The State of Regulatory Sandboxes in Developing Countries

Wechsler, M; Perlman, L; and Gurung, N

ABSTRACT

We review the emergence of a novel regulatory innovation called a ‘regulatory sandbox,’ designed to incubate innovations in the financial sector in a relaxed, but tightly monitored environment.

It provides a symbiotic environment for innovators to test new technologies, and regulators to understand their implications for the financial sector and consumer protection.

The concept has been embraced by developed and developing world regulators. We describe where and how these sandboxes are being used in developing countries.

The establishment of thematic regulatory sandboxes which focus on specific national financial and developmental priorities rather than spanning multiple national agendas is encouraged.

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4 This research was funded through a grant from the Bill and Melinda Gates Foundation, which facilitated the creation of the Digital Financial Services Observatory, a DFS policy and regulatory research project of the Columbia Institute for Tele-information at Columbia University in New York. See www.dfsobservatory.com
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<tr>
<td>ADGM</td>
<td>Abu Dhabi Global Market</td>
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<td>AMBD</td>
<td>Autoriti Monetari Brunei Darussalam</td>
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<td>AFI</td>
<td>Alliance for Financial Inclusion</td>
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<td>AML</td>
<td>Anti-Money Laundering</td>
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<td>AFIN</td>
<td>Asean Financial Innovation Network</td>
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<td>AFSA</td>
<td>Astana Financial Services Authority</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>AI</td>
<td>Artificial Intelligence</td>
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<td>AIFC</td>
<td>Astana International Financial Center</td>
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<td>API</td>
<td>Application Programming Interface</td>
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<td>ASIC</td>
<td>Australian Securities and Investments Commission</td>
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<td>BCB</td>
<td>Banco Central do Brasil (Central Bank of Brazil)</td>
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<td>BBVA</td>
<td>Banco Bilbao Vizcaya Argentaria, S.A.</td>
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<td>BECB</td>
<td>Bahrain Economic Development Board</td>
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<td>BI</td>
<td>Bank Indonesia</td>
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<td>BIS</td>
<td>Bank for International Settlements</td>
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<td>BNM</td>
<td>Bank Negara Malaysia</td>
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<td>BNR</td>
<td>National Bank of Rwanda</td>
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<td>BOI</td>
<td>Board of Investment (Mauritius)</td>
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<td>BOT</td>
<td>Bank of Thailand</td>
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<td>BSL</td>
<td>Bank of Sierra Leon</td>
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<td>BSP</td>
<td>Bangko Sentral ng Pilipinas (Central Bank of the Philippines)</td>
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<td>CARICOM</td>
<td>Caribbean Community</td>
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<td>CBC</td>
<td>Central Bank of the Congo</td>
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<td>CBN</td>
<td>Central Bank of Nigeria</td>
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<td>CFPB</td>
<td>Consumer Financial Protection Bureau</td>
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<td>CFT</td>
<td>Countering the Financing of Terrorism</td>
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<td>CFTA</td>
<td>Continental Free Trade Association</td>
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<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
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<td>CMA</td>
<td>Capital Markets Authority (Kenya)</td>
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<td>DAB</td>
<td>Digital Asset Business</td>
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<td>DFS</td>
<td>Digital Financial Services</td>
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<td>DIFC</td>
<td>Dubai International Financial Centre</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>EASRA</td>
<td>East African Securities Regulatory Authorities</td>
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<td>ECOWAS</td>
<td>The Economic Community of West African States</td>
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<td>EAEU</td>
<td>Eurasian Economic Union</td>
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<td>EC</td>
<td>European Commission</td>
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<td>EMDE</td>
<td>Emerging Markets and Developing Economies</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FCA</td>
<td>United Kingdom Financial Conduct Authority</td>
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<td>FINMA</td>
<td>Swiss Financial Market Supervisory Authority</td>
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<td>FSDMoc</td>
<td>FSD Mozambique</td>
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<td>FTEG</td>
<td>Financial Technology Enabler Group</td>
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<td>FTO</td>
<td>Financial Technology Operator</td>
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<td>Acronym</td>
<td>Full Form</td>
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<td>GFC</td>
<td>Global Financial Crisis</td>
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<td>GPS</td>
<td>Global Positioning System</td>
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<td>GSMA</td>
<td>Groupe Spéciale Mobile Association</td>
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<td>HKMA</td>
<td>Hong Kong Monetary Authority</td>
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<td>ICO</td>
<td>Initial Coin Offering</td>
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<td>ICT</td>
<td>Information and Communication Technology</td>
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<tr>
<td>IDB</td>
<td>Inter-American Development Bank</td>
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<td>IDRBT</td>
<td>Institute for Development and Research in Banking Technology</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>IKD</td>
<td>Inovasi Keuangan Digital (Digital Financial Innovation)</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IRDAI</td>
<td>Insurance Regulatory and Development Authority of India</td>
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<td>IT</td>
<td>Information Technology</td>
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<td>JFSA</td>
<td>Japan Financial Services Agency</td>
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<td>KPMG</td>
<td>Klynveld Peat Marwick Goerdeler</td>
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<td>KYC</td>
<td>Know Your Customer</td>
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<td>LAC</td>
<td>Latin America and the Caribbean</td>
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<td>LONO</td>
<td>Letter of No Objection</td>
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<td>LIFT</td>
<td>Laboratory of Financial and Technological Innovations</td>
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<td>MAS</td>
<td>Monetary Authority of Singapore</td>
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<td>MEDB</td>
<td>Mauritius Economic Development Board</td>
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<td>MENA</td>
<td>Middle East North Africa</td>
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<td>MGA</td>
<td>Malta Gaming Authority</td>
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<td>MNO</td>
<td>Mobile Network Operator</td>
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<td>NBFI</td>
<td>Non-Bank Financial Institution</td>
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<td>NFIS</td>
<td>National Financial Inclusion Strategy</td>
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<td>NIBSS</td>
<td>Nigeria Inter-Bank Settlement System</td>
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<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>NPP</td>
<td>New Payments Platform</td>
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<td>OCC</td>
<td>Office of the Comptroller of the Currency</td>
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<td>OIC</td>
<td>Office of Insurance Commission (Thailand)</td>
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<td>OJK</td>
<td>Otoritas Jasa Keuangan (Financial Services Authority of Indonesia)</td>
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<tr>
<td>PFRDA</td>
<td>Pension Fund Regulatory Development Authority</td>
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<td>RBI</td>
<td>Reserve Bank of India</td>
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<td>RSL</td>
<td>Regulatory Sandbox License</td>
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<td>RURA</td>
<td>Rwanda Utilities Regulatory Association</td>
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<td>SAMA</td>
<td>Saudi Arabia Monetary Authority</td>
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<td>SARB</td>
<td>South African Reserve Bank</td>
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<td>SEBI</td>
<td>Securities and Exchange Board of India</td>
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<td>SWIFT</td>
<td>Society for Worldwide Interbank Financial Telecommunications</td>
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<td>TASS</td>
<td>Russian News Agency</td>
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<td>TSEC</td>
<td>Thailand Securities and Exchange Commission</td>
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<td>United Arab Emirates</td>
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<td>United Kingdom</td>
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<td>UNCDF</td>
<td>United Nations Capital Development Fund</td>
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<tr>
<td>UNSGSA</td>
<td>UN Secretary-General’s Special Advocate for Inclusive Finance for Development</td>
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1 Overview

1.1 Introduction

Beneficial technological innovation can disrupt traditional business models, creating efficiencies which lead to new products and services with greater accessibility, faster delivery times and at lower costs. Surging investment in financial technologies (FinTech) and the introduction of increasingly complex business and technical models, however, present a significant challenge for regulators to keep up with the furious pace of progress.

