

Revolut

Response to Central Bank of Ireland Consultation Paper 156 'Central Bank approach to innovation engagement in financial services'¹

Feb 2024

FOREWORD

Revolut was founded in 2015 and now has 35m customers globally, including over 2.5m in Ireland. We employ 8,000 people from over 100 nationalities on its mission to reinvent how the world does money.

We appreciate the opportunity to contribute to the work of the Central Bank of Ireland (the CBI) in developing approaches for engagement with innovation in financial services. We believe that an open dialogue format is crucial for regulators to comprehend innovation, assess potential risks and benefits, and ensure that regulatory approaches align with innovative market practices. For companies, this format enables innovation within a transparent regulatory environment, fostering a better understanding of regulatory expectations to effectively meet the needs of consumers and businesses.

RESPONSES

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

Revolut believes that the Innovation Hub represents a significant initial stride in establishing a communication channel between the CBI and innovators. We welcome the ongoing efforts to create an ecosystem that fosters innovation in financial services.

Introducing more structure to the engagement process will assist firms in navigating the available tools and establishing clear expectations for their engagement. This is particularly crucial for planning new product launches and managing time-to-market expectations.

We also appreciate the initiative to conduct annual themed workshops aimed at understanding emerging trends and future risks to consumers. In addition to this, there would be substantial value in organising workshops with a focus on industry call-to-actions. For instance, workshops outlining regulatory expectations for implementing innovative practices.

¹https://www.centralbank.ie/docs/default-source/publications/consultation-papers/cp-156/cp156-central-bank-approach-to-innovation-engagement-in-financial-services.pdf?sfvrsn=fb359d1d_8

Additionally, to protect the consumers of financial services in Ireland, it would be beneficial to establish financial literacy programmes in conjunction with the major financial organisations and organisations like National Adult Literacy Agency and the Department of Education in an effort to educate people. Utilising many of the items in the Consumer Hub of the CBI in external channels would help reach a wider audience.

Lastly, we believe that the launch of a Digital Centre for knowledge-sharing, featuring dedicated content, would aid companies in navigating the Irish regulatory landscape. This platform could provide valuable information while simultaneously reducing the workload for the Innovation Hub.

Question 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?

We fully support the establishment of the Innovation Sandbox Programme. Regulatory sandboxes are valuable tools in fostering innovation. We believe that the insights gained from the sandbox would enable better understanding of emerging technologies, potential risks, and necessary regulatory adjustments. It can also help attract new innovative firms to the Irish market and enhance Irish competitiveness. Ultimately, regulatory sandboxes contribute to a more adaptive and dynamic regulatory framework, promoting financial innovation while ensuring resilience and security of the financial system.

The rapid pace of technological advancements, particularly in the fintech and digital finance space, demands that regulatory frameworks keep pace with these changes. If there is no proactive embracing of emerging trends, there is a risk to fall behind the curve. This lag can have significant consequences, as outdated regulations may struggle to address novel risks. By constantly engaging with innovation via regulatory sandboxes, regulators position themselves at the forefront of innovation. This involvement allows them to closely monitor new technologies, business models, and market practices. It enables a hands-on approach to understanding the implications of innovations, identifying potential risks, and crafting responsive regulatory measures. In essence, being at the forefront empowers regulators to set the agenda, influencing the direction of industry development rather than merely responding to it. This proactive stance fosters a regulatory environment that not only encourages innovation but also ensures the continued protection and well-being of consumers and the overall stability of the financial system.

We provide our comments on how to enhance the proposed model for the Innovation Sandbox Programme in the answer to Question 3 below. Foremost, we strongly recommend a review of the suggested operating model to allow for digital testing of products with consumers.

