



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem



Innovation Hub

2021 Update

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

Firms interested in engaging with the
Innovation Hub are encouraged to email us at
fintech@centralbank.ie

The Innovation Hub in 2021 – A Summary

The Central Bank of Ireland (“the Central Bank”) established its Innovation Hub in 2018. This is the fourth annual update on its operations that we have published since the Innovation Hub was established.

2021 high level operational trends

- The [Innovation Hub](#) received 83 enquiries, representing a 19% increase in enquiry numbers over 2020.
- The profile of enquiry firm has remained relatively stable since launch: small and micro sized enterprises comprise ~75%, early stage start-ups ~40% and ~92% of enquiry firms operate outside the Central Bank’s regulatory perimeter.
- Firms approach the Innovation Hub to discuss the regulatory framework, including the authorisation and registration processes and to demonstrate their product to the Central Bank.
- Questions on the regulatory framework frequently come from start-ups, usually to seek an informal steer on how rules might apply to their business model. While the Innovation Hub cannot provide legal advice, the Innovation Hub provides the Central Bank an early opportunity to discuss and increase awareness of regulatory requirements and to explain its mandate and approach to innovation.
- Authorisation/registration enquiries are driven by changes to the regulatory perimeter. In 2021, this was particularly noticeable with an increase in enquiries from potential Virtual Asset Service Provider (VASP) and Crowdfunding Service Providers, on foot of the new VASP and Crowdfunding regulatory regimes. Authorisations enquiries come from a broad range of firms: from those considering Ireland as a base jurisdiction to proactive, early stage start-ups engaged in mid to long term forward planning.
- The Innovation Hub held six Outreach events organised in partnership with established regional fintech hubs and

stakeholders, up from two in 2020. Combined turnout was 321 attendees, representing an 87% increase on 2020.

In 2021, the Innovation Hub identified five trends in innovation

1. Payments: a shift to e-money and a focus on instant payments.
2. Regtech: enquiries falling overall but relatively strong growth observed in KYC Regtech solutions.
3. Digital Assets: the continued growth of institutional interest and an increase in DeFi and tokenisation enquiries.
4. Sustainability: the challenges of climate data and technology.
5. Stakeholders: innovation is expanding the Central Bank's traditional stakeholder profile.

During 2021, we asked our external innovation stakeholders for feedback on the Innovation Hub. They acknowledged its positive role and noted the open accessibility of the Innovation Hub. This feedback is aligned with the feedback received from users of the Innovation Hub, which highlights the helpful and useful nature of the engagements. However, after four years in existence, and in light of the rapidly changing landscape, it is timely to review the functioning of the Innovation Hub and to consider the enhancements that can be made, including the suggestions made by our external stakeholders.

Introduction

In April 2018, the Central Bank established an Innovation Hub with a two-fold purpose:

- i. to facilitate engagement and access by providing a direct point of contact for fintechs and incumbents 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.

In setting up the Innovation Hub, the Central Bank placed importance on the objective of providing accessibility. This is reflected in the Innovation Hub's broad and open criteria for engagement. The Innovation Hub therefore engages directly with a

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broad range of firms, from very early stage start-ups to long-established incumbent firms, on a range of issues.

By helping the Central Bank to identify and act upon the emerging benefits and risks presented by financial innovation, the Innovation Hub supports the Central Bank's public interest mission and regulatory mandate to ensure that the financial system operates in the best interests of consumers and the wider economy. It also helps us to enhance our understanding of technology developments in the market and the related challenges these give rise to, both for consumers and for regulated entities.

This update firstly provides an analysis of Innovation Hub enquiries over 2021. It then focuses more closely on identifying trends in financial innovation observed from Innovation Hub enquiries.

Innovation Hub Review

After four years in existence, and in light of the rapidly changing landscape, it is timely to review the functioning of the Innovation Hub and to consider the enhancements that can be made.