Regulators must be able to identify, understand, adapt and respond to these disruptive new products and services in a timely and appropriate fashion. Existing regulations crafted for outdated physical models may be incompatible with or difficult to apply to modern digital solutions. Regulatory uncertainty and incompatibility can hinder and discourage investment in innovation by increasing innovator costs, risks and efforts. In response, an increasing number of jurisdictions are recognizing regulatory sandboxes (or ‘RegLabs’) as a flexible framework or approach (among others) to facilitate advancement of potentially beneficial innovation (which introduces risk) while ensuring the safety of consumers and stability of the marketplace.

The definition, form and implementation of what constitutes a regulatory sandbox varies. Generally, it refers to a framework allowing innovators, under the oversight of a regulator, to conduct small-scale short-term testing of their innovations using live participants, in a controlled, bounded, safeguarded

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5 The digital financial services (DFS) mobile money ecosystem leverages the basic messaging capabilities of mobile phones as a payment instrument and overcomes traditional physical and operational barriers, making financial services increasingly accessible and affordable to the unbanked who often reside in rural and remote areas. For an introduction to and overview of DFS, see Perlman, L (2018) Digital Financial Services Primer 2018, available at dfsobservatory.com
6 Traditional business models (brick and mortar) and/or intermediaries (‘the middleman’) are typically removed or replaced, such as has been seen with Uber car services. Uber (2018) About Us, available at https://www.uber.com/about /
12 RegLab is an abbreviation for ‘Regulatory Laboratory.’
13 Examples of other regulatory approaches appear below in Exhibit 1: Test-and-Learn as an Alternative Regulatory Tool and its accompanying footnote 33.
15 See Section 2: Introduction to the Regulatory Sandbox.
16 The concept of safe experimentation has been compared to clinical testing. FCA (2015) Regulatory Sandbox, available at https://bit.ly/2EG5Lez
environment under relaxed regulatory conditions. Ideally, successful tests in the sandbox lead to a more streamlined method of safely expediting the deployment of desirable and beneficial innovation in the marketplace. The clinical environment of the sandbox fosters an important mutual learning experience. Increased, transparent and open communication between regulators and innovators allows each party to easily and regularly access and leverage the valuable expertise of the other and build capacity.

Regulatory sandboxes primarily appear in developed countries and emerging economies. The number of "developing countries" implementing regulatory sandboxes has recently increased and, in some cases, they are being used to directly advance financial inclusion. Regulatory sandboxes can potentially impact on financial inclusion objectives by safely relaxing some regulatory barriers and encouraging innovation and implementation of FinTech products and services relevant to DFS – such as the development of electronic Know Your Customer (KYC and eKYC) solutions for customer identifications and verification, biometric identification systems and remittance services.

This paper examines the emergence of regulatory sandboxes, one of several available regulatory approaches to harness beneficial innovation that falls within regulatory gray areas, with a focus on developing countries. It examines features common to many sandboxes, provides a status update of current operational efforts globally and in developing countries and identifies benefits and risks of implementation. It also identifies potential limits of local sandboxes and recommends collaborative efforts, a vision focusing on cross-border activity which may ultimately prove to be valuable, beneficial and an effective moving forward strategy for facilitating FinTech innovation, especially for developing countries.

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18 See Section 4.1: Benefits and footnote 158 for more information on sandbox communications.


20 See Section 3: The State of Regulatory Sandboxes in Developing Countries for more information about the growing number of regulatory sandboxes in developing countries. See Annex B: Status of Regulatory Sandboxes Worldwide for jurisdictions where regulatory sandboxes have been announced in draft stages or as launched.


22 For a study on eKYC use for CIV, see Perlman, L & Gurung, N (2018) *The Use of eIDs and eKYC for Customer Identity and Verification in Developing Countries: Progress and Challenges*, available at www.dfsobservatory.com


24 The term ‘developing countries’ is defined as set forth in footnote 15.

25 See Section 4: Benefits and Risks of Regulatory Sandboxes in Developing Countries.
1.2 Methodologies

As matter of organization and ease of reading, technical granularity and any additional background information is placed within footnotes. We have used the ‘bit.ly’ web address shortener throughout this study to improve readability of the footnotes, with all URLs verified as of October 20, 2018.

Research was undertaken through desktop research, interviews with practitioners and regulators dealing with sandboxes, and attendance at international conferences. Research is current to Oct 20 2018.

2 Introduction to the Regulatory Sandbox Concept

2.1 Emergence of Regulatory Sandboxes

The sandboxing concept in a regulatory context emerged in the financial sector of developed countries shortly after the Global Financial Crisis (GFC) of 2007 – 2008. It represented an effort at balancing increased global attention towards restrictive regulation favoring consumer protection to avert repeating systemic failure during a time of exponential growth in the FinTech sector.

Project Catalyst, established in 2012 by the US Consumer Financial Protection Bureau (CFPB), was an early effort that gave rise to the sandbox concept in an initiative to promote consumer friendly innovation. In its 2015 FinTech Futures report, the UK Government Office for Science identified benefits of ‘close collaboration between regulators, institutions and FinTech companies’ from ‘clinical trials’ and recommended ‘regulator monitored “sandboxes” for innovators to experiment with virtual environments or real people.’ Subsequently, the UK Financial Conduct Authority (FCA) followed by launching its ‘regulatory sandbox’ in 2016 as part of its Project Innovate initiative to ‘promote competition by supporting disruptive innovation.’

