

Speech by Colm Kincaid, Head of Consumer Protection: Policy & Authorisations, Central Bank of Ireland

to

**FinTech & Payments Association of Ireland
1 March 2016**

I would like to thank the FinTech & Payments Association of Ireland for inviting me to speak to you this morning about the role of the Central Bank of Ireland as regulator of payment and electronic money services in the context of the developing FinTech industry.

First, I wish to congratulate all those involved in setting up the FPAI and to welcome its establishment. Across the globe, FinTech is radically and rapidly changing the way we make and receive payments as global investment in FinTech ventures continues to increase. Whether driven by innovative start-ups, major technology players or established financial institutions, FinTech has the capacity to reduce costs, increase convenience and provide greater security and transparency, as well as benefits that have yet to be conceived (never mind designed and implemented). The FPAI is well positioned to play an important role in this, by providing both a support network for emerging FinTech businesses and a focal point for industry members to engage with one another and with other bodies. From the Central Bank's perspective, I look forward to the FPAI being a key stakeholder in helping us understand this rapidly evolving sector.

In the case of regulated financial services, this places FinTech and the FPAI in a unique position to steer these developments towards a culture that places the consumer at the heart of innovation in financial services. And that is what I want to speak to you about this morning.

The Central Bank's Role in the field of FinTech

But first, I should take a moment to clarify the Central Bank's role in this field, as this is a topic that is sometimes raised with us.

In addition to our role as regulator of licensed banks, the Central Bank of Ireland is the competent authority in Ireland for the authorisation and supervision of Payment Institutions (PIs) and Electronic Money Institutions (EMIs). These institutions are regulated by the Consumer Protection Directorate of the Central Bank under three functional areas of gatekeeper, supervisor and policy maker & influencer. The Central Bank has to date authorised twelve such payment institutions and one electronic money institution.

This is the role the Central Bank plays in the field of payment services in Ireland: the proper and effective regulation of financial services and markets in a manner that ensures that the best interests of consumers are protected. In this sector as in others, a robust and assertive regulatory regime is in the interests of all: consumers, the industry and the wider economy. The Central Bank's contribution to the world of FinTech in Ireland is to provide this robust framework, so that firms and consumers can proceed with confidence. This means only authorising those firms that clearly meet the standards of EU law and, once authorised, requesting those firms to demonstrate to us that they are meeting these standards in a manner that ensures that the best interests of their customers are protected. It also means continuously seeking to ensure that the framework of rules in place at a domestic and international level serves consumers' best interests.

In all of this work, we are looking to achieve three outcomes:

- A positive consumer-focused culture that is embedded and demonstrated in all firms.
- A consumer protection framework that is fit for purpose and ensures that consumers' best interests are protected.
- Regulated firms that are fully compliant with their obligations and are treating their customers, existing and new, in a fair and transparent way.

Our New Gatekeeper Model

Of course, for those of you looking to set up in this sector, your most immediate concern is to know whether or not you require an authorisation from the Central Bank and, if so, what the process is for applying for such an authorisation. This is also an important stage for the Central Bank, as it represents our first engagement with a firm and, where that firm gets an authorisation, it marks the beginning of our regulatory oversight of that firm. This is why we place so much emphasis on applicants demonstrating to us clearly and in detail that they meet the required standards and will continue to do so after authorisation.

To this end, we recently moved to what we believe to be a more robust, effective and facilitative approach to progressing applications which meet the authorisation standards. Under this new approach, applicants no longer need to submit a pre-application submission, and the pre-application meeting is now optional. We have also introduced defined timeframes for each step of the process:

- acknowledgment of the application within 3 working days,
- confirmation within 10 working days that the application includes the key information needed for it to go forward into the assessment phase, and
- the completion of our assessment of the application thereafter within 90 working days (excluding the time we have queries out with the applicant).

At the end of this 90 working days, we will confirm to the applicant whether our assessment is favourable (and if so whether this is subject to any specific conditions) or unfavourable (in which case the applicant gets an opportunity to make further representations to us). Our aim is that, throughout this process, we are as clear as we can be with firms about what we require and where they stand in the process.

