Mary-Elizabeth McMunn: Central banks and innovation – delivering our mandate in a digitalising world

Remarks by Ms Mary-Elizabeth McMunn, Deputy Governor of the Central Bank of Ireland, at the National Fintech Summit, Dublin, 13 May 2025.

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Many thanks for the invitation to speak to you today.[1]

Speaking about innovation to a room full of innovators is no easy task, but I do think it is important to share the perspectives of a Central Bank and Regulator on innovation in the financial sector, in particular given the increasingly important role technology is playing in financial services.

And as I have said before, while naturally associated with the private sector, I believe the public sector also has a crucial role to play in innovation – not just by enabling it but also in ensuring its safe adoption.

Given this important role, as well as our strategic commitment to anticipating and responding proactively to changes in the economy and financial system,[2] the Central Bank has put an increasing focus on innovation in the financial sector in recent years.

As evidenced by your agenda today there is a huge breadth of innovation taking place in financial services.

And while there is so much we are focused on that I could cover in my remarks, from Ireland's growing and international Payments sector, to the increasing importance of operational and cyber resilience to the rapid evolution of Artificial Intelligence and its use in the financial sector, I would like to discuss two important aspects today.

Firstly I would like set out how the Central Bank of Ireland thinks about and approaches innovation in financial services; and secondly I would like to focus in more detail on our role in one of the big potential technological shifts underway in the sector – namely digital assets, including tokenisation.

Central Banks and Innovation

Central Banks and Regulators are sometimes cast as anti-risk and indeed anti-innovation. But this couldn't be further from the truth.

While obviously our jobs are to ensure risks in the financial sector are being well managed – so that the system is stable, firms are safe and sound, consumers and investors' interest are protected and the integrity of the system is upheld – we do not do this by eliminating all risk. One of the core functions of the financial system is to manage and take risk – and so if Regulators do not accept risk and make risk-based decisions ourselves, then the system doesn't work.

Similarly while it is our responsibility to ensure the risks from new entities, products or ways of serving customers are being well managed, we do not do this by unduly stifling innovation.

Rather the Central Bank of Ireland supports innovation in the financial sector, as we recognise the benefits it can bring. But, to state the obvious, to deliver these benefits such innovation must be done well, which includes properly managing the risks that could arise to consumers and the system.

In this regard contrary to being anti-innovation, in line with peer Central Banks we have been adapting our approach to better support and anticipate it.

And as with all of our work, our approach to innovation is guided by our mission and mandate, serving the public interest by maintaining monetary and financial stability while ensuring that the financial system operates in the best interests of consumers and the wider economy.

In terms of **Regulation and Supervision** specifically, there are many ways by which we seek to ensure innovation in the financial sector is operating in the best interests of the whole.

This includes:

Regulation – which not only enables innovation, but through appropriate guardrails helps establish trust, essential for innovation to be widely adopted, particularly in the area of financial services. PSD2, MICAR and DORA are all positive examples of this – enabling and enhancing digital finance and safe financial innovation in Europe.

Authorisation – which plays a pivotal role in ensuring entities, products and individuals meet the high standard to be trusted with the public's money. While authorisation is just the start of the supervisory relationship it is also about setting firms up for success, which is both in the firms' own interest as well as in their customers'.[3]

Supervision in turn provides a mechanism for maintaining trust through the cycle, by ensuring innovative firms are well run, products are appropriately designed, and neither introduce undue risks for their consumers or the system.

This includes supervisory engagement ensuring regulated entities are being sufficiently innovative in adapting their business models and managing their operational resilience, where technology can be both part of the problem and part of the solution.

In addition to these I would also add that the Central Bank also plays role in encouraging and fostering good innovation in the financial sector, in line with our public policy objectives.

This includes our catalyst role for payments, and the convening power of a Central Bank, where we seek to drive and influence positive change at a system level to improve market efficiency, integration and security.

And finally it includes our broader engagement with the innovative ecosystem, something we have been deepening and enhancing in recent years and which I would like to touch on now briefly.

Engaging with innovation – Hub and Sandbox

You will all be aware of the work of our Innovation Hub, which was established in 2018 and has gone from strength to strength. The Hub is open to all innovators in financial services, no matter the size or whether they are new entrants or established entities. And it has proven a valuable form of engagement both for us and the sector.