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2.2 Basic Elements of a Regulatory Sandbox

Regulatory sandboxes are one of several regulatory approaches available to regulators striving to achieve an optimal balance between ensuring financial stability and consumer protection while also advancing beneficial innovation.\(^{36}\) Before making a decision to implement a sandbox, a feasibility assessment should be conducted\(^ {37}\) to: determine whether a sandbox is needed and is a proper fit for a jurisdiction; consider whether a sandbox can be effectively implemented and under what circumstances, identifying barriers to success; contemplate design and feature set; compare results with sandbox alternatives\(^ {38}\) while also considering efforts necessary to implement a regulatory sandbox.\(^ {39}\)

Regulatory sandbox models and their components vary although many jurisdictions follow the FCA approach, currently the most active sandbox with the longest operating history.\(^ {40}\) Differences can be more pronounced where the legal mandates of the regulator and available resources are at a variance. Frameworks are tailored to fit the specific needs, priorities, laws, mandates and resources of a jurisdiction and the sandbox operator.\(^ {41}\)

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\(^{37}\) Jenik & Lauer (2017) suggest a five-factor analysis to help regulators assess the feasibility and appropriateness of implementing a regulatory sandbox. An assessment includes an analysis of: (i) legal and regulatory framework; (ii) stakeholder ecosystem; (iii) capacity levels and available resources (financial and human); (iv) market conditions; and (v) an examination of policy priorities which are ideally reflected in these factors. Jenik, I & Lauer, K (2017) Regulatory Sandboxes and Financial Inclusion, available at https://bit.ly/2yDDGU0; See also Zhang, B & Rowan, P & Duff, S, et. al. (2018) A Draft Report from the UNSGSA

\(^{38}\) Alternative approaches to regulatory sandboxes include (i) Test-and-Learn, as described in Exhibit 1; (ii) the ‘Wait-and-See’ or ‘do nothing’ approach of regulatory forbearance from intervention until such time is deemed appropriate (often used with regard to nascent, emerging technologies, such as was the case with crowdfunding/P2P lending in China); (iii) legislative and/or regulatory development, an approach requiring a more comprehensive effort which can be exemplified by the issuance of a FinTech License or ‘class waiver’ for all who qualify in meeting objective criteria, covered in Section 2.2.2. See Jenik, I & Lauer, K (2017) ibid. See also Zetzsche, D & Buckley, R & Arner, D, et al. (2017) Regulating a Revolution: From Regulatory Sandboxes to Smart Regulation, available at https://bit.ly/2NiZIav; Aveni, T & Jenik, I (2017) Crowdfunding in China: The Financial Inclusion Dimension, available at https://bit.ly/2P30dUV


\(^{40}\) The FCA regulatory sandbox which is conducting its fourth cohort\(^ {4}\) with 29 entities and 60 prior participants since its launch in 2015. A ‘cohort’ refers to a group of participants (as opposed to application or participation on a rolling basis.) FCA (2018) Regulatory sandbox – cohort 4, available at https://bit.ly/2u33TcF

\(^{41}\) See Exhibit 4: Partnerships for Sandboxes in Sub-Saharan Africa, which indicate some less common terms present in the sandbox of Sierra Leone, a fragile, least developed country with one of the lowest levels of financial inclusion in the world. See also Ernst & Young (2017) As FinTech evolves, can financial services innovation be compliant?, available at https://go.eey.com/2QPH0Ee; Latham & Watkins (2017) Regulatory Sandboxes – a Global Stocktake, available at https://bit.ly/2QQVbce
An alternative approach to the regulatory sandbox is ‘Test-and-Learn’, used successfully in developing nations to address issues of regulatory uncertainty and incompatibility with beneficial innovation.

Test-and-Learn is an ad hoc, bespoke solution, designed pursuant to a dialogue between innovators and regulators for testing an innovation with a live environment of limited size.\(^{42}\) Using test-and-learn, regulators can provide innovators with the ability to operate, free from hindrances of specific regulations, through the use of instruments such as ‘letters of no objection’ (LONO)\(^{43}\) or waivers. At an appropriate time, regulators can respond as benefits and risks become clearer from operation. Examples of test-and-learn include early DFS implementations beginning with SMART money in the Philippines in 2001\(^{44}\) and later in Kenya (M-PESA)\(^{45}\) in 2005 and subsequently in Tanzania.\(^{46}\)

The regulatory sandbox greatly resembles test-and-learn but is designed to be a more proactive, transparent, standardized and published process. Sandboxes are open to those meeting eligibility requirements which are predefined with publicized acceptance criteria and a standardized entrance process.\(^{47}\)

**Exhibit 1:** Test-and-Learn: An Alternative Regulatory Approach

### 2.2.1 Sandbox Process

While process varies, many sandboxes traverse through the following stages:\(^{48}\)

- **Application:** The sandbox framework is published and its objectives, eligibility requirements, evaluation criteria, application instructions and relevant details are publicized. Applications customarily screen the need for a sandbox\(^{49}\) with a subsequent preliminary assessment to determine whether candidates have met eligibility requirements.\(^{50}\)

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\(^{43}\) A LONO is also referred to as a ‘letter of no action’ in the U.S. Examples of other regulatory instruments or ‘tools’ may include waivers, removal of licensing requirements and expedited licensing.


\(^{48}\) The selection process can be perceived on a basic level as follows: (i) Is there a genuine innovation proposed? (ii) Does it benefit consumers/customers? (iii) What advantages does it bring to the financial system? (iv) Has it met eligibility criteria to enter (and need for) the sandbox? (v) Is the project ready for sandbox testing? (vi) Does the applicant have a realistic business plan for deployment?

\(^{49}\) Many sandbox applications require the applicant to provide justification for sandbox necessity, such as identifying the presence of regulatory uncertainty or conflict, sometimes also justifying the need for testing with live users. See Eligibility Requirements / Evaluation Criteria in this Section 2.2.2 below.

\(^{50}\) FinTech innovators tend to stress time being of the essence. By way of example, feedback provided to the MAS from several FinTech startups reflected concern about response times (both the initial assessment and overall application process) reasoning that ‘FinTech is evolving at a rapid pace and many start-ups may be resource constrained.’ While several firms recommended a response of 10 working days, the MAS deemed 21 working days as appropriate. MAS (2016) *Response to feedback received – FinTech Regulatory Sandbox Guidelines*, available at https://bit.ly/2OZYOPS
Selection: An administrative review of eligible applicants is conducted. Some jurisdictions provide a preliminary evaluation to inform applicants of early denial.\textsuperscript{51} Due diligence is performed on remaining applicants, finalists are interviewed and, with those accepted for admission, a formal participation agreement is drafted and executed.

Testing: The proposed design of tests to be conducted, safeguards to be implemented and reporting requirements and protocols to be used are discussed. After agreement is reached, operation commences until the end of the testing period. The applicant assesses test results and generates a final report for submission containing a determination of the test outcome.

Exit: Outcomes are evaluated and may result in (i) a request for an extension period is made (where possible) and may be granted (typically of limited duration); (ii) failure and the applicant exits; (iii) success and a plan and path for deployment is generated, such as (ideally) to meet current regulatory obligations (such as obtaining full licensing.)

2.2.2 Sandbox Framework / Guidelines

Many sandboxes include similar, common components,\textsuperscript{52} often containing both objective and subjective criteria.