We believe this new model will result in good quality applications being processed as expeditiously as possible while meeting our statutory obligation to operate a rigorous and effective gatekeeper function. We welcome your feedback on your experience of this new model, including any practical suggestions for improvement you wish to make.

Of course, in an area such as FinTech, firms may not be sure if they require Central Bank authorisation or not. Here our message is clear: firms who are unsure whether or not their proposed activities require Central Bank authorisation are advised to seek legal advice. If, after having received and considered such advice, firms have any doubt about their status, they are advised to apply for authorisation.

FinTech's role in developing a consumer-focused culture in financial services

I mentioned earlier the opportunity FinTech has to steer innovation in financial services towards an improved consumer experience. In February of this year, the Central Bank published its 2016 Consumer Protection Outlook Report. This report outlines our consumer protection objectives and our assessment of the current and emerging consumer environment and risks to those objectives. It also sets out a number of priorities that we will be focusing on.

In the 2016 Outlook Report, we highlighted that the absence of a consumer-focused culture presents the greatest threat to our objectives and many of the priority themes outlined in the Report flow from this central point. What I put to you this morning is the opportunity Irish FinTech has to differentiate itself by placing a focus on these priority themes under our 5Cs Consumer Protection Framework:

- **Consumer:** The starting point of our 5Cs Framework is to place the consumer at the heart of everything we do. This includes an energetic and proactive approach on the domestic and international stage to ensure that the framework of rules gets it right for consumers. It also means that firms adopt an approach to applying these rules that places the interests of the consumer first.

Priority items for the Central Bank include PSD2. As well as continuing to provide technical assistance to the Department of Finance on its transposition of the Directive, we will be doing further work with the FPAI on the potential impact of this directive on the Irish FinTech sector. We will also continue our work at the European Supervisory Authorities across topics such as automated financial advice, financial innovation (including new block chain technologies) and the various technical standards we will be implementing to support the Payment Accounts Directive and PSD2. Through FinCoNet we are also working at a wider international level on a study of practices on mobile and emerging technologies in 27 countries, towards a public report on the supervisory challenges to mitigate the security risks of online and mobile payment systems. Across all this work we will continue to emphasise that, while digitalisation can bring many benefits to consumers, firms must ensure this is not at the expense of consumer welfare.

- **Culture:** Cultural change must be underpinned with internal supports within firms. This goes from having defined consumer protection risk frameworks to monitoring consumer protection performance metrics, to ensuring that the incentives for staff are such that they act in the consumer's best interests.
- **Confidence:** Proper product oversight and governance is essential to increase consumer confidence in innovative solutions. This includes a focus on consumer testing, clarity in how the features of a product and its costs are explained to consumers and avoiding unnecessary complexity. It also means that, when things do go wrong, consumers are kept fully informed and redressed where necessary.
- **Challenge:** Firms need to challenge themselves and be open to challenge by the Central Bank to ensure the highest standards. Our Outlook Report identifies IT resilience and cyber risk as key threats to regulated firms and we will challenge firms to improve their vigilance towards this risk. When technology fails, the business and reputation of the firm and the broader financial services sector is damaged, and consumers are exposed to the risk of service interruption or personal data violation.

- **Compliance:** It must be borne in mind that achieving compliance with legal requirements is the bare minimum that firms must achieve under the laws of the State. At the Central Bank, we expect firms go beyond this minimum towards delivering ever more meaningful outcomes for consumers.

Conclusion

I will conclude then by once again thanking the FinTech & Payments Association of Ireland for the opportunity to speak to you this morning and congratulating the Association both on its establishment and the progress it has made in a short space of time. I look forward to the FPAI providing the Central Bank with its insights into the FinTech industry in Ireland and elsewhere, giving us feedback on our new Authorisation Model and highlighting issues and challenges (including where you believe the regulatory framework conflicts with what we are seeking to achieve).

I also call on the FinTech industry to bear in mind our expectations and requirements on Culture, Confidence, Challenge and Compliance, so that new products and approaches are designed and implemented with the protection of consumers at their heart. This includes an open invitation to the Association to bring to our attention what it sees as the key emerging risks under these headings of our 5Cs Consumer Protection Framework, so that we are all vigilant to ensure that FinTech firms and products get it right for consumers.