

SESSION 1

IMPLEMENTATION OF REGULATORY SANDBOXES: A GLOBAL OVERVIEW

Dr Anton Didenko
Research Fellow, UNSW Sydney (Australia)

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WHAT IS A 'REGULATORY SANDBOX'?

A programme that allows fintech firms to test a new solution:

- (i) in an actual (but limited) market environment
- (ii) under regulatory supervision
- (iii) without necessarily incurring all existing regulatory restrictions



Source: [Pixabay](https://pixabay.com/)

OUTLINE

1. Regulatory sandboxes at a glance
2. Case studies
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 5. Africa
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3. Key takeaways

REGULATORY SANDBOX PARTICIPANTS

Country	Regulator	Accepted firms
Abu Dhabi	Financial Services Regulatory Authority	25
Australia	Australian Securities and Insurance Commission	6
Bahrain	Central Bank of Bahrain	29 (currently)
Canada	Canadian Securities Administrators	8
Hong Kong	HKMA	46
Russia	Bank of Russia	16 (15 currently)
Sierra Leone	Bank of Sierra Leone	4
Thailand	Bank of Thailand, SEC, OIC	8 (exited BOT)
UK	Financial Conduct Authority	89

100 firms “supported” by regulatory sandboxes (UNSGSA 2019)

REGULATORY SANDBOXES AT A GLANCE

- New regulatory sandboxes
- Regulators are revising their approach
 - FCA: idea of ‘global’ sandbox => GFIN consultation
 - MAS: concept of ‘sandbox express’
 - ASIC: revised regime based on limited success of the current one
- Non-financial regulators are launching their own versions of ‘regulatory sandbox’
 - Singapore’s National Environment Agency

CASE STUDIES

EUROPE

CASE STUDY: THE FIRST SANDBOX

- Regulator: Financial Conduct Authority (FCA)
- Launched: June 2016
- Overall objective: “to foster competition and growth in financial services by supporting both small and large businesses that are developing products and services that could genuinely improve consumers’ experience and outcomes.”
- Part of a larger project ‘Innovate’

CASE STUDY: THE FIRST SANDBOX

- Project ‘Innovate’
 - *Regulatory Sandbox*
 - *Innovation Hub*
 - *Advice Unit*
 - *RegTech* initiative
 - *Engagement* initiative
 - (NEW) *FinTech Challenge*

CASE STUDY: THE FIRST SANDBOX

- *Innovation Hub* (2014)
 - Offers *direct support* via dedicated ‘Direct Support Team’
 - Procedure
 - Application by email
 - FCA determines the mode of support
 - explaining relevant parts of the regulatory regime
 - providing an informal steer on potential regulatory implications
 - giving an informal steer or individual guidance to help address concerns or issues
 - assistance with submitting authorisation application
 - post-authorisation support (up to 1 year) that ends with ‘exit’ meeting

Criteria	Key question	Positive indicators	Negative indicators
Genuine innovation	<ul style="list-style-type: none"> Is the innovation ground-breaking or significantly different? 	<ul style="list-style-type: none"> Desk research produces few or no comparable examples of innovation Independent expertise believes that it is genuinely innovative Step-change in scale 	<ul style="list-style-type: none"> There are numerous examples of similar innovations Independent expertise believes it is not particularly innovative It looks like artificial product differentiation
Consumer benefit	<ul style="list-style-type: none"> Does the innovation offer a good prospect of identifiable benefit to consumers (either directly or via heightened competition)? 	<ul style="list-style-type: none"> The innovation is likely to lead to a better deal for consumers e.g. through lower price or higher quality The business has identified any possible consumer risks and proposed mitigation The innovation will promote effective competition 	<ul style="list-style-type: none"> Likely detrimental impact on consumers, markets or the financial system It looks designed to circumvent regulatory or fiscal obligations
Background research	<ul style="list-style-type: none"> Has the business invested appropriate resources in understanding the regulations in relation to its own position? 	<ul style="list-style-type: none"> The business has sought to understand their obligations as far as appropriate 	<ul style="list-style-type: none"> Little effort made to understand relevant regulations Unclear what additional support the business would require outside of usual process
Need for support	<ul style="list-style-type: none"> Does the business have a genuine need for support through the Innovation Hub? 	<ul style="list-style-type: none"> The business has no alternative means of engaging with the FCA The innovation does not easily fit the existing regulatory framework 	<ul style="list-style-type: none"> Firm has a dedicated supervisor who could answer the query Business has significant regulatory compliance resource The innovation easily fits the existing regulatory framework

CASE STUDY: THE FIRST SANDBOX

- *Advice Unit*
 - “[P]rovides regulatory feedback to firms developing automated models to deliver lower cost advice and guidance to consumers”
 - Two main services to firms
 - Individual regulatory feedback on a firm’s model
 - Publishing tools and resources for all firms
 - Cannot reduce any consumer protections (including authorisation standards)