- Objectives and Scope. A primary purpose of regulatory sandboxes is to responsibly facilitate the advancement of beneficial innovation through regulatory gaps where uncertainty and incompatibility exist. Sandbox function and scope are limited to what is enumerated within the regulator’s mandate, the sandbox framework and as may be set forth by law.\textsuperscript{53} Mandates often include references to financial stability, financial integrity and consumer protection, sometimes complemented by market development and promotion of competition. Broadly constructed mandates provide a wider space for operation. Sandbox objectives which appear often (and may be linked to the core mandate) include promoting competition, fostering innovation, creating greater efficiencies and enhancement and modernization of the marketplace. At present, few sandbox objectives explicitly reference advancement of financial inclusion.\textsuperscript{54}

- Eligibility Requirements / Evaluation Criteria. An invitation to apply to the sandbox is usually open to those who are actually or potentially subject to the regulator’s authority and can meet published entry requirements. These often include variations of the following: requiring the presence of a ‘genuine’ innovation not prior seen in the marketplace (or seen in a less efficient


\textsuperscript{53} By way of example, the regulatory sandbox established by legislature in Arizona (US) authorizes the state attorney general to operate the sandbox as opposed to the Arizona financial services regulator. State of Arizona, House of Representatives (2018) \textit{Arizona House Bill 2434}, available at https://bit.ly/2QQEbT1

the innovation provides identifiable benefits to customers/consumers and is technically sound; the innovation provides improvements in accessibility and efficiency of services; the applicant is ready and able to begin sandbox testing and afford the entire cost; the applicant plans to deploy the innovation in/to benefit the jurisdiction; conditions to include or exclude incumbents and/or startups; justification for needing a sandbox, such as identification of legal or regulatory uncertainty and/or incompatibility and/or the need to use live participants for testing. Some sandboxes may provide insight into regulator priorities e.g. solutions which create jobs (Malaysia) and potential to advance financial inclusion (Sierra Leone).

- **Risk Management, Safeguards, Records and Reporting.** Sandbox frameworks generally require the applicant to present a plan which adequately protects consumers. This often includes having proper marketplace disclosures, an appropriate risk management plan, adequate safeguarding procedures, incident reporting and dispute resolution and redress mechanisms (such as a fund for victim compensation). The applicant must also have a testing plan identifying key performance indicators, milestones and details of the composition of a final report determining whether key objectives were met and the test resulted in a success or failure.

- **Entry, Fees and Duration.** Application and admission to the sandbox may occur on a rolling basis (at any time), between set dates (with a group of applicants, known as a ‘cohort’) or both. Duration in the sandbox generally ranges between 6 – 24 months. Many sandboxes are free, others include application fees, some of which may be modifiable depending on circumstances and the jurisdiction.

- **Exit Procedure.** Participants who exit the sandbox successfully may need to meet current regulatory obligations, such as applying for and obtaining a full license for deployment. Ideally the participant will receive regulator assistance and authorization to launch outside the sandbox with regulatory incompatibilities addressed. Unsuccessful candidates are typically required to cease operations.

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55 Jurisdictions vary in attempts to define what constitutes ‘innovation’ and implement varying stringency levels towards differentiation of comparable efforts prior or currently seen in the marketplace and may include substantial improvements over existing solutions, business models, focus on key features among other considerations.


59 Ceilings on customers served and transaction amounts may also be imposed.


The FinTech ecosystem includes several important initiatives designed to impact on innovation, knowledge and growth. The following are popular concepts, described generally, as terminology, usage and implementation can vary greatly.  

**Innovation Hub.** An innovation hub generally refers to a regulator-provided knowledge center open to regulated and unregulated entities. It has become a popular and important complement to the regulatory sandbox and its form and breadth of offerings can vary greatly. At a most basic level, a dedicated e-mail address and/or telephone number may be offered for support, feedback and communication. Ideally, the hub facilitates innovation by acting as a connection point between regulators and the industry. Innovators may receive guidance, advice and assistance from hub staff, third party experts or other experienced parties regarding matters such as legal and policy issues, licensing issues and navigating a complex legal and regulatory system. The hub can also serve as an opportunity for regulators to learn more about the industry through direct interaction. Global innovation hubs foster collaborative opportunities on an international level.

**Innovation Labs.** Innovation ‘Labs’ are generally collaborative and cooperative communities which foster building capacity, increased creativity and growth. They can comprise of public-private partnerships and may facilitate testing with ‘dummy’ data in a ‘virtual sandbox.’ Those which are industry-led may also be referred to as ‘industry sandboxes.’

**Incubators and Accelerators.** Incubators help early stage startups hone and refine ideas and business models and move them towards market deployment. Accelerators generally work with more mature concepts and startups, contribute some seed investment and other support to accelerate growth and advance maturity. Often these initiatives are privately led and are one of several tools used to facilitate innovation.

**Private, proprietary and Industry Led Sandboxes.** Private and proprietary sandboxes also exist for testing and experimentation, available on a commercial or non-commercial basis. They may offer a development environment, tools,
shared data, APIs, sandbox-as-a-service and collaborative platforms. Industry sandboxes are led and operated by industry stakeholders, not regulators. Testing is ‘off-market’ and does not involve the regulator or provide any regulatory relief.

Exhibit 2: Terms and Concepts Related to Regulatory Sandboxes

2.2.3 Sandbox Application Form

Many sandboxes provide intake forms, some of which may request additional items from applicants such as provision of due diligence information about operating history, fitness of its executive team and its reasons for needing the sandbox.

- **Regulatory Uncertainty and Incompatibility.** Many sandbox frameworks require the applicant to enumerate what legal and/or regulatory uncertainties or incompatibilities exist with regard to its proposed innovation. Some frameworks may provide examples of what regulations may be considered and others what must be maintained, at times explicitly identifying what areas are not subject to consideration (for example, certain requirements related to consumer protection, privacy, AML/CFT and what falls outside the purview of the sandbox and regulator.) Most jurisdictions do not provide a list and place the burden on the applicant to submit a request for consideration and which may require consultation with legal counsel. Conditional regulatory relaxation can be accomplished through the issuance of instruments such as a LONO or waiver.

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75 The most comprehensive list of regulations and sandbox requirements possible to relax and to maintain is the example provided in Singapore’s sandbox guidelines. MAS (2016) *Fintech Regulatory Sandbox Guidelines*, available at https://bit.ly/2gDPTAm See also Annex D: Potential Regulatory Relaxation and Maintenance in Select Countries.

