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// Financial Regulation

Central Bank Publishes 2025 Regulatory and Supervisory Outlook

March 2025

On 28 February 2025, the Central Bank of Ireland (**Central Bank**) published its 2025 Regulatory and Supervisory Outlook report (**RSO**), outlining its perspectives on the key trends and risks shaping the financial sector and its regulatory and supervisory priorities for the year ahead.

The annual RSO is intended to assist financial firms in their own engagement with the Central Bank and in understanding the Central Bank's expectations of them.

On the same date, the Central Bank published a Dear CEO Letter to notify firms of the RSO, outline its regulatory and supervisory priorities for 2025 and provide firms with a high-level overview of the recent changes to its supervisory model, which the Central Bank has helpfully outlined in its 'Our Approach to Supervision' document. The Central Bank highlights that senior executives and key decision-makers in regulated firms should incorporate the content of the RSO and other communications, such as Dear CEO Letters, into their ongoing work and decision-making.

The RSO follows the Central Bank Governor's letter to the Minister for Finance dated 12 February 2025, which also sets out its financial regulation priorities for the year ahead.

Financial Regulation Priorities 2025

The Central Bank's financial regulation priorities for the year ahead include:

- **Finalisation of the Consumer Protection Code** - Continuing to engage with stakeholders ahead of the revised code's publication and finalisation this year. For further information, please see here.
- **Fitness and Probity** - Embedding the Enria review recommendations. For further information, please see here.
- **Markets in Crypto Assets Regulation (MiCAR) implementation** - Implementing MiCAR including engaging with firms seeking authorisation and continuing to raise awareness of the risks related to crypto-assets for consumers. For further information, please see our MiCAR web page.
- **Innovation Sandbox Programme** - Delivering the first thematic Innovation Sandbox Programme focusing on combatting financial crime and expanding the Programme to continue supporting innovation while safeguarding the integrity of the financial sector. For further information, please see here.

- **Effective Governance** - Ensuring regulated firms have effective governance underpinned by strong ethical culture and robust systems of delivery. This work includes continuing to embed the Individual Accountability Framework for in-scope firms (including the extension of the Senior Executive Accountability Regime to non-executive directors and supporting external stakeholders through ongoing engagement. For further information, please see our Individual Accountability & SEAR web page.
- **Credit Unions** - Progressing changes to credit union lending regulations, including the proposed changes to concentration limits for house and business lending and practices for specific categories of lending.
- **Anti-Money Laundering Agency (AMLA)** - Contributing to AMLA establishment and preparing for changes to anti-money laundering supervision. For further information, please see here.
- **Risk Management** - Ensuring that regulated firms' risk management capabilities and practices, including stress and scenario modelling, are forward-looking and commensurate with the heightened risk environment.
- **Operational Resilience** - Enhancing operational resilience, including cyber-related resilience, across the financial sector, particularly, through the effective implementation of the Digital Operational Resilience Act (DORA). For further information, please see here.
- **EU Artificial Intelligence Act (AI Act)** – Preparing for the AI Act with further engagement in connection with the use of AI in financial services.
- **Financial crime and market integrity** - The Central Bank is taking an increasingly holistic approach to fulfilling its remit in this area. Firms are expected to develop and implement preventative measures to mitigate fraud, and the Central Bank will engage with technology providers to introduce protections for the public from scams and fraud.
- **Enforcement mechanisms** - Continuing to deploy appropriate enforcement mechanisms to address serious breaches of regulatory requirements.
- **Climate and environment** - Continuing to work in partnership with the wider financial sector to address these challenges.

Further domestic and EU-driven regulatory initiatives are set out in Appendix A to the RSO.

CENTRAL BANK NEW SUPERVISORY APPROACH

The Central Bank introduced a new supervisory approach in January 2025. This approach is still outcomes-focused and risk-based but is now delivered through a more integrated approach to the different aspects of the Central Bank's mandate and how it organises its work.

Under the new framework, the Central Bank considers the financial system as consisting of three overarching industry categories based on related products and services: 1. Banking & Payments, 2. Insurance, and 3. Capital Markets & Funds. Each category contains several sectors covering all supervised entities. Each sector is supervised in an integrated, holistic way with a multi-year supervisory strategy.