CASE STUDY: THE FIRST SANDBOX

- *RegTech* initiative
 - Public consultations called ‘Call for Input’
 - Identified focus areas and formulated desirable proofs of concept
 - Organised 6 ‘techsprints’:
 - (i) consumer access (April 2016)
 - (ii) regulatory reporting (November 2016)
 - (iii) financial services and mental health (March 2017)
 - (iv) machine executable regulatory reporting (November 2017)
 - (v) AML & financial crime (May 2018)
 - (vi) retirement savings (November 2018)

CASE STUDY: THE FIRST SANDBOX

- *Engagement* initiative
 - Proactive engagement with large incumbents
 - ‘Regulatory surgeries’
 - International engagement

CASE STUDY: THE FIRST SANDBOX

- Proactive engagement with large incumbents
 - Ensure there are no barriers to innovation by existing firms
 - Conduct joint pilots

CASE STUDY: THE FIRST SANDBOX

- ‘Regulatory surgeries’
 - 15 minute long
 - Not more than 3 people from each firm
 - Available on certain pre-set dates
 - Application-based

CASE STUDY: THE FIRST SANDBOX

- International engagement
 - Facilitation of entry of new firms into the UK
 - Facilitation of expanding UK firm activities abroad
 - Cooperation agreements with other regulators
 - With referral mechanisms
 - With information exchange provisions

CASE STUDY: THE FIRST SANDBOX

- Cooperation agreements with referral mechanisms
 - Australian Securities and Investments Commission (ASIC)
 - Monetary Authority of Singapore (MAS)
 - Hong Kong Monetary Authority (HKMA)
 - Ontario Securities Commission (OSC) in Canada
 - Financial Services Agency of Japan (JFSA)
 - U.S. Commodities Futures Trading Commission (CFTC)
- Cooperation agreements with information exchange provisions
 - Korean Financial Services Commission (FSC)
 - Peoples Bank of China (PBOC)

CASE STUDY: THE FIRST SANDBOX

- *FinTech Challenge*
 - Launched in October 2018
 - First pilot - ‘Green FinTech Challenge’ (applications close 11.01.2019)
 - Expected benefits:
 - Dedicated adviser
 - Authorisation support
 - *Live market testing in the sandbox*
 - Guidance and informal steers

CASE STUDY: THE FIRST SANDBOX

- Concept: “The regulatory sandbox allows businesses to test innovative propositions in the market, with real consumers.”
- Seeks to provide “a customised regulatory environment for each test”
- Sandbox tests are expected:
 - To have a clear objective
 - To be conducted on a small scale

CASE STUDY: THE FIRST SANDBOX

- Sandbox tools
 - Individual guidance (cf Innovation Hub)
 - Informal steers (cf Innovation Hub)
 - Restricted authorisation
 - Waivers and modifications of FCA rules
 - No enforcement action letters

CASE STUDY: THE FIRST SANDBOX

- Cohort system
- First cohort
 - 24 applications accepted, 18 firms tested
- Second cohort
 - 31 applications accepted, 24 firms tested
- Third cohort
 - 18 firms accepted
- Fourth cohort
 - 29 firms accepted
- Fifth cohort - applications closed 30 November 2018

CASE STUDY: THE FIRST SANDBOX

- Takeaways
 - Only one part of a bigger set of different initiatives
 - Was launched after the Innovation Hub
 - New pilot project FinTech Challenge

CASE STUDY: NETHERLANDS

- Regulator: Authority for Financial Markets (AFM) and De Nederlandsche Bank (DNB)
- Launched: 1 January 2017

CASE STUDY: NETHERLANDS

- Focus on the notion of ‘reasonableness’ in sandbox implementation
 - “If a financial services company **cannot reasonably meet** specific **policies, rules or regulations**, when marketing an innovative product, service or business model, **but does meet their underlying purpose**, it can take advantage of the sandbox”
 - Supervisors will determine this on a case-by-case basis

CASE STUDY: NETHERLANDS

- Takeaways
 - Emerged almost 1 year following the launch of the Innovation Hub
 - First six months of 2016 - the Innovation Hub received 114 requests
 - Grew out of regulators' joint actions to assist the industry informally, by providing consultations: if questions cannot be resolved via the innovation hub advice (based on existing rules), then regulators may acknowledge that some flexibility is required

CASE STUDY: RUSSIA

- Regulator: Bank of Russia
- Launched: 19 April 2018
- Minimal regulatory guidance
- Conservative approach: it is a “mechanism for piloting new financial services and technologies that **require changes in regulation**”

CASE STUDIES

ASIA: MIDDLE EAST

CASE STUDY: ABU DHABI

- Regulator: Financial Services Regulatory Authority (FSRA) of Abu Dhabi Global Market
- Launched: 02 November 2016
- Called ‘Regulatory Laboratory’ (RegLab)
- Objective (section 4.10 of RegLab Guidance):
 - “What the RegLab aims to achieve is a **controlled environment** that promotes FinTech innovation, yet minimises the risks of poor client outcomes posed by these innovative solutions.”