76 The sandbox framework for Sierra Leone explicitly represents that, for all applicants, the BSL will maintain character and fitness requirements for founders and directors, business premises suitability requirements and AML/CFT regulations. BSL (2018) *The Bank of Sierra Leone Regulatory Sandbox*, available at https://bit.ly/2NzKqZAx

77 Examples can include regulations related to anti-money laundering (AML), countering the financing of terrorism (CFG), data privacy, confidentiality and cybersecurity. The FCA explicitly states that it ‘cannot waive requirements derived from EU law.’ FCA (2015) *Regulatory Sandbox*, available at https://bit.ly/2EG5Lez


79 Exhibit 1 and footnote 36 also address these instruments/tools.
2.3 Class Waivers and License Exemptions

The term ‘regulatory sandbox’ has been loosely applied to a variety of different regulatory mechanisms, including class waivers and license exemptions. On the surface, these concepts may appear similar to a regulatory sandbox, but notable differences exist. Class waivers and license exemptions use objective criteria coupled with mandatory requirements and safeguards, avoiding the need for a regulator to make difficult decisions of subjective interpretation, e.g. what might constitute a ‘genuine’ innovation. Applicants who meet predetermined objective criteria are generally eligible for admission.

Using the Australian Securities and Investments Commission (ASIC) regulatory sandbox as an example, obtaining a class waiver consists of the innovator providing notice to ASIC and continuing to operate under specified thresholds throughout the duration of the license. During the testing period, the licensee may not exceed, e.g. 100 retail clients, AUD $5 million in exposure and a duration of 12 months testing. A meaningful, ongoing, knowledge-sharing dialogue between regulator and the innovator is not required.

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81 Class waivers used for testing Fintech have been observed to be a ‘[t]raditional approach cloaked as a Sandbox.’ See Zetzsche, D & Buckley, R & Arner, D, et al. (2017) *Regulating a Revolution: From Regulatory Sandboxes to Smart Regulation*, available at https://bit.ly/2NiZlav

82 The ASIC class waiver does not require a regulator to assess a level or degree of innovation, a task which may be difficult or beyond the capacity of the regulator to perform adequately. Zetzsche, D & Buckley, R & Arner, D, et al. (2017) *ibid.


85 *ibid.*
3 The State of Regulatory Sandboxes in Developing Countries

The regulatory sandbox concept originated in high income, developed countries. At present, most operational regulatory sandboxes still appear within these jurisdictions and emerging economies. However, a growing number of sandboxes are appearing in developing countries, which often feature significantly higher levels of unbanked and underserved populations and can present arduous challenges. Several of these jurisdictions explicitly mention financial inclusion within sandbox objectives, including Malaysia, Sierra Leone, Mozambique and Jordan as well as Bahrain.

3.1 Malaysia

Bank Negara Malaysia (BNM), Malaysia’s central bank, was one of the earliest regulators after the FCA to implement a regulatory sandbox. BNM established the cross-functional Financial Technology Enabler Group (FTEG) in June 2016 to develop regulatory policy to support innovations that improve the quality, efficiency, security and accessibility of financial services in Malaysia and to facilitate the creation, operation and management of its regulatory sandbox.

Eligibility requirements of Malaysia’s sandbox framework, issued in October 2016, explicitly include financial inclusion objectives. They also require that the proposed innovation be ‘wholly or partly incompatible with laws, regulations or standards’ administered by BNM with relevant regulatory flexibility considered for innovations which possess ‘strong value propositions.’ The first four participants in the sandbox commenced testing in early 2017 (currently at six participants as of September 2018.) These include WorldRemit, a remittance service who tested an online customer identification technology incompatible with existing KYC regulations and is now used in Malaysia after the company’s successful exit from the sandbox.

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91 WorldRemit provides international remittances services, which includes the ability to deposit funds into mobile money accounts. Remittances are important to financial inclusion goals. World Bank Group (2018) Migration and Remittances – Recent Developments and Outlook, available at https://bit.ly/2K7z6Bb
92 Existing law required KYC identification to be performed in person. WorldRemit was permitted to implement its remote, online solution such as through video. Wines, C (2017) Presentation of Catherine Wines, World Remit, for CGAP Webinar: Regulatory Sandboxes: Harnessing Innovation for Financial Inclusion?, available at https://bit.ly/20N4uK
<table>
<thead>
<tr>
<th>Country</th>
<th>Sandbox Operator</th>
<th>Number of Firms</th>
<th>Launch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>Central Bank of Bahrain</td>
<td>11</td>
<td>Q2 2017</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Bank Indonesia</td>
<td>34 registrants</td>
<td>Q4 2017</td>
</tr>
<tr>
<td></td>
<td>OJK (Financial Services Authority)</td>
<td>Launching</td>
<td>Q3 2018</td>
</tr>
<tr>
<td>Jordan</td>
<td>Central Bank of Jordan</td>
<td>2</td>
<td>Q2 2018</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Astana Financial Services Authority</td>
<td>5</td>
<td>Q1 2018</td>
</tr>
<tr>
<td>Malaysia</td>
<td>FTEG</td>
<td>6 (1 exit)</td>
<td>Q3 2016</td>
</tr>
<tr>
<td></td>
<td>Bank Negara Malaysia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mauritius</td>
<td>Economic Development Board</td>
<td>At least 5</td>
<td>–Q4 2016</td>
</tr>
<tr>
<td>Mozambique</td>
<td>Bank of Mozambique</td>
<td>5</td>
<td>Q2 2018</td>
</tr>
<tr>
<td>Rwanda</td>
<td>National Bank of Rwanda (BNR)</td>
<td>1</td>
<td>Q4 2018</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>Bank of Sierra Leone</td>
<td>4</td>
<td>Q2 2018</td>
</tr>
<tr>
<td>Thailand</td>
<td>Bank of Thailand (BOT)</td>
<td>12 (8 exit)</td>
<td>Q4 2016</td>
</tr>
<tr>
<td></td>
<td>Securities and Exchange Commission (SEC)</td>
<td>~10</td>
<td>Q1 &amp; Q2 2017</td>
</tr>
<tr>
<td></td>
<td>Office of Insurance Commission (OIC)</td>
<td>5</td>
<td>Q2 2017</td>
</tr>
</tbody>
</table>

**Exhibit 3: Operational Regulatory Sandboxes in Developing Countries**

The ‘Digital Finance Innovation Hub’ launched in Malaysia during September 2018. It is a joint effort of the BNM, UNCDF and the Malaysia Digital Economy Corporation (MDEC) for promoting and supporting the innovation of products and services which address the needs of Malaysia’s underserved population.

### 3.2 Mauritius

The ‘Regulatory Sandbox License’ (RSL) of Mauritius, operated by the Economic Development Board (MEDB), was officially announced in October 2016 and RSL Guidelines were subsequently issued.

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93 This chart and its data is a summary of and derived from **Annex A: Status of Regulatory Sandboxes in Developing Countries**.


95 The MEDB represents the merger of the Mauritius Board of Investment, Enterprise Mauritius and the Financial Services Promotion Agency. The objectives of the MEDB include strategic economic planning designed to elevate the country to achieve high-income economy status, attract foreign investment and establish Mauritius as an international financial center. MEDB (2018) *The Economic Development Board (EDB)*, available at https://bit.ly/2xrYqO9

The RSL is available for ‘innovations’ generally and not limited to financial products and services. A RSL offers the possibility for a person to conduct a business activity for which there are no, or no adequate provisions under any enactment. BOI (2016) Regulatory Sandbox Licence – ITL proud to be associated with 2nd issue of RSL by the BOI, available at https://bit.ly/2ps6c7c

A project standardizing QR codes for domestic and cross-border payments was successfully tested using the sandbox by eight banks and financial institutions and was subsequently deployed in the market.

