

Fenergo Limited (Fenergo)

Response to the Central Bank of
Ireland's (CBI's) CONSULTATION PAPER
(CP) 156

Central Bank approach to innovation
engagement in financial services.

8 February 2024

About Fenergo

Fenergo is a leading provider of client lifecycle management (CLM) and regulatory compliance solutions for financial institutions headquartered in Dublin, Ireland. Specializing in technology solutions for banking and financial services, Fenergo offers a comprehensive platform that assists organizations in managing the end-to-end client lifecycle management, ensuring compliance with ever-evolving regulatory requirements.

As a key player in the financial technology (fintech) industry, Fenergo aims to be actively involved in technology innovation discussions for several reasons. Our expertise in CLM and regulatory compliance positions us as a crucial contributor to discussions surrounding the integration of emerging technologies in the financial sector. Fenergo's solutions play a vital role in helping financial institutions navigate complex regulatory landscapes, making them an invaluable resource in discussions related to regulatory technology (RegTech).

1. Executive Summary

Thank you for the opportunity to provide feedback on the Central Bank's approach to financial innovation through the ongoing enhancements to the Innovation Hub and the proposed establishment of the Innovation Sandbox Programme. We appreciate the proactive engagement of the Central Bank in seeking industry input and aligning with the Department of Finance recommendations on the fintech ecosystem.

We summarise below our high-level response to the consultation, which is followed by answers to the individual questions raised.

- The Innovation Hub has been a valuable resource, offering guidance on financial products and processes. To further enhance its impact, we recommend incorporating more sector-specific workshops and collaborative initiatives. Such tailored sessions can foster a collaborative environment, address emerging trends, and optimise solutions for the diverse needs of participants.
- The Innovation Sandbox Programme aligns with global best practices and showcases a proactive approach to fostering innovation within the financial sector. This initiative has the potential to significantly contribute to meeting the Central Bank's overall objectives, particularly in addressing consumer needs and fostering economic growth. The Central Bank's role as a facilitator in organising collaborative discussions and exploring partnerships with industry associations and technology partners further underscores its commitment to building a resilient and responsive financial ecosystem.

2. Feedback on the Innovation Hub Enhancements:

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

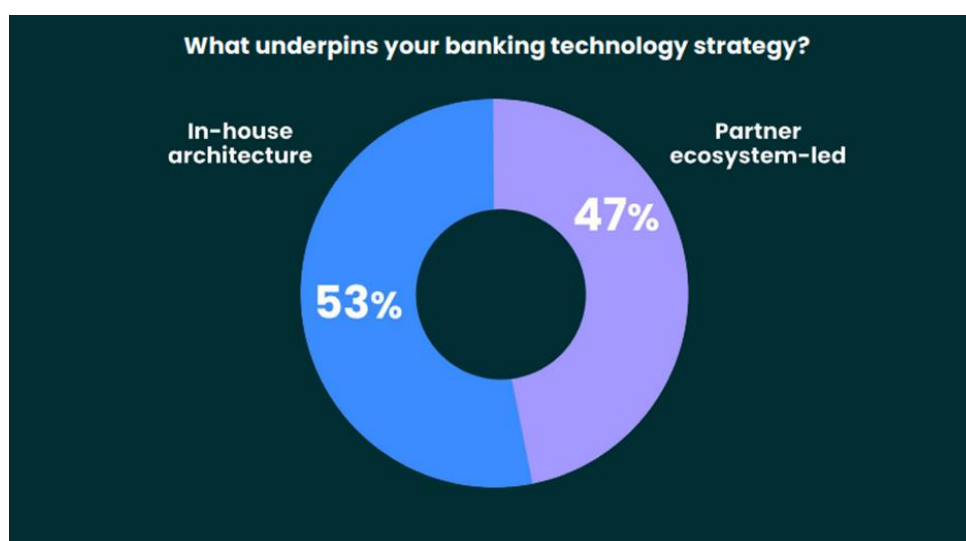
We commend the Central Bank for its commitment to enhancing the Innovation Hub. The Innovation Hub has proven to be a valuable resource for the financial industry, and particularly FinTech's, providing guidance on financial products, services, processes and meeting regulatory expectations.

The continued improvements are crucial in fostering a collaborative environment between regulators and industry participants.

While the existing model is comprehensive, we suggest considering the inclusion of more **sector-specific workshops and knowledge-sharing sessions within the Innovation Hub framework**. These specialised sessions would serve to address emerging trends, technological advancements, and specific challenges unique to different sectors within the financial services space. By tailoring the content to the diverse needs of participants, the Innovation Hub can effectively support the development of solutions that are not only compliant but also optimised for the nuances of each financial sub-sector.