CASE STUDY: ABU DHABI

- Cohort system
- First cohort
 - Results announced in May 2017
 - 11 applications - 5 firms accepted
- Second cohort
 - Results announced in October 2017
 - 22 applications - 11 firms accepted
- Third cohort
 - Results announced in September 2018
 - 36 applications - 10 firms accepted

CASE STUDY: ABU DHABI

- Takeaways
 - Flexible and a lot of freedom expressly reserved with the regulator
 - Flexibility about requirements
 - Flexibility about timing
 - Non-binding nature of rules themselves

CASE STUDIES

SOUTH-EAST ASIA

CASE STUDY: SINGAPORE

- Regulator: Monetary Authority of Singapore
- Launched: 16 November 2016 (guidelines)
- Overall objective is “encourage more FinTech experimentation within a well-defined space and duration where MAS will provide the requisite regulatory support, so as to (a) increase efficiency, (b) manage risks better, (c) create new opportunities; or (d) improve people’s lives”
- Not standalone

CASE STUDY: SINGAPORE

- Financial Technology Innovation Group (FTIG):
 - Payments & Technology Solutions Office
 - Technology Infrastructure Office
 - Technology Innovation Lab
- March 2017 - **Data Analytics Group** within the Financial Supervision Department
- MAS manages the S\$225 million **Financial Sector Technology & Innovation scheme**
- May 2016 - **FinTech Office**
- FinTech Hub (**80RR**)
- Cooperation agreements (FCA, HKMA, Securities Commission of Malaysia)
- MAS has also partnered with the International Finance Corporation to develop the **ASEAN Financial Innovation Network**

CASE STUDY: SINGAPORE

- Flexible:
 - MAS determines the requirements on a case by case basis
 - No fixed duration
- Rolling system
- Only 1 firm currently in sandbox
 - Inzsure Pte Ltd

CASE STUDY: SINGAPORE

- NEW consultation on 'Sandbox Express'
- Intended only for services where risks are low or well understood
- Selected areas (subject to review from time to time)
 - Insurance brokerage
 - Recognised market operators
 - Remittances

CASE STUDY: SINGAPORE

- Sandbox Express features:
 - Application-based
 - Conditions and restrictions will be pre-defined
 - Reduced application processing time

CASE STUDY: SINGAPORE

- Takeaways
 - Only part of a set of different initiatives
 - Low level of acceptance
 - Proposal for a revised regime - ‘sandbox express’

CASE STUDY: THAILAND

- Multiple sandboxes by different regulators
- Regulators:
 - Bank of Thailand (BOT)
 - Securities and Exchange Commission (SEC)
 - Office of Insurance Commission (OIC)

CASE STUDY: THAILAND

- BOT sandbox
 - For products relating to loans, payments, and similar transactions
 - BOT worked with 8 firms to develop a system of QR codes for digital payments, all now exited the sandbox:
 - 5 in November 2017
 - 3 in December 2017

CASE STUDY: THAILAND

- SEC sandbox
 - Multiple vertical sandboxes focusing on different products:
 - Securities/derivatives (eg robo-advisory, algorithmic trading)
 - Back-office innovations (eg use of blockchain for securities settlement, depositories, registrars)
 - KYC processes
 - (projected) electronic trading platforms

CASE STUDY: THAILAND

- OIC sandbox
 - For insurance services providers

CASE STUDY: THAILAND

- Takeaways
 - Multiple regulators launching own sandboxes
 - Vertical sandboxes by SEC
 - Allows regulator to focus on specific services/technologies
 - But has limited scope for driving innovation generally, outside the outlined areas

CASE STUDY: MALAYSIA

- Regulator: Bank Negara Malaysia (BNM)
- Launched: 18 October 2016
- Provides an 'Informal Steer'

CASE STUDY: MALAYSIA

- (NEW) Ministry of Finance launched the '**National Regulatory Sandbox Initiative**' in February 2018
- Target sectors: agriculture, biotechnology, building, education, energy, financial, food, green technology, healthcare, hospitality, sports, telecommunication, transportation, tourism, water management, waste management
- So far, no information about practical steps

CASE STUDY: WORLDREMIT AND BNM

- Business model: money remittance using online client identification
- Challenge: in Malaysia KYC/AML rules require face-to-face interaction with client
- BNM accepted WorldRemit into sandbox, allowing to launch its product with e-KYC (September 2017)
- BNM issued e-KYC guidelines at the end of 2017