Beginning in March 2017, the Thailand Securities and Exchange Commission (TSEC) launched several thematic sandboxes covering investment advisors and private funds, clearing and settlements, KYC and an electronic trading platform. Several months earlier, the TSEC had launched an annual fintech challenge contest with winners offered admittance to the sandbox. Its first cohort competed

3.3 Thailand

The Bank of Thailand (BOT) launched its regulatory sandbox in December 2016 for banks and non-bank financial institutions (NBFIs) incorporated in Thailand who offer products related to lending, payments and fund transfers. As of February 2018, the sandbox had four participants providing solutions using blockchain technology for letters of guarantee, international remittance services and biometric identification systems. A project standardizing QR codes for domestic and cross-border payments was successfully tested using the sandbox by eight banks and financial institutions and was subsequently deployed in the market.

Beginning in March 2017, the Thailand Securities and Exchange Commission (TSEC) launched several thematic sandboxes covering investment advisors and private funds, clearing and settlements, KYC and an electronic trading platform. Several months earlier, the TSEC had launched an annual fintech challenge contest with winners offered admittance to the sandbox. Its first cohort competed

97 One RSL was issued for stem cell production used in medical treatments. See Intercontinental Trust Ltd (2017) Regulatory Sandbox Licence – ITL proud to be associated with 2nd issue of RSL by the BOI, available at https://bit.ly/2ps6c7c

98 Decisions to accept an applicant is made by the MEDB, the sandbox operator, with the input of the appropriate regulator who acts as part of a Technical Committee providing substantive evaluation, advice and recommendations concerning applicants. As of January 2018, the Mauritius sandbox had at least five participants with two providing blockchain and cryptocurrency based solutions with others providing non-financial innovations.

99 The permission of additional qualified banks to exit from regulatory sandbox and provide QR Code payment service to the general public with winners offered admittance to the sandbox.


102 Intercontinental Trust Ltd (2017) ibid.


in categories of financial inclusion, blockchain technology and RegTech.\textsuperscript{108} In June 2017, the Office of Insurance Commission (OIC) – the insurance regulator of Thailand – launched its InsureTech sandbox, which has five pilot projects as of April 2018.\textsuperscript{109}

### 3.4 Indonesia

In December 2017, Bank Indonesia (BI) – the country’s central bank – launched its regulatory sandbox, open to innovations qualifying as payment systems.\textsuperscript{110} As of September 2018, 34 entities qualifying as ‘Financial Technology Operators’ (FTOs) were registered with BI, a prerequisite requirement for applying for sandbox admission.\textsuperscript{111} In August 2018, the Financial Services Authority (OJK)\textsuperscript{112} issued a regulation establishing its sandbox and requirements for Digital Financial Innovation (Inovasi Keuangan Digital – IKD) operators,\textsuperscript{113} which also requires registration prior to sandbox application. Later in August, the OJK also launched an innovation hub to support the country’s FinTech ecosystem and serve as a complement to the country’s regulatory sandboxes.\textsuperscript{114}

### 3.5 Republic of Kazakhstan

The Astana International Financial Center (AIFC)\textsuperscript{115} is a financial hub launched in July 2018, designed to attract investment through a preferential, attractive and business friendly environment for financial services and capital markets.\textsuperscript{116} The AIFC is afforded a special legal status, has its own independent jurisdiction and uses a legal system based on common law which makes it attractive to a number of global markets.\textsuperscript{117}

\textsuperscript{108} ibid.
\textsuperscript{115} AIFC is a financial hub intended for Central Asia, the Caucasus, EAEU, the Middle East, West China, Mongolia and Europe. It aims to attract investment into Kazakhstan by developing a beneficial and attractive environment to investors. AIFC (2018) Objectives, available at https://aifc.kz/article/celi; AIFC (2018) Questions and answers, available at https://aifc.kz/faq
\textsuperscript{117} ADGM (2018) ibid.
The Astana Financial Services Authority (AFSA) is the independent regulator of the AIFC and a legal entity and statutory body of Kazakhstan. It acts as a registrant of companies seeking to offer services within the AIFC and throughout Kazakhstan. The AIFC was modeled after the Dubai International Financial Centre (DIFC) in the UAE seeking to make Astana (in similar fashion to Dubai) the global financial hub which connects Western Europe and East Asia (including China).

The AFSA launched its regulatory sandbox in January 2018 with its framework covering a wide array of FinTech products and solutions and requiring submission of a comprehensive pre-application and post-application form. The AFSA may grant regulatory flexibility for legal and regulatory requirements incompatible with an applicant’s innovation which exhibits ‘strong value propositions.’ Unlike many sandboxes, the AFSA provides live telephone support to assist with applications. As of September 2018, five entities are listed in its company register who participate in the country’s Public Register.

### 3.6 Bahrain

The Central Bank of Bahrain (CBB) first issued its regulatory sandbox framework in June 2017, the product of a partnership between the Bahrain Economic Development Board (BEDB), the Singapore Fintech Consortium (a FinTech incubator, platform and ecosystem builder) and Trucial Investment Partners in Dubai (an asset management, financing and advisory firm). In addition to positioning itself to be a Shari’ah compliant regional FinTech hub, it is notable as one of the few sandboxes which explicitly identifies financial inclusion within its framework as one of its primary objectives. As of September 2018, the Bahrain sandbox had 11 participants (1 exit) and included several entities with innovations covering services involved in financial inclusion efforts.

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122 The AFSA Sandbox Guidance is ‘applicable to any company that utilises or plans to utilise FinTech in capital markets, asset management, private banking, Islamic finance, (re)insurance, green finance and other activities (i.e. peer-to-peer lending and financing, crowdfunding, payment processing) that are or likely to be regulated by AFSA.’ AFSA (2018) *Astana International Financial Centre FinTech Regulatory Sandbox Guidance*, available at https://bit.ly/2zpjYNF
123 ibid.
127 The BEDB is a public agency which creates, develops and supports initiatives to bring in and maximize foreign direct investments in Bahrain to enhance the Kingdom’s economic climate. BEDB (2018) *What We Do*, available at http://bahrainedb.com/about-us/
129 The CBB regulatory sandbox framework states that the CBB ‘... made a conscious decision to initiate a Regulatory Sandbox in order to promote effective competition, embrace new technology, encourage financial inclusion and improve customer experience.’ CBB (2017) *Regulatory Sandbox Framework*, available at https://bit.ly/2xvri8i
3.7 Jordan

The regulatory sandbox framework of the Central Bank of Jordan (CBJ) was recently introduced in April 2018. It emphasizes enhancing the characteristics of and access to DFS to achieve sustainable financial inclusion. Some of the eleven financial sectors enumerated within the scope of its sandbox framework include crypto-currencies, blockchain and DLT platforms, electronic payments, savings and financing, remittances, e-KYC and RegTech. Notably, the CBJ sandbox appears to be the first regulatory sandbox which explicitly calls for local and international collaboration and cooperation with organizations and other regulatory sandboxes in the banking and financial sectors.

