will establish the new Innovation Sandbox Programme. This new facility aims to provide regulatory advice and support for innovative projects and firms. The programme will take a thematic approach and prioritise innovations that promote better outcomes for society and the financial system.

The Central Bank is committed to adopting an iterative approach to both the Innovation Sandbox Programme and the Innovation Hub, ensuring adaptability and agility. We will continue to produce a yearly Innovation Update report, and commit to conducting a review of the enhanced stakeholder engagement model three years after the enhancements have been implemented.

A Review of Innovation Hub Activity in 2023

In this section, we provide a summary of all Innovation Hub engagements in 2023, including an analysis of the trends identified.

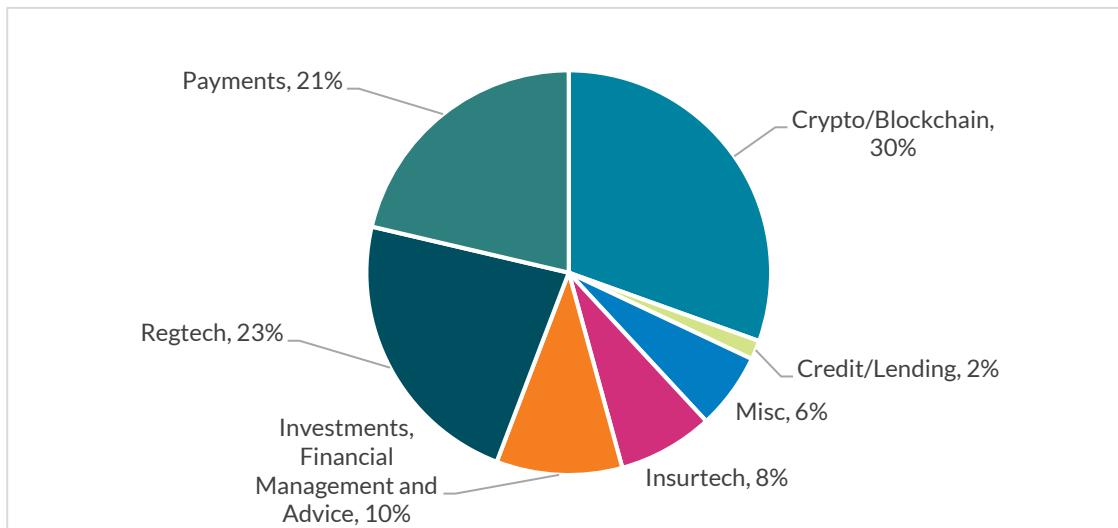
Number of Enquiries



Increased number of engagements in 2023 compared to 2022

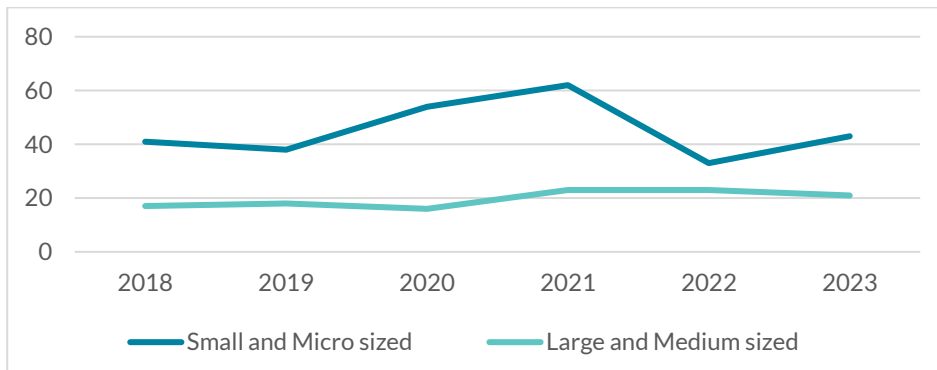
The Innovation Hub engaged with 66 firms innovating in financial services in 2023. This represented an increase of 20% from the number of engagements in 2022. The increase in firms engaging with the Innovation Hub shows the high demand for engagement and suggests continued innovation within financial services in Ireland.