The Central Bank expects this year to be a year of dialogue about its new approach as part of supervisory engagements with firms and FS industry sectors, as both firms and the wider system become more familiar with its implementation

THE GLOBAL MACRO ENVIRONMENT

This year's RSO is set against the backdrop of an increasingly fast-moving, interconnected, and uncertain world shaped by geopolitical, economic, technological, and environmental forces.

The Central Bank outlines that while the global economy is stabilising following several years of overlapping negative shocks, momentum on reducing inflation is slowing and the near-term growth outlook remains weak in many countries, with some facing significant fiscal challenges.

The expectation is that interest rates will stay higher for longer relative to pre-pandemic levels.

The current geopolitical situation is uncertain. Despite this highly uncertain backdrop, financial markets have been performing strongly. However, sentiment is fragile, and market volatility can rise quickly.

SUPERVISORY PRIORITIES

The Central Bank's supervisory priorities have not changed significantly from last year and are as follows:

1. Proactive risk management and consumer-centric leadership of firms.

Central Bank's expected outcome: The leadership of regulated entities adopt a more proactive and forward-looking approach to managing the risks and uncertainties facing their organisations and their customers.

2. Firms are resilient to the challenging macro environment.

Central Bank's expected outcome: Regulated entities have sufficient operational and financial resources, adaptability and recoverability, to be resilient and well-prepared in the face of risks in the macro environment, economic and financial market uncertainty and fragile sentiment.

This is highlighted in 2025 as being particularly important given the breakdown in previously stable international relations, protectionism, and other political, technological and environmental developments. This also includes being mindful of the consequences of this environment for their customers, who may face financial difficulty and vulnerable circumstances, and providing adequate support to them.

3. Firms address operating framework deficiencies.

Central Bank's expected outcome: Deficiencies identified in the governance, risk management, and control frameworks of regulated entities are addressed to ensure their effectiveness in the current environment and in the future.

4. Firms manage change effectively.

Central Bank's expected outcome: Regulated entities keep pace with changes in the financial system and consumer needs and expectations through the well-managed evolution of their business strategies. The adequacy of firms' investment in, and their ability to adapt to, rapidly developing technology will have consequences for firms' business models, their interaction with consumers, their operational resilience, resource contention, and cost profile.

5. Climate change and net zero transition are addressed.

Central Bank's expected outcome: Regulated entities continue to improve their responsiveness to climate change and its implications for their businesses and customers. They must also manage its impact and enhance their role in the transition to a net zero economy.

6. The Central Bank enhances its regulatory and supervisory approach.

Central Bank's expected outcome: Continuous improvement in and transformation of the approach to regulation and supervision to ensure that the Central Bank can continue to fulfil its mission in a rapidly changing financial ecosystem, which is exemplified by the Central Bank's new supervisory approach and framework mentioned above. This includes continuing to enhance authorisation processes, continuing to develop a proportionate, responsive regulatory framework, and evolving the Central Bank's supervisory approach.

RISK OUTLOOK

In this year's RSO, the Central Bank also uses certain indicators to assess the risk level for each risk area over a two-year horizon, its trajectory since last year, and its outlook.

SECTORAL FOCUS

For each sector covered, Key Takeaways and a Key Risks Overview are provided, which describe the key trends, risks and vulnerabilities that the Central Bank considers to be most material from a supervisory perspective over a two-year time horizon. These sections of the RSO are detailed and feature the following key sectors:

1. Banking and Payments sector

Banking

Domestically, banks' lending portfolios have performed well, with several credit indicators improving in 2024. However, certain portfolios, notably non-residential commercial real estate (**CRE**), leveraged finance, and the accommodation and food service activities sector, remain vulnerable.

Maintaining financial resilience is essential as firms navigate through change and as interest rates trend down. Bank income is expected to normalise in response to lower interest rates, while banks' costs may not adjust proportionately. Banks need to ensure that they adopt a balanced loan pricing strategy to generate sustainable profitability while securing their customers' interests. Capital planning, stress testing and scenario analysis continue to be viewed by the Central Bank as central to sound risk management practices.

Well-executed investments in systems and enhancements to digital capabilities are encouraged as are further efforts to foster a consumer-focused culture across the sector and improve consumer risk frameworks.