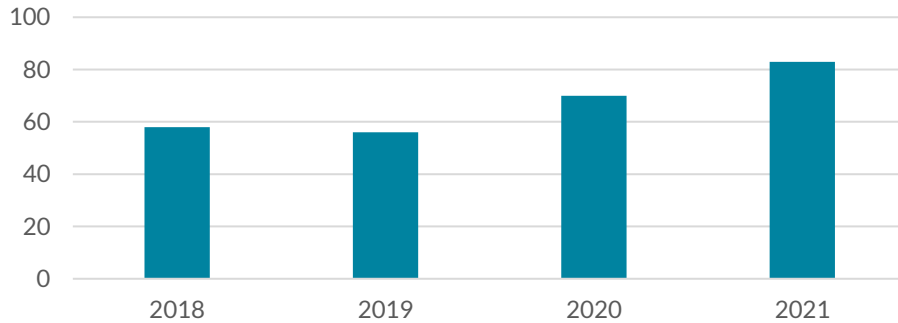
We have solicited some initial feedback from external stakeholders and conducted research on the approaches taken by other regulators. Our findings to date indicate that the Innovation Hub works well as a contact point. Compared with its peers, the degree of openness and accessibility is a unique feature of the Central Bank's approach. The Innovation Hub is available to all innovating firms, regardless of their stage of development. This openness and accessibility was positively acknowledged by domestic stakeholders in their feedback. They saw it as being indication of a progressive regulator willing to engage and to have an early conversation on innovation. In practical terms, this openness has resulted in a strong rate of enquiries to the Innovation Hub, particularly from smaller firms operating outside the regulatory perimeter

Stakeholders suggested that the Innovation Hub could evolve its approach such that it would offer more structured engagements and steers on the regulatory framework.

During the Central Bank's current strategic cycle 2022-2026, we will consider enhancements to the Innovation Hub. Further detail will be provided as the Central Bank develops its plans for this period.

Analysis of Innovation Hub Enquiries 2021

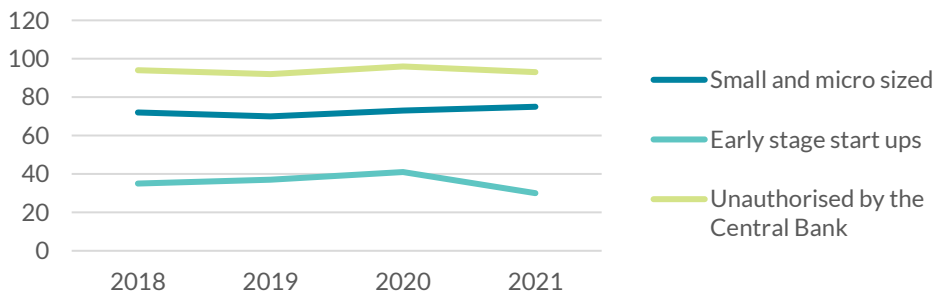
Number of Enquiries



Continued strong growth in enquiry numbers

In 2021, the Innovation Hub received 83 enquiries representing a 19% increase on 2020.

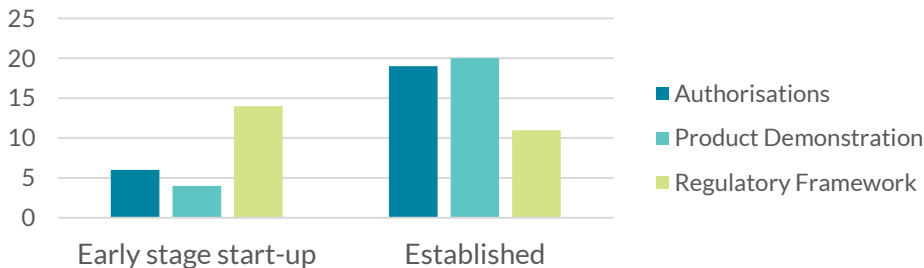
Profile of enquiry firm



Profile of enquiry firms remains stable

The profile of enquiry firms has remained relatively stable since the Innovation Hub’s launch: small and micro sized enterprises comprise ~75%, early stage start-ups ~40% and ~92% of enquiry firms operate outside the Central Bank’s existing regulatory perimeter.

Development stage and nature of enquiry



Questions on the regulatory framework frequently came from start-ups, usually to seek an informal steer on how rules might apply to their business model. While the Innovation Hub cannot provide legal advice, these engagements provide the Central Bank an early

opportunity to discuss regulatory requirements and increase awareness of regulatory requirements and to communicate its mandate and approach to innovation. Authorisation/registration enquiries are driven by changes to the regulatory perimeter. This was particularly noticeable with an increase in enquiries from potential VASPs and Crowdfunding Service Providers, on foot of the new VASP and Crowdfunding regulatory regimes.