CASE STUDIES

AMERICAS

CASE STUDY: CANADA

- Regulator: Canadian Securities Administrators (CSA)
- Launched: February 2017
- Overall focus on securities (due to mandate)
- Applications first accepted by the provincial regulator - and then, if eligible, to the full CSA approval

CASE STUDY: USA (ARIZONA STATE)

- Regulator: Arizona Attorney General's Office
- Launched: August 2018
- First regulatory sandbox in the USA
- Rolling system
- White-listing the applicable rules
- Arizona legislation attempts to define 'innovation' in the context of regulatory sandboxes:
 - "Innovation" means the use or incorporation of new or emerging technology or the reimagination of uses for existing technology to address a problem, provide a benefit or otherwise offer a product, service, business model or delivery mechanism **that is not known by the attorney general to have a comparable widespread offering in this state.**

CASE STUDIES

AFRICA

CASE STUDY: KENYA

- Regulator: Capital Markets Authority (CMA)
- Not yet launched: public consultation initiated in June 2017
- Focuses on capital markets (due to CMA mandate)
- Supports the broader national policy agenda described in Kenya Vision 2030 and the 10-year Capital Market Master Plan

CASE STUDY: SIERRA LEONE

- Regulator: Bank of Sierra Leone (BSL)
- Launched: April 2018
- Financial inclusion objective
- BSL : “Sandbox Pilot Program is intended to **facilitate BSL’s understanding** of emerging technologies...”
- Coordination with ecosystem building

CASE STUDY: SIERRA LEONE

- First cohort - 4 firms:
 - “InvestED”
 - “iCommit”
 - “MyPay”
 - “Noory”

CASE STUDY: SIERRA LEONE

Competition: 'FinTech Challenge 2017'

- **Mixed** funding by BSL, FSD Africa, UNCDF
- Selection by 2 panels
 - Panel A (70%): UNCDF, FSD Africa and Bank of Sierra Leone
 - Panel B (30%): consumer group representatives
- Selection criteria
 - Project feasibility
 - Relevance for the people/businesses in Sierra Leone
 - Impact and potential of the idea

CASE STUDY: SIERRA LEONE

- Project feasibility (40% of the assessment result)
- Project relevance (30% of the assessment result)
- Impact potential (30% of the assessment result)

CASE STUDY: SIERRA LEONE

- Each of the 3 finalists to receive
 - Up to USD 13,000 seed capital
 - Access to the Regulatory Sandbox
- 1 or 2 winner projects to receive
 - USD 100,000 investment capital to implement a pilot project

CASE STUDIES

OCEANIA

CASE STUDY: AUSTRALIA

- Regulator: Australian Securities and Investments Commission (ASIC)
- Launched: December 2016
- Called 'FinTech licensing exemption'
- Not standalone (Innovation Hub)

CASE STUDY: AUSTRALIA

- 3 elements:
 - Existing flexibility provided by law (a licence is not required in certain cases)
 - new FinTech licensing exemption ('concept validation exemption' - unique?)
 - Individual licensing exemptions granted by ASIC to a particular business

CASE STUDY: AUSTRALIA

- Enhanced regulatory sandbox
 - Draft regulations released 24 October 2017
 - Proposal by the Treasury to extend the sandbox beyond ASIC's rules
 - Increased number of eligible financial services
 - Duration increased from 12 to 24 months
 - Being licensed does not automatically make one ineligible for a sandbox (as long as the person does not have a licence for the activity in question)

CASE STUDY: AUSTRALIA

- No application process
- Notification-based
- 6 firms ever used it

CASE STUDY: AUSTRALIA

- Takeaways
 - Unusual mechanics
 - Benefits:
 - Economy of resources
 - No need to assess the level of innovation
 - Class waiver disguised as a sandbox
 - Limited scope limits the attractiveness of the sandbox

SOME TAKEAWAYS

- Number of regulatory sandboxes is increasing
- Sandboxes are organised by different regulators
- Window-dressing
- Many sandboxes have very few participants
- Some regulators are aiming to revise their sandbox approach
- Launch of new, 'tailored' sandboxes and sandboxes in other (non-financial) sectors

SOME OBSERVATIONS (CGAP AND UNSGSA)

- “Regulatory sandboxes are **quite new**, and the **lack of data and diversity of sandbox approaches** make any measurement of success or comparison of individual sandboxes difficult”.
- “A regulatory sandbox **should not be thought of as an exclusive entry point** to the financial market for all innovations”.
- “The multitude of avenues for innovation means that a regulatory sandbox is **not a one-size-fits-all solution**”.
- “Regulatory sandboxes are **neither necessary nor sufficient** for promoting financial inclusion”. (UNSGSA 2019)

THANK YOU