For us, alongside other engagement and initiatives, it has helped us deepen our understanding of innovation in the financial sector, amidst a period of rapid digitalisation. And for the sector, you have reported the benefit of early engagement in terms of better understanding of our regulatory expectations and, for new entrants, what being a regulated entity entails.

Last year, following public consultation, we began implementing proposals to evolve our approach by:

1. Enhancing our Innovation Hub to deliver deeper, clearer and more informed engagement with the innovation ecosystem; and
2. Establishing an Innovation Sandbox Programme.

In terms of the first point, we have found the changes made are leading to deeper more productive engagements, making better use of our collective resources. In addition to the 8% year on year increase in Innovation Hub Engagements last year, this represents a substantial uplift in terms of the quantity and quality of our engagements with the ecosystem.

On the second proposal, as you will be aware our Innovation Sandbox Programme aims to inform the early stage development of selected innovative initiatives that promote better outcomes for consumers and the financial system.

Our first programme launched late last year; and consistent with our aim of fostering innovation to support outcomes consistent with our public policy objectives, the theme was Combatting Financial Crime.[4]

While the programme is still ongoing, both from our perspective and from feedback received from the 7 participants, the first programme has been a very positive experience. The final module will take place in June, alongside a showcase of the participants' innovative solutions at an event in the Central Bank.

In line with our wider commitment to continuous improvement, we will adopt an iterative approach to our Innovation Sandbox Programme, learning and improving from each one. We are also committed to sharing our key learnings, and will publish a report on outcomes and findings from our first programme later this year.

Central Bank approach to Crypto

I would like to turn now to digital assets, a wide-ranging and growing topic.

Given its breadth, I will just touch on two specific areas: firstly crypto-assets, and in particular our approach to this sector and the implementation of MiCAR, before turning to the potential next wave of innovation, in terms of the tokenisation of the financial system.

Firstly, we are often asked about the Central Bank's approach to crypto-assets.

I will begin by saying that as with all innovation in financial services we seek to ensure it is done well, and is delivering benefits to consumers and the system while appropriately managing any risks.

It should go without saying that there are inherent risks in crypto-assets, and some forms of crypto-assets have higher risks than others.

It is for this reason that we have issued warnings to consumers concerning crypto, and have expressed scepticism about business models which are driven by the heavy marketing, offering and distributing of unbacked crypto-assets to retail customers for speculative purposes.

MiCAR will not provide the same levels of protection that exists for traditional financial investment products, nor of course will it enable all the significant risks linked to crypto-assets to be mitigated. However, it is a welcome step forward.

Nevertheless, it is important for consumers to be aware, that MiCAR will not cover all crypto-assets, with some of the most well-known crypto-assets, such as Bitcoin and Ether, not within scope of the regulation given they have no identifiable issuer.

But while it is true speculative and highly volatile forms of crypto-assets remain a concern for the Central Bank, in particular from a consumer protection point of view, it is equally true that we recognise the important innovations distributed ledger and crypto technology could potentially lead to for financial services – and indeed we have recognised this for some time.

It is important to note, however, as with all aspects of financial services this potential will only be realised if the technology and the providers can be trusted, to be resilient, to provide benefits to consumers and to help uphold, rather than jeopardise, the integrity of the financial system.

It is these outcomes that inform our regulatory approach to crypto-assets. And indeed are informing our approach to the implementation of MiCAR, both in our engagement with regulatory peers, as well as our authorisation of applicant firms under the new framework.

In that regard we have put in place a well-resourced and expert team to deal with the CASP authorisation process – ensuring it is both efficient as well as sufficiently robust.

The team have been engaging extensively with the sector and applicants, and we have held a number of industry events dedicated to MiCAR.[5] This is part of our ongoing commitment to transparency, clarity and openness, in particular in our authorisation processes but also in our engagement with innovation.

But while we are committed to a timely and quality authorisation process, the role and approach of applicant firms is also key in this regard. Our assessments of MiCAR authorisation applications will be guided through many perspectives including the use case and utility, suitability, and the risks associated with a crypto product or service.

The importance of good culture and conduct risk management in delivering on new obligations under MiCAR cannot be overstated. The stronger their risk management, the better position firms are in to understand, calculate and mitigate risks, in turn strengthening their business model, and their relationship with their customers.

Regardless of the services, the target customer base, or whether the business is retail focused or aimed at institutional clients, safeguarding of client assets and governance are critical considerations for the Central Bank – given the fundamental role they play in protecting people's money.