These authorisation enquiries come from a broad range of firms, from those scoping out Ireland as a base jurisdiction to small early stage start-ups. In 2021, all of the firms that enquired exclusively about the VASP Regime then went on to make an application for registration to the Central Bank. Product demonstration enquiries largely come from Regtechs or from firms who simply wish to engage with the Central Bank on innovation.

Firms approach the Innovation Hub to discuss the regulatory framework, authorisation and registration processes, and to demonstrate their product

Innovation Hub Feedback

“Great information! It is very helpful.” – early stage Regtech firm

“Love the service... a sincere thank you” – start up developing financial advisory app

“Many thanks for arranging the meeting yesterday which we found extremely helpful & informative” – established international fintech

“Thank you for the call... we appreciate the flexibility, responsiveness, and clear answers.” - start-up developing financial well-being app

“I appreciated the support and guidance.” – large credit institution

“Thanks all for your time yesterday. I took some useful points from the discussion.” - potential VASP applicant

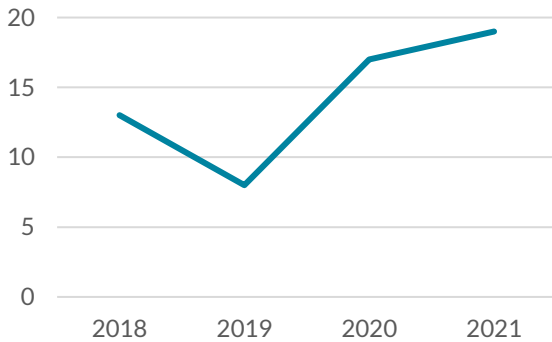
“Thanks for your response. It’s exactly what I was looking for.” – Irish stakeholder

“Many thanks- that is helpful clarification.” – trustee company

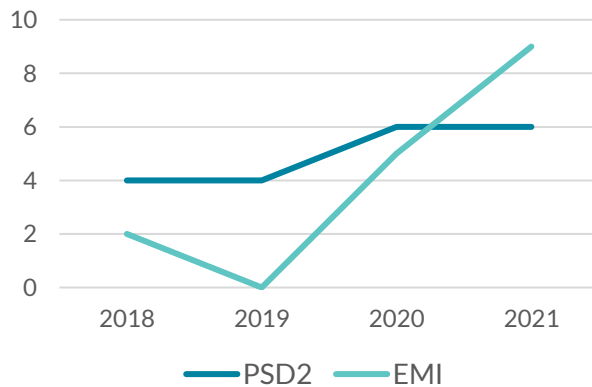
“Thanks ... very helpful”- software firm developing Regtech solution

Identified Trends in Financial Innovation

a) Payments: a shift to e-money and instant payments solutions



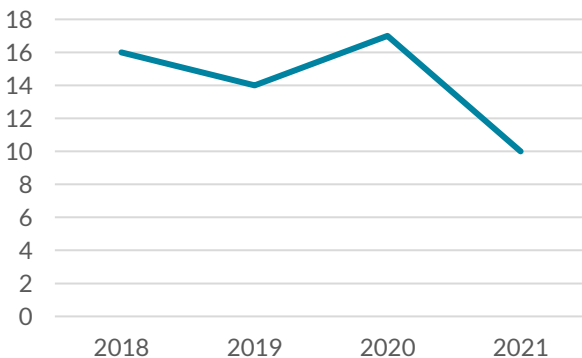
Number of payments related enquiries



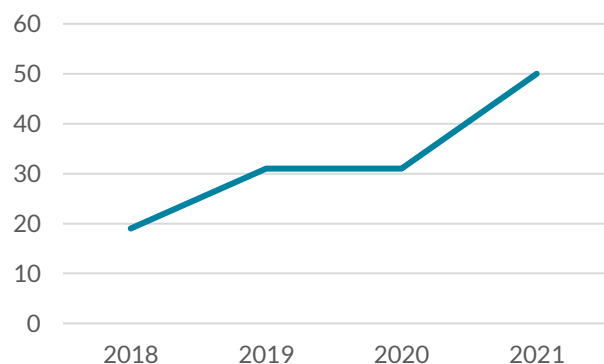
Number of payments enquiries that relate to PSD2 or EMI Regulations