The Central Bank's supervisory activities are conducted as part of the European Central Bank's Single Supervisory Mechanism.

Financial risks and resilience can be affected by geopolitical and macroeconomic conditions. Key supervisory activities include financial resilience assessments (including the 2025 EU stress test, capital and liquidity management, and recovery planning); assessment of banks' ability to identify and manage new and emerging risks to their business models and including these in their risk management frameworks; and assessment of banks' proactivity in identifying and assessing transmission channels, cross-cutting risks, and cross-sectoral interlinkages arising from macroeconomic and geopolitical risks.

Data, AI, and modelling capabilities are influenced by available structures and unstructured data, as well as data management and modelling effectiveness, including the impact of AI deployment.

Culture, governance and risk management risks are driven by organisational culture, individual behaviours and any misalignment of incentives. Key supervisory activities include a continued focus on the strategic oversight from boards of culture, governance and risk management practices. This includes challenges arising from the lack of local board autonomy, digital transformation, the green transition, and data aggregation. Central Bank assessment of the level of customer service (including complaints handling) provided by firms is also expected.

Business model and strategic risks include challenges from fintech competitors, shifting customer expectations and growing competition from non-bank financial institutions.

Operational risks and resilience are impacted by constraints of legacy platforms and increased operational complexity as well as geopolitical tensions and rising cyber threats. General deficiencies in operational resilience frameworks and practices and increasing reliance on critical third-party service providers, with some having a dominant global position, may create concentration vulnerabilities. The Central Bank will be monitoring the implementation and development of incoming regulations focused on improving operational resilience and customer functionality and safety in the payments space.

Financial crime risks are increased by the volume of cross-border financial transactions and the expanding use of digital payments. Firms can expect an assessment of the adequacy and effectiveness of AML/CFT risk management frameworks.

Climate change and other environmental-related risks can be heightened by the increasing frequency and severity of extreme weather events, the transition to net zero, and litigation risk (where banks have financed firms that caused environmental harm). Banks should also be mindful of the consequences of inadequate finance provision for the transition to a low-carbon economy. The Central Bank can be expected to continue engaging to ensure sufficient remediation actions to address gaps in meeting the ECB supervisory expectations on climate and environmental risks.

There will also be a supervisory focus on credit risk management and loan origination reviews, with an emphasis on vulnerable portfolios and long-term mortgage arrears. These reviews will include how firms are continuing to meet Central Bank expectations in resolving distressed debt, including how firms are meeting the Central Bank's expectations regarding the appropriate and sustainable nature of Alternative Repayment Arrangements.

Payments and E-Money

The Central Bank highlights that this sector provides a range of innovative and valued services to consumers in Ireland and across Europe. It once again emphasises the responsibility of firms to safeguard user funds and underlines that firms should have strong systems and processes in place to manage the sector's inherently higher risks from money laundering, terrorism financing, and financial crime.

Safeguarding of user funds continues to be monitored by the Central Bank and risk in this regard is driven by ineffective control frameworks (including board oversight of safeguarding) and concentration risk in where safeguarded funds are held. Firms can expect the Central Bank to focus on safeguarding, with the completion of a sectoral thematic inspection on safeguarding arrangements, review of board attestations on safeguarded funds and completion of 2023 audit remediation actions and industry communications on sectoral findings. For further information on the Central Bank's sanctioning of a payment institution for safeguarding failures please see here.

Culture, governance and risk management risks are driven by growth outpacing operational, governance, compliance and risk management capabilities and inadequate authority and independence at a local level in group companies. The Central Bank plans to focus on board and executive accountability that ensures that firms (1) have a well-thought-out strategy and business plan, (2) demonstrate appropriate governance, risk management and internal controls, and (3) have a continued focus on operational resilience.

Financial risks and resilience. Macroeconomic conditions, including reducing interest rates, affecting revenue generation and cost base, and a tighter external funding market, impact viability and funding availability.

Financial crime risk in this sector is largely affected by a lack of the necessary experience, expertise or focus and ineffective risk-based financial crime frameworks. The Central Bank may intervene and use its supervisory powers where elevated risks or breaches of regulatory requirements are identified, including in cases of financial crime risk. Firms can also expect continued engagement from the Central Bank to assess the adequacy and effectiveness of their firms' AML/CFT risk management frameworks, through supervisory engagements and supervisory intervention where elevated risks or breaches of regulatory requirements are identified.