Additionally, the Innovative Hub should consider introducing **collaborative initiatives**, such as roundtable discussions or thematic forums, focused on key areas like Know Your Client (KYC), AML/CFT, cybersecurity, data privacy, and cross-border regulatory compliance all which would be beneficial to address how these areas are being impactful through the fast-paced innovation. These forums could provide a platform for industry stakeholders to share best practices, exchange insights, and collectively address common challenges.

And finally, the Innovation Hub could explore **partnerships** with industry associations and technology partners to bring in external expertise and diverse perspectives. This collaboration could lead to the development of targeted educational programs or research projects aimed at addressing specific gaps or fostering innovation in areas identified through consultation with stakeholders. In a recent study conducted by Fenergo, we found that 47% financial institutions technology strategy relied on partner led ecosystems. Bringing those partners into the innovation discussion is key. Our study found that one of the main reasons financial institutions struggle to keep up with the pace of change could be an over-reliance in the sector on in-house architecture for compliance technology, which is the case for more than half (53%) of financial institutions. Bringing partnerships into the Innovation Hub conversation would assist financial institutions in developing their banking technology strategy.



*source: [KYC Trends 2023 Report \(fenergo.com\)](https://fenergo.com/kyc-trends-2023-report)

3. Feedback on the Innovation Sandbox Programme Proposal

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 Innovation Sandbox Programme aligns with global best practices and promotes a dynamic regulatory environment. We believe that this initiative holds significant potential in supporting the Central Bank of Ireland in meeting its overall objectives, particularly in addressing the needs of consumers and fostering economic growth.

The Innovation Sandbox Programme demonstrates a proactive approach to fostering innovation within the financial sector and can contribute to a more dynamic and competitive financial landscape by lowering entry barriers for innovative fintech firms. This can lead to increased competition fostering further competition, improved efficiency, and ultimately better outcomes for consumers.

Additionally, the proposed programme encourages collaboration between regulators, financial institutions, and fintech firms. A thriving and innovative financial sector is essential for economic growth. The Innovation Sandbox Programme has the potential to attract investment, talent, and entrepreneurship, thereby contributing to the broader economic development of Ireland.

4. Feedback on the Operating Model of the Innovation Sandbox Programme:

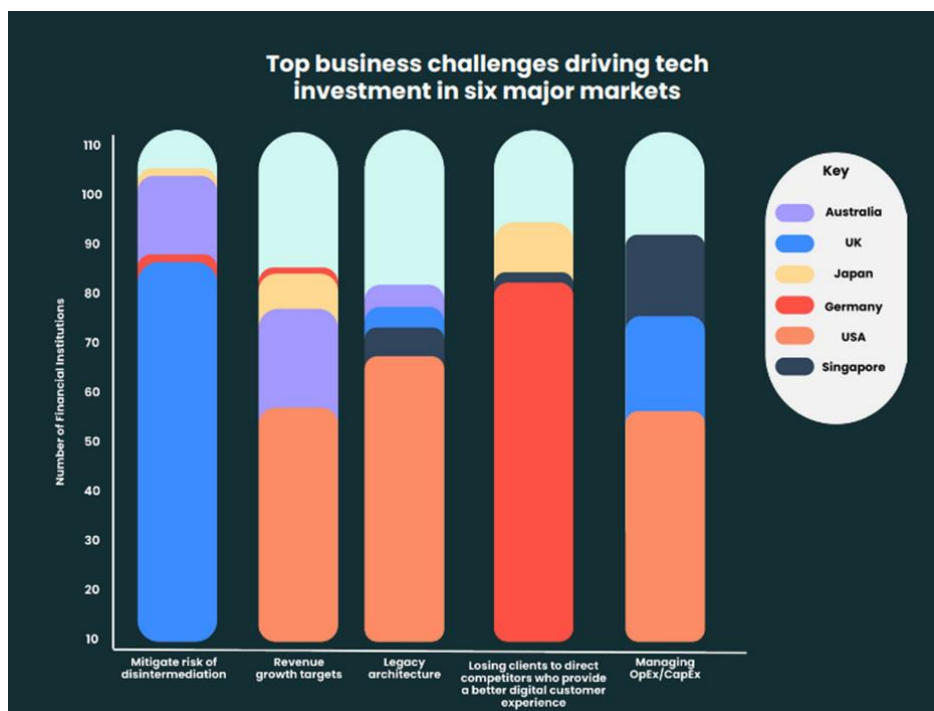
What is your feedback on the operating model of the Innovation Sandbox Programme?

The operating model of the Innovation Sandbox Programme appears robust, with its emphasis on connecting innovators with Central Bank experts and providing support through workshops, guidance, and educational components.

To further enhance the program's effectiveness, we suggest incorporating **periodic review meetings** to address ongoing developments and challenges faced by participants, ensuring a continuous improvement loop. These meetings could serve as a platform for both innovators and regulatory experts to share insights, assess progress, and identify emerging challenges.