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

We welcome the establishment of the Innovation Sandbox Programme. At the same time, we believe that the operating model can be more ambitious to fully unleash the potential of this regulatory instrument in Ireland. We would like to provide feedback for the future work of the Innovation Sandbox Programme, focusing on the following areas: (1) digital testing; (2) thematic approach; (3) waivers from regulation; (4) cross-sector collaboration; (5) timelines; and (6) transparency:

- **Digital testing:** According to the proposed operational model, there is no provision for digital testing of products with consumers in the suggested program. We are concerned that this limitation may undermine the potential impact of the Innovation Sandbox Programme. Without the inclusion of testing, the sandbox's function becomes less distinct from the existing Innovation Hub, which already offers advice and guidance to innovators. This also narrows the potential pool of applicants, as only new firms seeking regulatory advice would find it worthwhile to apply. We encourage the CBI to explore the possibility of incorporating digital testing in a controlled environment with specific safeguards. This could include a limited number of users, exclusively comprising employees of the sandbox applicant or employees of the CBI, and ensuring that users are fully aware of their participation in sandbox testing and the associated risks. This approach would provide a more comprehensive understanding of potential risks for consumers, allowing for the identification of mitigating measures or necessary improvements. The data and feedback generated during this testing phase would significantly contribute to evidence-based decision-making.
- **Thematic approach:** We recommend testing the market's appetite for the sandbox program before introducing the thematic and cohort approaches. While cohort and thematic approaches have certain benefits, such as efficiency and collaboration among participants, limiting the number of applications and themes may result in low market participation.
- **Waivers from regulation:** We believe that waivers from regulation is a tool that is worth considering for the Innovation Sandbox Programme. Innovation often involves trying out new ideas that don't quite fit into the current rulebook. Some innovative concepts can be better explored by doing things a bit differently than what current regulations allow. This highlights the need for a space where new ideas can be tested and developed with certain waivers, but in a controlled and supervised environment. Innovators often face challenges when navigating complex regulatory frameworks that were not specifically designed for emerging technologies. By granting waivers, the Sandbox Programme can create an environment for experimentation, encouraging the exploration of novel solutions and business models.
- **Cross-sectoral collaboration:** Given the interconnectedness of financial services with other sectors, we believe it is worth considering (i) allowing joint applications for financial service providers and their partners and (ii) potential collaboration with other regulators within the Innovation Sandbox Programme, such as the Commission for Communications Regulation. The latter is especially relevant for the ongoing work on

industry fraud prevention measures, given the different actors involved in the chain of victims initially targeted by fraudsters and making a payment.

- **Timelines:** We believe that it is crucial that there is a clear communication outlining the obligations and timelines for all parties involved. We generally encourage the prompt launch of the Innovation Sandbox Programme.
- **Transparency:** We believe that the operating model should ensure that where application is rejected or a certain theme is selected, the CBI transparently explains decisions such that the industry is informed clearly where the CBI feels that there is already sufficient regularity clarity in a given area or the testing is not needed.

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

We have identified five areas of innovation that can be addressed by the Innovation Sandbox Programme: (1) digital identity; (2) fraud; (3) Open Finance; (4) Artificial Intelligence; and (5) Decentralised Finance.

- **Digital Identity:** According to 2023 Digital Decade Report², Member States are recommended to prepare for the establishment and implementation of the European Digital Identity Wallet, particularly through pilot projects and by mobilising the digital ecosystem. There is also a general need to streamline the onboarding process in Ireland and perhaps in advance of the introduction of the Digital Identity Wallet it would be useful to look at how customers are currently verified and whether the legacy Address Verification is a mitigant to any risk given that it is a snapshot in time
- **Fraud:** Fraud is emerging as one of the most challenging issues for policymakers and regulators to address. The Innovation Sandbox Programme can serve as a tool to explore industry-wide fraud-prevention instruments, such as cross-industry transaction monitoring mechanisms, including data sharing among public authorities and financial institutions.
- **Open Finance:** In line with the general movement towards Open Data economies, we consider Open Finance to be one of the most relevant themes to explore through the Innovation Sandbox Programme. It can help identify data-sharing arrangements that would be most beneficial for consumers and instruments to protect data. Built on top of Open Banking data sharing schemes, it would also help better understand existing obstacles to the adoption of Open Banking in Ireland.
- **Artificial Intelligence:** AI has a range of use cases in the financial services space, which can be discovered in the frames of the regulatory sandbox. The need for regulatory sandboxes for AI is also acknowledged at the EU level with the AI Act encouraging Member States to establish at least one AI regulatory sandbox at national level to facilitate the development and testing of innovative AI systems.
- **Decentralised Finance:** Traditional financial regulations are not well-suited for decentralised and blockchain-based financial activities. Sandboxes pose a unique opportunity to create new regulatory frameworks while exploring potential risks and benefits in real-time.

² <https://digital-strategy.ec.europa.eu/en/library/2023-report-state-digital-decade>