Operational risks and resilience are influenced by growth outpacing operational infrastructure and controls and significant reliance on third-party providers, including intragroup, with weak controls and oversight arrangements. The Central Bank views operational resilience as crucial for the sector to ensure service reliability, availability, security, and recoverability. The Central Bank highlights that the sector has experienced an all-time high number of major incidents and service outages, many of which result from outsourced service provider failure. In this regard, firms can expect the Central Bank to focus on the implementation and development of incoming regulations and initiatives focused on improving operational resilience, customer functionality, and safety in the payments space. These include DORA, the third proposed Payment Services Directive (**PSD3**), the Payment Services Regulation (**PSR**), and the Instant Payments Regulation. For further information on PSD3/PSR, please see here.

Retail Credit

As the sector continues to provide new product offerings and outsourcing activities on behalf of the wider banking system, firms' strategic objectives should be underpinned by governance and risk management frameworks that ensure customer interests are placed at the heart of decision-making.

The end-to-end customer journey (from product inception to product maturity) should be considered as part of the risk management and customer service framework to drive a more consumer-focused culture and improve the overall customer experience.

Culture, governance and risk management risks are driven by organisational culture, collective and individual behaviours, incentives and board effectiveness. Firms can expect the Central Bank to commence a targeted review of some firms' governance structures with a focus on boards' strategic oversight, independence and accountability.

Operational risks and resilience are driven by skills and experience gaps; IT systems and controls constraints, deficiencies and vulnerabilities (including legacy systems); and growing complexity, concentration and interconnectedness amongst firms within the sector. The identification, mitigation, and monitoring of IT outsourcing and cybersecurity issues and risks as part of firms' risk control frameworks are essential to ensuring the effective functioning and integrity of the wider banking system, given their role in managing large portfolios of distressed debt. Firms can expect the Central Bank to review some firms' overall operational resilience.

Borrowers in arrears or risk of arrears. Risks in this context are driven by a lack of consideration for the end-to-end customer journeys and operational constraints within firms limiting their capacity to engage with borrowers or affected borrowers themselves being reluctant to engage. The Central Bank has highlighted that it will continue to focus on:

- Firms' operational capacity as part of loan sales/transfers.
- How boards are ensuring they are meeting the expectations set out in the Central Bank's November 2022 Dear CEO letter and April 2023 publication Protecting consumers in a changing economic landscape.
- Engagement with in scope firms of both the thematic review on early arrears and credit cards.

The Central Bank also expects to review how some firms are continuing to meet its expectations in resolving distressed debt, and the appropriate and sustainable nature of Alternative Repayment Arrangements.

Over-indebtedness risks are driven by easier access to short-term credit, ineffective disclosure of loan terms and costs (with limitations in some borrowers' understanding of credit), macroeconomic conditions, and the potential for deterioration.

In this sector, the Central Bank also plans to concentrate on enhancing regulatory returns to support the increasing data-driven approach to supervision.

2. Insurers and Reinsurers

The (re)insurance sector has proved financially resilient in the face of recent crises and headwinds, with solvency coverage remaining well above minimum requirements.

Pricing and underwriting discipline, reserving and capital adequacy, effective model risk management, and operational resilience are fundamental to the sector's continued resilience and the formation of fair and reasonable prices for consumers.

Firms need to effectively navigate the multi-dimensional and highly connected operational and financial risks arising from the increasingly volatile and unpredictable geopolitical environment, economic uncertainty and more complex business structures.

(Re)insurers have direct exposure to the physical, transition and litigation risks associated with climate change, varying according to the types of risk they cover and their geographical footprint.

Firms need to effectively incorporate consumers' interests into their strategy, business model, and decision-making process, reflecting their overall obligation to act in the best interests of their customers.