Since the launch of the Innovation Hub in 2018, payments related enquiries have remained steady. Initially, the main line of enquiry from payments firms was on PSD2 authorisation. However, since 2020, we have seen a shift toward enquiries relating to authorisation under the e-Money regulations. This includes a number of firms proposing to use e-money as an on-ramp to provide digital asset payment and trading services. There has also been a notable trend in enquiries focusing on the provision of instant payments. A common thread between many of these enquiries has been a greater focus on low cost digital payments, often of lower denominations, and which seek to leverage mobile phone technology.

b) Regtech: enquiries falling overall but relatively strong growth observed in KYC Regtech solutions



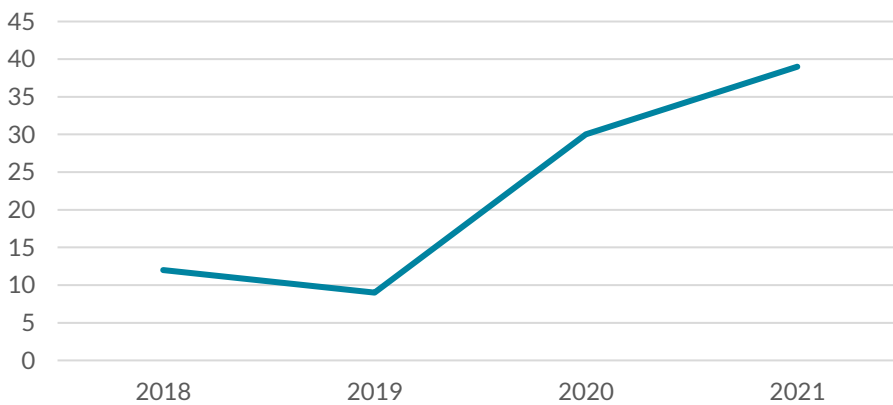
Number of Regtech related enquiries



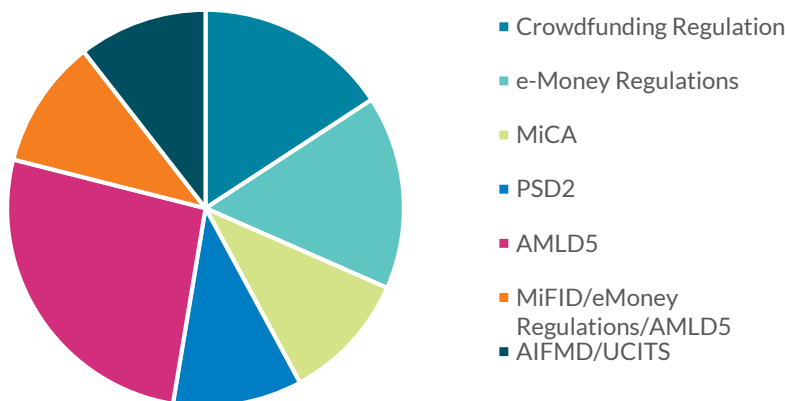
KYC Regtech enquiries as a percentage of overall Regtech enquiries

2021 saw a decline in the number of Regtech enquiries to the Innovation Hub. Within the sector, trends indicate a growth in KYC Regtech solutions with these accounting for 50% of the Regtech enquiries to the Innovation Hub in 2021. The level of innovation observed in KYC solutions is relatively high, with strong data management and analytics capabilities which seek to make use of Artificial Intelligence.

c) Digital Assets: the continued growth of institutional interest and an increase in DeFi and tokenisation enquiries



% overall enquiries digital asset related



Regulatory framework(s) the digital asset enquiry related to (where applicable)

In 2021, 39% of all enquiries were digital asset related, continuing a growth trend observed since 2019. Digital asset related enquiries came from a broad range of fintech sectors from Payments to Regtech. These enquiries spanned multiple regulatory frameworks too, with some relating to multiple authorisation/registration regimes.