Breakdown of the Sectors engaging with the Innovation Hub



In line with previous years, enquiries from firms in the Crypto and Blockchain sector were the largest sector for enquiries. Enquiries from RegTech firms increased in 2023 and moved to the second largest sector for enquiries, with enquiries from the Payments sector in third place.

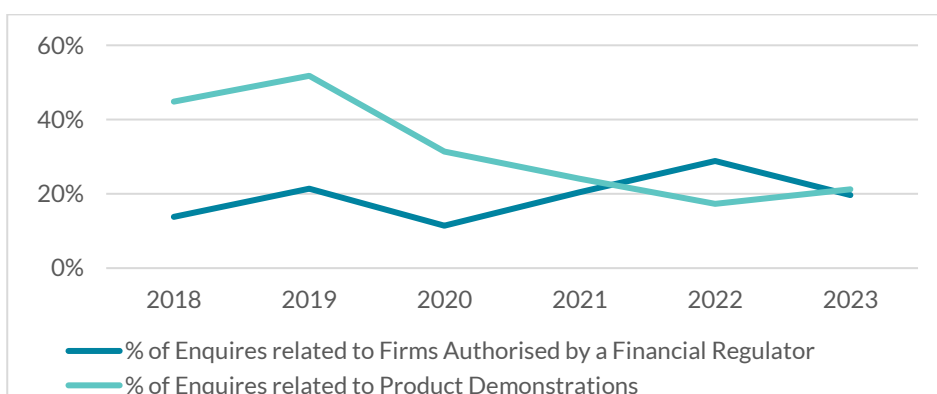
Profile of Enquiry Firms engaging with the Innovation Hub



Increased engagement from small early stage start up innovators in 2023

The Innovation Hub is open to all innovators in financial services, no matter the size of the firm. However, 2023 saw a proportionally larger increase in engagements by small and micro sized firms in the earlier stages of their development compared to 2022. In many cases, these are firms that might not need to engage formally with the regulator for a number of years (regarding authorisation, for example). Notwithstanding this, they are seeking to build an understanding of regulation and compliance early into their business model and approach.

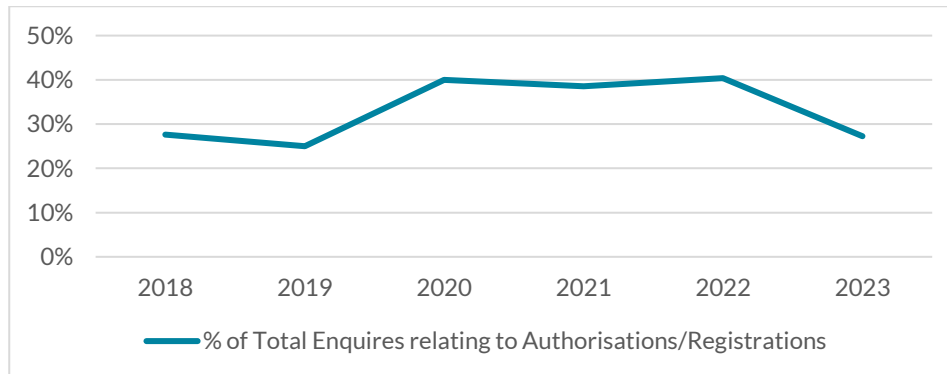
Regulated Firms and RegTechs



There was an increase in the number of unregulated firms engaging with the Innovation Hub in 2023, with 80% of all enquiries coming from firms not authorised, either in Ireland or by another financial

regulator. One of the primary reasons for this appears to be due to the increase in RegTech firms engaging in 2023, with many of these firms, not requiring regulatory authorisation but availing of the opportunity to demonstrate their product to the regulator.