Financial risks and resilience can be affected by macroeconomic and financial market uncertainty and volatility, pricing, reserving and capital adequacy, and ALM effectiveness. Key supervisory activities will include:

- Supporting EIOPA's 2025 Union-wide strategic supervisory priorities, by completing work in relation to risk transfers and value for money, and reviews of pricing discipline, adequacy of reserves and capital.
- Assessing firms' reliance on parent groups for services and capital support.
- Sectoral supervision focusing on the monitoring of the potential impacts of changes in financial markets and macroeconomic environment on the insurance sector and its consumers. Additional specific engagement will vary by insurance sector:
  - For firms with business models and strategies exhibiting significant growth or high degrees of complexity this will mean focusing on the governance and practices in place to undertake this business.
  - For life firms' capital optimisation strategies, this will mean focusing on future needs, risks and recovery options.
  - Broader work will look at manual processes in life reserving and pricing in the domestic non-life sector, and disclosure of commission arrangements with intermediaries.

Culture, governance and risk management risks can be driven by a lack of consumer orientation in governance, strategy, and decision-making. There will be a supervisory focus on assessing the level of customer services (including complaints handling) provided by firms.

Business model and strategic risks are heightened by governance, risk management and change management effectiveness.

Operational risks and resilience are driven by ineffective controls, board and operational oversight and risk management practices, as well as legacy IT constraints and the prevalence of semi-automated processes. The Central Bank is planning to assess the embedding of DORA requirements and adherence to the Central Bank's Cross Industry Guidance on Operational Resilience.

Climate change and other environmental factors can increase the risk of environmental-driven litigation. The increasing frequency and severity of extreme weather events and the transition to net zero can also drive risk. The Central Bank will focus on monitoring climate risk exposures and their integration within governance and risk management frameworks.

The Central Bank also plans to review the use of AI in pricing and underwriting processes and ask industry participants to assess the expected impacts in terms of quantitative elements (e.g., solvency coverage) and qualitative elements (e.g., take-up of proportionality measures).

Please see here for further information on the Central Bank's 2025 insurance supervisory priorities.

3. Capital Markets & Funds

Funds

The globally significant scale and nature of the funds sector in Ireland means that fund liquidity, leverage and financial system-wide interconnectedness are "evergreen" risks. Funds are the subject of both macro-prudential policy and supervisory interventions by the Central Bank.

The Draghi report emphasised the critical role of the funds sector in bridging the EU's economic and innovation performance gap.

Liquidity and leverage risks. In this context, deficiencies in fund and fund service provider (**FSP**) liquidity risk management frameworks, funds with less liquid assets, highly leveraged funds, and the interconnectedness between non-banking financial institutions and traditional financial sectors are cited as risk drivers.

Asset valuation and market risks are driven by a volatile geopolitical environment, changing investor preferences and asset valuation challenges at the asset class level. The dynamics and risks in the external environment have the potential to create heightened volatility across asset classes, sharp revaluations, and marked changes in investor preferences. This could have knock-on consequences for fund investors, for example, in terms of returns and liquidity, and promoters and fund service providers through the impact on their financial and operational performance.

Operational risks and resilience threats are increased by the increasing deployment of technology and digitalisation, geopolitical-driven threats, high levels of delegation and outsourcing in the funds sector, and the growth of white label/third-party management companies. The supervisory focus will be on delegation and outsourcing arrangements in fund management companies and FSPs' implementation of DORA requirements.

Sustainable finance risk is influenced by shifting investor demand for green products, the promotional advantages of "sustainable" or "ESG" labels, and the failure to meet global climate targets. There continues to be a significant focus on sustainable finance, including the sector's role in financing the transition to a net zero economy. The EU Sustainable Finance Disclosure Regulation (SFDR) and fund naming guidelines seek to minimise greenwashing misrepresentation that could harm investors.

Data, AI and modelling risks. Increasing deployment of generative AI tools and poor governance of data completeness and accuracy by funds and FSPs are highlighted as risks in this area. The Central Bank will continue to enhance and use fund data and risk models to deliver data-led, agile and risk-based approach to the sector's oversight.

Strategic risk and adapting to structural change. Lack of confidence, opportunity, and/or incentives for citizens in Ireland and some other EU countries to participate in the funds market, the embedded culture of bank-financing in the EU, and the growth in demand for new types of potentially more complex and higher-risk investments have been quoted as increasing risk drivers in this sector.

Other supervisory priorities regarding this sector include:

- Risk-based review of applications regarding funds and FSPs.
- Sectoral and thematic assessments, including the completion of the ESMA Common Supervisory Action on compliance and internal audit functions.