And as I said earlier, authorisation is only the beginning of the supervisory relationship and so firms should demonstrate at the Gate that they will be well-run once they are through it.

Tokenisation – private and public roles

Finally I would like to turn more broadly to the topic of tokenisation, which as we all know is the digital representation of traditional assets on a programmable platform[6] and the potentially transformative potential of distributed ledger technology.

I say potentially transformative, as some visions of a tokenised financial system, such as the 'finternet' or 'financial internet'[7] put forward by the BIS, would truly be so, promising huge efficiency and disintermediation gains, reducing costs and complexity and empowering businesses and consumers.

While this is on the further end of the tokenisation spectrum, there are a number of areas of the financial system where the potential benefits of tokenisation are being explored.

This includes tokenisation of real assets, as well as financial assets such as money, securities, collateral, bank deposits, and funds. The potential benefits in terms of peer to peer transactions, smart contracts, and settlement and clearing are clear, leading to lower costs and indeed less risks. For time is money and time is risk as they say.[8]

While there is a large amount of work ongoing by both the private and public sector, I wanted to touch on what I see as the Central Bank's role in this regard.

Firstly from a regulatory point of view, there is an onus on us to ensure there are no unintended regulatory impediments to tokenisation of traditional assets; as well as to engage in dialogue with the sector to see if enabling regulation is required.

Secondly in line with our desire to foster innovation that delivers good outcomes for consumers, we can seek to drive and influence change at a system level. There is also a need for central banks to deepen our knowledge and engagement with this innovation, as well as to enhance our thinking and capabilities, given the far reaching changes implied should this wave of innovation materialise.

These are all things we and peer Central Banks are doing, and indeed will further focus on in future – and something the BIS and other Central Banks have been leading on, with Project Agora, which is testing a multi-currency wholesale cross border payments using DLT, and Project Guardian, which seeks to enhance liquidity and efficiency of financial markets through asset tokenisation, both important examples.

Given Central Banks' fundamental role in the monetary system, it is important that public innovation keeps pace with private innovation, particularly in payments and settlements systems.

In order to maintain the crucial role of public money in a tokenised world, future proofing our monetary system, facilitating innovation and increasing the resilience of the payments system, the Eurosystem is stepping up its efforts to support and foster innovation in market infrastructures. For example, in February the ECB announced its decision to expand its initiative to settle transactions recorded on DLT in central bank money.[9]

In addition, the work the Eurosystem is doing around the Digital Euro is key, both in terms of a retail Digital Euro as the representation of public money in a digital world, but also importantly in terms of wholesale central bank digital currency, as a tokenised central bank asset to operate in a tokenised system.[10]

Conclusion

Before I conclude I would like to touch briefly on the rapidly changing external environment we are all operating in.

In a future focused speech, it would be remiss of me not to mention the potential great structural changes underway in terms of geo-political developments and geo-economic fragmentation.

The challenges facing our economy are clear; but amongst these challenges are opportunities.

Innovation is often borne out of times of challenge, turning risks into opportunities.

But also as we deal with short run risks, it is too easy to take our eyes off these longer term opportunities.

I am sure this room full of innovators will heed the call to focus on continuing to deliver innovation in the interest of consumers and the wider economy. We as a Central Bank will also continue to anticipate, engage with and respond to innovation in the system.

But I would also call on firms and investors to not lose sight of the need to continue to innovate and invest in technology. While economic cycles come and go, the digital transition rolls on, and we cannot be left behind.

Thank you.

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[1] Many thanks to Cian O'Laoide, James O'Sullivan and Patrick Haran for their help preparing these remarks.

[2] View Our Strategy for more information.

[3] Authorisation and Gatekeeping Report 2024 (PDF 1.03MB).

[4] Patricia Dunne 'AML and Innovation – Opportunities and Challenges'.

[5] MiCAR Industry Briefing- Remarks by Gerry Cross, Director of Capital Markets & Funds.

[6] Tokenisation in the context of money and other assets: concepts and implications for central banks (PDF 2.25MB)

[7] Finternet: the financial system for the future

[8] "Time is Money. Time is Risk" Prepared Remarks before the European Commission

[9] Eurosystem expands initiative to settle DLT-based transactions in central bank money

[10] ECB decision to expand its initiative to settle transactions recorded on distributed ledger technology (DLT) in central bank money