Enquiries related to an Authorisation or Registration with the Central Bank

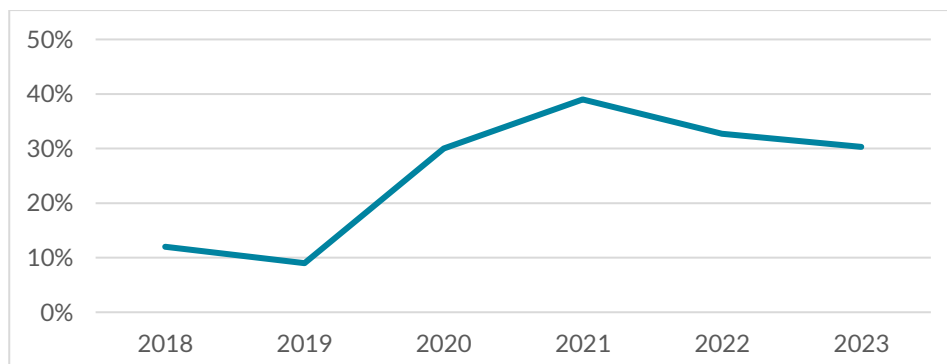


The proportion of enquiries from firms who were considering seeking authorisation or registration with the Central Bank reduced in 2023 but still remained a significant percentage of the enquiries. Notably, many of the 2023 enquiries from authorised firms related to MiCAR.

Trends in Innovation Observed from 2023 Engagements

Blockchain and Crypto

% of Total Enquiries related to Blockchain and Crypto



Enquiries from firms in the Blockchain and Crypto sector remain high

Enquiries from firms in the crypto and blockchain sector remained the highest sector for enquiries in 2023. The majority of the firms engaging were seeking to discuss the Virtual Asset Service Provider (VASP) regime and the new EU [MiCAR regime](#).

Markets in Crypto Assets

The Markets in Crypto-Assets Regulation (MiCAR) introduces a new regulatory framework for crypto-assets in the EU. MiCAR aims to protect consumers and investors and mitigate risks to financial stability. MiCAR will bring Crypto Asset Service Providers (CASPs) and certain types of crypto-assets including Asset-Referenced Tokens (ARTs) and E-Money Tokens (EMTs), along with utility tokens into the regulatory sphere.

The Central Bank will be designated as the National Competent Authority (NCA) for the authorisation and supervision of entities subject to MiCAR. The Central Bank has commenced its preparation for the implementation of MiCAR and has established a cross-sectoral team to integrate MiCAR into the Central Bank's supervisory and authorisation processes and methodologies. The Central Bank recently issued communications on the [impact of the MiCAR on VASPs](#) as well as guidance on appropriate application process for firms considering a registration application.

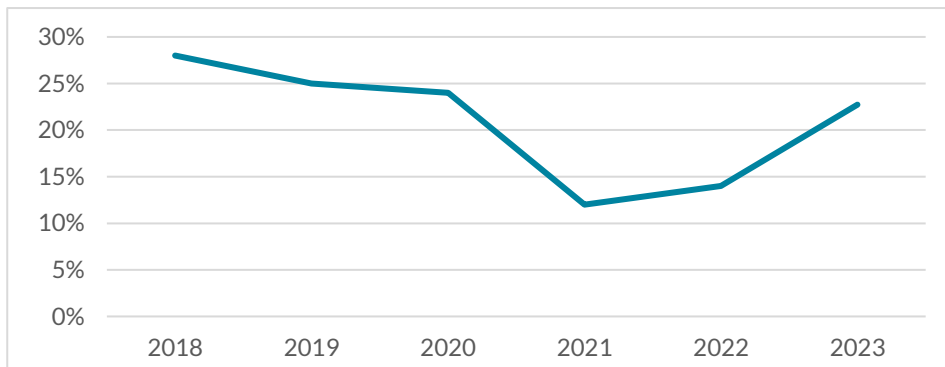
The Central Bank will issue further communications regarding the authorisation and notification processes in due course.

Follow this page for updates on our implementation of MiCAR:

<https://www.centralbank.ie/regulation/markets-in-crypto-assets-regulation>

Regtech

% of Total Enquiries related to RegTech



Increased engagement from RegTech firms in 2023

There was a significant increase in RegTech firms engaging with the Innovation Hub in 2023. RegTech firms made up 23% of all enquiries in 2023 compared to 14% in 2022. This demonstrates that there is a large RegTech sector in Ireland focused on building solutions to help regulated firms meet their regulatory obligations.