The Financial Sector Deepening Africa (FSD Africa) Network, in conjunction with financial and technical support from partnering organizations and respective central banks, launched ‘FinTech challenge’ contests in Sierra Leone and Mozambique – two developing countries in Sub-Saharan Africa with high unbanked populations. These challenges represented an effort to promote, attract and catalyze development of local FinTech innovation to create beneficial solutions to the country, specifically encouraging innovation in providing financial services to the underserved.

Contest winners who addressed areas of need were awarded cash prizes and invited to participate in the subsequent launch of a ‘thematic’ financial inclusion focused regulatory sandbox pilot program. The contest funding provided a vital injection of seed capital to local innovators, an investment similar to an accelerator.

Exhibit 4: Thematic Sandboxes in Sub-Saharan Africa

Exhibit 4: Thematic Sandboxes in Sub-Saharan Africa

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133 The sandbox framework specifically excludes ‘virtual’ currencies but does not provide a definition or distinction.
139 Contest participants were judged by two panels consisting of Accion Ventures, UN Capital Development Fund’s MM4P programme and FSD Africa. BSL (2018) Four FinTechs Approved to Enter the Sierra Leone Sandbox Programme, available at https://bit.ly/2CXXZ3u
141 ibid.
3.8 Sierra Leone

The Bank of Sierra Leone (BSL) created a regulatory sandbox ‘pilot program’\(^{142}\) in an effort to encourage, cultivate and promote financial innovation domestically in a country which has one of the lowest levels of financial inclusion worldwide.\(^{143}\) The BSL, in a partnership with FSD Africa and UNCDF Mobile Money for the Poor (MM4P) (and support from USAID and the Last Mile Trust Fund), launched the Sierra Leone FinTech Challenge in June 2017 with the winners receiving cash prizes and automatic entry into the first cohort of the BSL sandbox.\(^{144}\) Twenty innovators applied to the FinTech Challenge,\(^{145}\) helping the BSL justify the sandbox and commit to engaging a full-time, cross-functional sandbox team to conduct all related activities.\(^{146}\)

The development of the sandbox framework was a comprehensive process which involved collaboration and assistance of domestic and international expertise.\(^{147}\) The first cohort of the BSL Sandbox launched in May 2018 with four participants\(^{148}\) which included a mobile payment aggregator, mobile money cash transfer for agriculturalists, a financial literacy mobile app and electronic money platform.

The BSL sandbox framework is specifically linked to its NFIS, as explicitly set forth in its objectives and identified as a priority within evaluation criteria of applicants.\(^{149}\) Some eligibility requirements are uncommon and indicative of the impact of the NFIS and national priorities. Applicants must have no less than a 10% ownership interest by a Sierra Leone citizen,\(^{150}\) intended to encourage a strong connection between sandbox innovators and the country.\(^{151}\) Sandbox objectives also address capacity limitations by explicitly permitting the BSL to adjust the number of participants in a cohort as a function of reasonably sufficient regulatory support and available resources.


\(^{143}\) As of November 2017, over 87% of the population was ‘unbanked’ and financially excluded. See BSL (2017) *Statement by the Governor, Bank of Sierra Leone, Dr Patrick S Conteh at the Announcement of the winners of the Sierra Leone FinTech Challenge 2017 & presentation of the BSL Sandbox Framework*, available at https://bit.ly/2xjEYL; Massally, T & Duff, S (2018) ibid.


\(^{145}\) 80% were Sierra Leone youth. See UNCDF (2018) *The Sierra Leone FinTech Initiative in the Words of the FinTechs*, available at https://youtu.be/hqSV-qbOQ

\(^{146}\) Massally, T & Duff, S (2018) *What Can We Learn from Sierra Leone’s New Regulatory Sandbox?*, available at https://bit.ly/2rKq6M4


3.9 Mozambique

In a partnership with inputs from the FSD Mozambique (FSDMoc), the Bank of Mozambique (BOM) launched its ‘Sandbox Incubator’ project in May 2018, a financial inclusion themed sandbox for FinTech innovators. Preparation began in early 2017 when FSDMoc began preliminary scoping research, outreach, communication with industry stakeholders and engagement of the BOM. The FSDMoc discovered that local FinTech innovation is primarily accomplished through development funding and so devised a ‘FinTech Challenge.’ This yielded 20 proposals, five of which were selected and are currently participating in a six-month testing period. Regulatory challenges included regulatory restrictions on bidirectional cross-border remittances and constraints on innovations in payment systems. The central bank has made efforts to have the banking law modified to allow these FinTechs to participate in the financial ecosystem but is reportedly meeting with resistance from the Ministry of Finance.

More information on the status of these and other regulatory sandboxes in developing countries can be found in Annex A.

4 Benefits and Risks of Regulatory Sandboxes in Developing Countries

Regulatory sandboxes can take different forms but generally share several common benefits. The ultimate impact and success of a sandbox can depend upon the jurisdiction of implementation, the legal and regulatory environment, the size and sophistication of its marketplace and the skill of the sandbox operator and regulator.

4.1 Benefits

4.1.1 Innovation-friendly signal to the market

Promoting innovation, such as through the existence of a regulatory sandbox and within a regulator’s mandate, can broadcast positive signals to the marketplace that a jurisdiction and/or authority welcomes innovation, potentially attracting interest and investment.

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154 ibid.
4.1.2 Potential for a more seamless path towards deployment of innovation

Under the right circumstances, the regulatory sandbox can potentially bring innovation to the marketplace with greater speed, efficiency, proof of concept, lower costs and with reduced regulatory uncertainty and hindrances. It may be particularly relevant where outdated regulations can stifle the rapid global rise and pace of FinTech innovation, including in developing countries (such as the DFS ecosystem) and create additional risks and uncertainty for innovators along with regulatory arbitrage.

4.1.3 Emphasis of policy objectives and potential for financial inclusion benefits

Sandboxes can place emphasis on important policy objectives such as financial inclusion, as explicitly stated within the regulatory frameworks of Sierra Leone, Malaysia, Bahrain and Jordan. In developing countries, such objectives can assist in promoting economic development by creating incentives for the private sector to invest in customers who otherwise may not fall under the scope of their business plan. It is important, however, that regulators ensure that sandbox participants stay focused on the policy objectives of the sandbox, as innovations which may have been initially aimed towards the underserved may ultimately be diverted to primarily serve a more lucrative target demographic.