Securities Markets

Asset valuation and market risks are increasingly driven by the macroeconomic and geopolitical environment. Securities markets are exposed to uncertainty and the level of risk in the global macro environment, which can lead to potential volatility in trading patterns, asset values, and commodity prices.

Operational risks and resilience. Poor cybersecurity risk management frameworks, widespread reliance on IT systems in securities markets, the geopolitical and macroeconomic environment and the delegation and outsourcing of critical functions are all drivers of increasing risk in this area. The delegation and outsourcing of functions to third parties continues to be prevalent, sometimes with inadequate oversight and controls in place, heightening operational risk.

Cyber incidents have the potential to create significant disruptions to securities markets, which could permeate across the wider financial system.

Sustainable finance risk is influenced by strong investor demand for green products. The Central Bank will focus on developing a supervisory approach to EU green bonds and environmental, social and governance (**ESG**) bonds in line with ESMA supervisory expectations and the recommendations of the ESMA Greenwashing Report.

Market integrity risk is increased by shortcomings in the governance of algorithmic trading activities; cross-venue and cross-product market manipulation, which is exacerbated by the fragmentation of trading across a very large number of trading venues and bilateral trading systems; and the use of social media to spread inaccurate information and complications with obtaining information from such entities to support market abuse investigations. The Central Bank will continue the risk-based reviews of applications regarding prospectuses and new trading venues.

Strategic risks and adapting to structural change. In this context, the Central Bank highlights crypto-assets as a relatively new and developing asset class that poses risks, including those related to investor interests, market integrity, and financial crime, which can be compounded by limited awareness of risks by potential investors. Increasing risk drivers include new market participants who may be challenged by the application of regulation to a previously unregulated sector and geopolitics leading to fragmented regulatory regimes. The Central Bank intends to focus on implementing an authorisation process for crypto-asset service providers (CASPs) based on clarity, transparency and predictability for firms seeking authorisation, reflecting its commitment to achieve the benefits of the new EU regulatory framework for crypto-assets while ensuring the risks are well managed.

Culture, governance and risk management risks can be driven by ineffective board knowledge, challenge and governance failures, insufficient awareness and management of potential conflicts of interest, and control weaknesses and deficiencies in trading systems.

Data, AI and modelling risks are driven by increasing reliance on data as volumes of data increase, errors in data provided by firms, and increasing levels of sophistication and opacity in AI systems, with escalating use of AI in the future.

While AI has the potential to enhance all areas of securities markets, the use of AI technologies could increase market volatility, facilitate market abuse, introduce systemic risk, increase cybersecurity exposure, and reduce market transparency.

Supervisory activities in this sector are expected to include:

- Continuing data analysis, engagements with securities markets firms, thematic reviews and other supervisory risk assessments, including a focus on:
    - Securities markets firms' implementation of the requirements of MiCAR and DORA.
    - Identifying weaknesses and vulnerabilities in relation to operational resilience and governance frameworks. Seeking remediation through robust control frameworks and strong financial positions.
    - Undertaking assessments of the most significant firms to identify weaknesses and seek remediation in their Wholesale Market Conduct Frameworks.
- Implementing a new social media monitoring tool in conjunction with the Scila surveillance system, to further enhance our supervisory capabilities.

MIFID Investment Firms

Many investment firms operate across Europe and deal with a significant number of retail investors. The regulator's consumer research indicates that retail investors still find it difficult to engage with the sector in some instances, with disclosure and the provision of information being cited as particular challenges.

Firms are encouraged to promote an investor protection-focused culture, safeguard financial and operational resilience in the evolving operating environment and have sufficient customer service capacity and capability to appropriately respond to investors' needs and enhance their trust and confidence in engaging with the sector.

Risk drivers in this sector include poor practices regarding inducement and remuneration structures, inadequate disclosures regarding products and services, reliance on external and intra-group outsourcing, IT and cybersecurity vulnerabilities and growth outpacing operational infrastructure and controls, governance, compliance and risk management capabilities.

Conflicts of interest and inadequate disclosures can be driven by poor practices regarding inducement and remuneration structures and inadequate disclosures regarding products and services.

Operational risks and resilience. Reliance on external and intra-group outsourcing; IT and cybersecurity vulnerabilities; and growth outpacing operational infrastructure and controls are all factors that can drive risk.