The Innovation Hub's 2020 Update identified an increased development of digital asset-enabling infrastructure and services as a trend. Over 2021, digital asset market capitalisation continued to grow – in part attributed to increased institutional interest. Enquiries to the Innovation Hub have reflected this trend with investment banks and asset managers launching custodial services or exploring the possibility of including digital assets as part of their investment portfolio.

Largely on foot of its Outreach, in Q4 2021, the Innovation Hub received an increase in enquiries relating to DeFi and asset tokenisation. The applications generally tended to be early in their development. A common thread between each was how they often raised questions of established financial concepts and definitions e.g. what is a security or a loan or who owns a user's financial data.

MICA

In September 2020, the Commission released its Digital Finance Package. This contains a proposal for a new EU legislative framework for the Markets in Crypto Assets (MiCA). MiCA will provide for regulatory obligations and requirements in respect of a broad range of services, including trading platforms for crypto-assets; the exchange of crypto-assets for fiat currency or for other crypto-assets; custody of crypto-assets; receiving and transmitting orders for crypto-assets; the execution of orders for crypto-assets on behalf of third parties; and advice on crypto-assets. The regulations will apply to anyone providing any of the above activities within the EU. MiCA will introduce new regulatory and supervisory roles for the Central Bank, with the creation of new regulated entities not already captured within our regulatory framework and structure.

d) Sustainability: the challenges of climate data and technology

The relatively recent recognition of climate risk as a source of financial risk has meant that, for both regulators and firms, the issue of how to accurately measure and manage this risk without a bank of current and historical data is a challenge. A raft of new disclosure-based sustainable finance legislation - requiring strong capabilities of financial market participants around data collection, verification and sharing - exacerbates this data need. The Innovation Hub has been

Digital asset related enquiries have come from the fashion industry, gaming industry and food industry

approached by a small number of firms focusing on different aspects of the climate data value chain, from its provision to its management and analysis.

e) Stakeholders: innovation is expanding the Central Bank's traditional stakeholder profile

With the increased innovative activity and trends toward digitalisation, in order to safeguard financial stability and protect consumers the financial, the regulatory perimeter has expanded. This has resulted in initiatives such as Open Banking, where third party providers are now able to access customer's payments data. At EU level, the Digital Operational Resilience Act (DORA) and MiCA proposals will bring regulatory oversight of new cohorts of firms such as cloud service providers and crypto asset service providers. Enquiries to the Innovation Hub indicate that these developments are changing the nature of stakeholders that engage with the Central Bank. From launch through to 2020, enquiries to the Innovation Hub typically involved products and solutions that either serve the traditional financial services sector or that focus on traditional use cases. However, a trend that first emerged in 2020, and that has become more pronounced in 2021, is the engagement by a broader range of business models from non-traditional sectors with the Innovation Hub. For example, digital asset related enquiries have come from the fashion industry, gaming industry and food industry. Moreover, enquiries relating to Crowdfunding have spanned sectors from music, sports and sustainability. Finally, the data sharing provided by Open Banking has resulted in more enquiries from firms looking specifically at protecting data privacy and enhancing data ownership.

Stakeholder Engagement

In 2021, the Central Bank consulted on proposals to enhance our engagement with our broad range of stakeholders, including the financial services industry. In November 2021, we published our the enhancements to our stakeholder engagements which will include a new Industry Forum, a new facility to engage with the Central Bank on sectoral issues and a new conference for financial services. Recognising that the financial industry is evolving, we want to ensure that discussions at sectoral level are inclusive of new or non-traditional market participants as well as traditional market

participants so this new facility will be dynamic, allowing flexibility to capture the broad range of industry stakeholders. The conference will have a forward looking strategic perspective so will be key to driving forward our future focused strategy.

Innovation Hub Outreach

The Central Bank is committed to open and active engagement with all innovation-related firms and stakeholders. Over the course of 2021, the Innovation Hub held six events organised in partnership with established regional fintech hubs and stakeholders, up from two in 2020. Combined turnout was 321 attendees, representing an 87% increase on 2020.

Six events organised in partnership with established regional fintech hubs and stakeholders

1. [Blockchain Ireland](#) - the Innovation Hub presented with the Central Bank's AML experts - who spoke on the new VASP regime
2. [Fintech Ireland](#)
3. [Insurtech Network Centre](#) in Carlow IT
4. Letterkenny IT (two separate private events)
5. Technical University Dublin (private event)

At these events, Innovation Hub staff provided an overview of what the Innovation Hub does and how firms can engage with it. There was also time dedicated at each event for discussion on innovation.