RegTech solutions demonstrated to the Innovation Hub included solutions to assist regulated firms meet their AML/CFT obligations, operational resilience requirements, and other regulatory reporting requirements.

In addition, we identified a trend in RegTech firms using or exploring the use of AI in their products and services. In February 2024, the Central Bank published the Central Bank's [Regulatory and Supervisory Outlook Report](#), with a section dedicated to the Central Bank's expectations around the use of AI.

Throughout 2024 and 2025, the Central Bank will be preparing for the implementation of the EU AI Act, undertaking policy work and developing its supervisory expectations of regulated entities related to the use of AI in financial services.

Artificial Intelligence

2023 was the first year that we noted a number of firms engaging with the Innovation Hub who are using, testing or considering the use of AI in their products and services. Though we do not recognise AI as an individual sector, predominantly because AI technology is and will be used across all sectors of financial services, we recognise the transformational impact that this will have on financial services.

EU AI Act

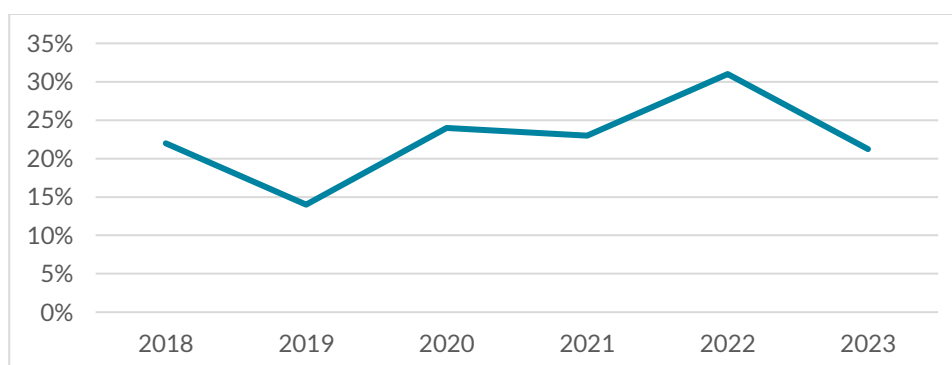
The AI Act aims to establish a single market for trustworthy AI in the EU, and address risks to safety, health and fundamental rights. It aims to provide legal certainty to operators and stimulate trust in the market in order to both incentivise investment and to encourage consumer participation.

The AI Act was adopted by the European Parliament in March 2024 and work is ongoing on development of guidance for impacted sectors. The AI Act implementation period is 24 months with some provisions coming into force earlier.

The Central Bank is likely to be the Competent Authority designated to supervise regulated financial institutions when they make use of AI systems. The Central Bank is supporting the Department of Enterprise, Trade and Employment, as they lead Ireland's negotiations on this important legislative file and is working on the development of sector-specific requirements with the relevant European Supervisory Authorities.

Payments

% of Total Enquiries related to the Payments sector



While enquiries from the Payments sector remain high, there was a reduction in enquiries in 2023 as compared to 2022. A significant number of the enquiries related to the Central Bank's Payments Institution or Electronic Money Institution authorisation processes. Other enquiries were from firms who wanted to engage on emerging developments in the payments sector including the Payment Services Regulations (PSR), the Payment Services Directive (PSD3) review, instant payments, and the Digital Euro.

Conclusion

There continues to be strong interest and engagement with the Central Bank through the Innovation Hub, with a growing number of enquiries in 2023. Even with the challenging external environment many innovators faced in 2023, it is evident from our engagements through the Innovation Hub that there is continued innovation of financial services in Ireland. In particular, it is evident that early stage innovators are prioritising regulatory and compliance considerations at an earlier stage in their development.

As the Innovation Hub evolves in 2024, we anticipate further ongoing engagement with innovators along with increased outreach activities and enhanced engagement with the wider ecosystem and stakeholders.

2024 is the start of the evolution of the enhancements of the Central Bank's Innovation facilities. This will be an iterative multi-year process and we look forward to continuing to engage with the innovation ecosystem across our Innovation Hub and Innovation Sandbox Programme in 2024 and beyond.

Updates on our innovation engagement facilities will be posted [here](#).

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