Culture, governance and risk management risks are driven by poor governance structures and business practices and weak controls and business processes; growth outpacing operational, governance, compliance and risk management capabilities; and organisational culture, collective and individual behaviours, and board and executive team effectiveness.

Strategic risks and adapting to structural change are affected by macroeconomic conditions and geopolitical risk, digitisation of financial services, and potential for escalating use of AI systems in the future.

Financial risks and resilience. Risk drivers include macroeconomic conditions and geopolitical risk and financial market volatility.

In terms of the above themes and risk drivers, the Central Bank plans to undertake the following key supervisor activities:

- Continuing the supervisory review and evaluation process (**SREP**) assessments, including reviewing firms' oversight of cross border service provision and complaints management.
- Assessing the effectiveness of safeguarding of client asset against the enhanced rules.
- Supporting ESMA's supervisory convergence work including:
    - The MiFID ESMA CSA thematic work commenced in 2024 on sustainability requirements, and
    - The 2025 ESMA CSA thematic work on investor protection.
- Further enhancing regulatory returns and embedding the enhanced social media monitoring capabilities.
- Supporting the implementation and development of incoming regulations and initiatives related to the sector (including the EU Commission's Retail Investment Strategy, the EU Artificial Intelligence Act and the EU Accessibility Act etc.).

Other sectors included in the RSO and not covered in this briefing include credit unions, high-cost credit providers, and the retail intermediary sector.

SPOTLIGHTS

Included in the RSO are some topic-specific sections (called Spotlights) which cover topics such as:

1. Safeguarding consumer interests

The Central Bank's 2025 consumer risk priorities will include:

- Safeguarding consumer and investor interests in the delivery of high-quality, risk-based supervision through a programme of supervisory engagements across all financial sectors.
- Undertaking thematic reviews and inspections to assess how the key consumer risks and risk drivers identified in this report are managed by firms, with a particular focus on customer service, disclosure and sustainability requirements.
- Assessing lenders to ensure they are resolving distressed debt in the system, with a particular focus on the appropriateness and sustainable nature of Alternative Repayment Arrangements.
- Assessing the quality and effectiveness of regulated firms' reporting of conduct-related data across sectors.
- Conducting research to understand the attitudes and behaviour of consumer cohorts based on their financial needs and motivations, including those most vulnerable, or at risk of financial or digital exclusion.

2. AI: Balancing Opportunities and Risk

Key messages include:

- Regulated firms should be clear that their use of specific types of AI is appropriate to the business challenge being addressed.
- Under the AI Act, the Central Bank expects to be designated by the government as a "Market Surveillance Authority" (MSA) as part of a multilateral system of AI supervision in Ireland and the EU.
- An effective and efficient national supervisory system will help foster innovation and lessen the implementation complexity of the AI Act.

3. Geopolitical Risks: A Framework for Navigating Heightened Uncertainty

- In an era of heightened geopolitical uncertainty, traditional approaches to quantifying risk and stress testing have limitations. They may be too narrowly focused and not sufficiently forward-looking.
- The RSO includes a framework for considering geopolitical risks at a sector or entity level. It encompasses four main elements which can equally apply to other very high-impact risks, such as physical climate risks, pandemic risks, or a combination, and at a macro-

prudential financial stability level rather than micro-sector or firm level.

- Mapping transmission channels and scenario analysis are valuable tools for firms and supervisors, helping them make decisions in the face of an unpredictable future.

- Many firms and regulators adopt scenario techniques as they identify opportunities and threats. The framework described in this Spotlight can be adapted to reflect an organisation's scale, complexity, and risk exposure. Supervisors would expect regulated entities to consider geopolitical risks proportionately, whether by adopting an approach similar to that set out in the framework included in the RSO or otherwise.

Please see the Central Bank website for further information on the RSO and the Knowledge section of our website for other related briefings, insights and thought leadership.

CONTACT US

Our cross-sectoral Financial Regulation specialists can assist you with any regulatory queries. For more information, please contact Shane Kelleher, Louise McNabola, Ciarán Herlihy, Patricia Taylor, John Aherne, Eoin Caulfield, Niall Campbell, any member of the Financial Regulation team or your usual William Fry contact.

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