As an example of industry insights depicting emerging challenges, Fenergo's annual KYC study indicates a shift in tech investment priorities over 12 months.

- 2022: The top three business challenges driving tech investment include cyber risk (49%), Financial crime (45%) and operational risk (42%).
- Whereas 2023: The top three business challenges driving tech investment include mitigating the risk of disintermediation (42.5%), revenue growth targets (40.5%) and legacy architecture (39%).



*source: [KYC Trends 2023 Report \(fenergo.com\)](https://www.fenergo.com/kyc-trends-2023-report)

This iterative feedback mechanism would enable timely adjustments to the sandbox framework, ensuring that it remains responsive to the evolving needs of the fintech ecosystem.

5. Specific Themes or Areas of Innovation:

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

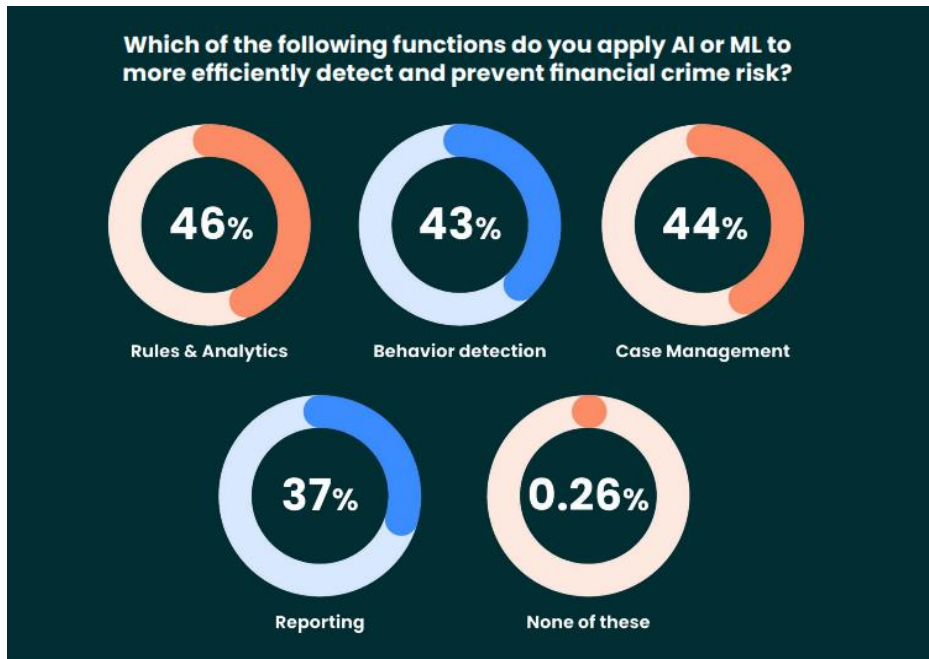
Considering technology solutions for financial services, we recommend that the Central Bank's Innovation Sandbox Programme addresses themes such as:

Fraud Prevention. Given the growing importance of digital transactions and the increasing threat of illicit activities being facilitated through the financial industry, an emphasis on innovation in fraud prevention would be beneficial. The sandbox could support projects focused on developing advanced regtech solutions to detect and prevent financial crime, ensuring the security of financial transactions.

Open Banking and API Standards: With the evolution of open banking initiatives, the sandbox could explore innovations related to API standards and interoperability. Encouraging projects that enhance the secure sharing of financial data among authorised entities while maintaining strict regulatory compliance would contribute to a more open and interconnected financial ecosystem.

AI in Regulatory Compliance. As artificial intelligence (AI) applications become more prevalent in regulatory compliance processes, there is an inherent need for transparency. The sandbox could focus on projects that discuss RegTech solutions incorporating explainable AI and machine learning, enabling regulators and financial institutions to manage AI risk by understanding and interpreting the decisions made by AI systems. Our study shows that nearly half of financial institutions (46%) are

looking at AI/ML to help with rules and analytics, while case management (44%), behaviour detection (43%) and reporting (37%) are also key priorities.



*source: [KYC Trends 2023 Report \(fenergo.com\)](https://www.fenergo.com/kyc-trends-2023-report)

6. Closing

While acknowledging the Innovation Hub's current effectiveness, we believe that incorporating more sector-specific workshops, collaborative initiatives, and external partnerships will further strengthen its impact in the industry. These suggested themes address key challenges and opportunities in the evolving financial industry. We believe that the Innovation Sandbox Programme has the potential to be a valuable tool in achieving the Central Bank's overall objectives. It promotes innovation, protects consumers, fosters competition, encourages collaboration, and contributes to economic growth.

Thank you for considering our feedback. We look forward to witnessing the positive impact of the Innovation Sandbox Programme on the financial industry.

Kind regards,

Stella Clarke
Chief Strategy and Marketing Officer
Fenergo Limited

Tracy Moore
Director of Regulatory Affairs
Fenergo Limited