Conclusion

In 2021, the Central Bank's Innovation Hub continued to experience strong growth in demand from innovators to engage with the Central Bank. These enquiries show how the Innovation Hub is facilitating open access to the Central Bank for innovators, often to discuss the regulatory framework or our authorisation processes. Trends in enquiries point to new emerging areas of innovation around digital assets and sustainability. Furthermore, innovation is expanding the Central Bank's traditional stakeholder profile. Finally, the Innovation Hub continues to engage proactively with a broad range of innovation stakeholders via its Outreach events.

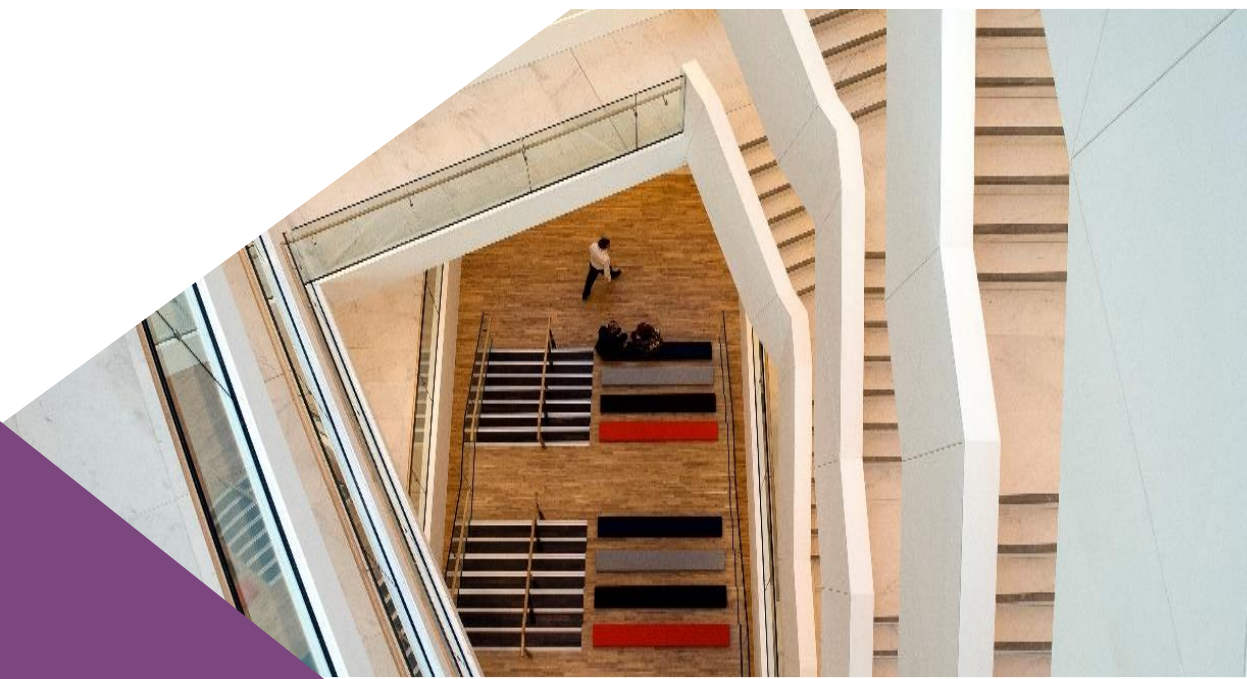
In 2022 and beyond, the Central Bank looks forward to engaging with more innovators via the Innovation Hub and its Outreach

programme. We encourage firms interested in discussing innovation to make contact with the Innovation Hub. These engagements allow the Central Bank to better understand innovation, and for firms and stakeholders to understand our approach to innovation. We will provide an update of our 2022 findings and observations from these initiatives in early 2023.

Additional information about the Central Bank's Innovation Hub, including any upcoming events, is available at

www.centralbank.ie/regulation/innovation-hub

Firms interested in engaging with the Innovation Hub are encouraged to email us at fintech@centralbank.ie



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