4.1.4 Potential to enhance regulatory capacity and innovator knowledge

The sandbox experience, through greater open and transparent communication, provides bidirectional educational benefits. Innovators achieve a better appreciation for how existing regulation may (or may not) apply to them and regulators, through exposure, obtain a better understanding of and comfort with approaching increasingly complex innovation. Helping regulators catch up with the speed of progress in the FinTech sector is of significant importance as regulatory capacity is a common and difficult challenge to overcome.

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164 Jenik, I & Lauer, K (2017) *Regulatory Sandboxes and Financial Inclusion*, available at https://bit.ly/2yDDGU0; A substantial benefit of the FCA sandbox is that cohort participants ‘have a regulator on speed-dial’ with whom they speak on a weekly basis who can provide insights and clarity as to what will likely happen by choosing to go to market in a specific manner. Duff, S (2017) *Presentation of Schan Duff, Bank of Sierra Leone: Regulatory Sandbox Pilot Program*, available at https://bit.ly/2O0N4uK
4.1.5 Reduction of Regulatory Uncertainty

A primary goal of regulatory sandboxes is to reduce regulatory uncertainty which can discourage and hinder innovation. The knowledge exchange that is an integral component of the sandbox experience should potentially lead to greater regulatory clarity among innovators, industry and in the marketplace. Ideally, this process should ultimately lead to regulatory authorities engaging in meaningful regulatory reform and updating outdated, inflexible and incompatible frameworks to comport with the demands of the new digital era of innovation.

4.2 Risks

4.2.1 Challenges of regulatory capacity

Regulatory sandboxes can be demanding on the time and skill level of regulators, who may be required to define testing plans and performance metrics, assess complex innovation and innovator applicants in the course of conducting case-by-case evaluations. They must also identify resources to supervise participants in their sandbox. This will require additional staff and/or time commitments which regulators, especially in developing countries with limited resources, may not possess and who may be otherwise occupied by (or distracted from) other primary duties as a regulator.

Some regulators have full-time staff dedicated to operating the sandbox. The FCA has approximately 40 people involved in its FinTech initiatives. Formulating a dedicated cross-functional team specifically for sandboxes is especially challenging outside of developed countries (who have much greater financial and human resources), although Sierra Leone has dedicated such a team for its one-year pilot program.

4.2.2 Regulatory conservatism and zeal

Sandboxes may foster more open communication between regulators and innovators which can produce a mutually beneficial learning experience. But regulators may simply not possess the ability,

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167 As echoed above, regulatory sandboxes have a short operating history and it may be premature to come to firm conclusions. However, the Milken Institute in its response to the GFIN consultation document, had observed that ‘[w]hile significant efforts continue to be undertaken by various regulatory authorities to promote the development of FinTech, we observe that there is little indication that the insights gained by regulatory authorities have been directly responsible for changes to current laws or regulations.’ Mueller, J & Murphy, D & Piwowar, M (2018) Response to the Global Financial Innovation Network (GFIN) Consultation Document, available at https://bit.ly/2RZnZQj


169 Even where third parties may provide assistance, regulatory capacity may still be stretched by needs of communication, oversight and supervision.


resources and necessary experience to understand and appreciate the complex nature of FinTech innovations (especially given lower levels of market sophistication) and stay current with its rapid pace and change.\textsuperscript{173}

Ideally, actions by regulators will be mindful of regulatory objectives with an appreciation of and respect for the confines of legal boundaries. Regulators who do not possess adequate capacity to fully understand and appreciate what may be new, complex, disruptive innovation may resist approvals, opting to protect against risk of failure and personal exposure by maintaining the status quo.\textsuperscript{174} At the other extreme, an overzealous agenda to promote innovation may result in excessive deregulation with unjustifiable risks being introduced into the testing system and resulting in potential failures.\textsuperscript{175}

4.2.3 Foundational challenges may still persist

The ultimate success of the sandbox may be impacted and undermined by existing conditions and limitations within a jurisdiction. While sandboxes have generated substantial interest and enthusiasm, they are but one of several regulatory approaches and are not always an optimal solution.

In some jurisdictions, regulatory reform may be needed to address regulatory inflexibility and incompatibility which can act to stifle sandbox effectiveness and success. Smaller and less sophisticated markets, such as those in developing countries, often present foundational challenges. These can include limited local resources (such as availability of capital and human talent), distance from resources (such as global FinTech hubs and talent pools), limited infrastructure and suboptimal marketplace conditions.\textsuperscript{176}

Economic activities of local sandboxes are also limited to domestic borders and, in developing countries, achieving sufficient economies of scale for long term viability can be challenging.\textsuperscript{177} Such risks reduce the attractiveness of innovation and opportunities for local and foreign direct investment.\textsuperscript{178} Furthermore, framework and regulation which restricts transactions to physical borders


may stifle the establishment of cross-border activities and the borderless nature of FinTech,\textsuperscript{179} which is capable of building needed and beneficial economies of scale.

### 4.2.4 Limited transparency

With details about sandbox participation agreements generally not made public and often subject to confidentiality agreements,\textsuperscript{180} care should be taken to avoid echoing negative public perception, especially in developing countries where high levels of corruption can exist. Participants admitted into the sandbox may realize benefits over others from special status through accommodation of relaxation of regulations and communication with the regulator.\textsuperscript{181}

Certain applicants may be more likely to be accepted into the sandbox.\textsuperscript{182} In Malaysia, applicants who are ‘high value added jobs’ creators ‘will be more favorably assessed by the Bank’\textsuperscript{183} and a similar implication might be read about FinTech companies collaborating with financial institutions.\textsuperscript{184} Greater use of objective criteria, transparency and potentially the use of cohorts (versus a race for rolling acceptance) can act to mitigate the impact of a perception of unfairness and corruption.\textsuperscript{185}

### 4.2.5 De-Risking

Sandbox participants are responsible for managing their own affairs, such as securing adequate financing, financial accounts at banks and financial institutions and obtaining access to data. These tasks may prove challenging for innovators, including those servicing and/or operating within or in connection with developing countries. The FCA mentioned de-risking\textsuperscript{186} as an issue for regulatory sandbox participants, particularly pronounced among innovators “...wishing to leverage DLT, become

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\textsuperscript{179} One example of cross-border activities being stifled is remittance service, WorldRemit, discussed above in Section 3: The State of Regulatory Sandboxes in Developing Countries (Malaysia) and in footnote 87.

\textsuperscript{180} In some jurisdictions an official list of accepted sandbox participants may not be available and, where present, often contains meager information a participant’s name. Innovator concerns regarding publicity can include issues of first mover advantage, intellectual property protection and negative marketplace perception in the event of a testing failure.


\textsuperscript{184} Fintech companies that collaborate with financial institutions could gain added advantages from guidance and support provided by financial institutions with respect to regulatory requirements and risk mitigations in applying to participate in a sandbox. FTEG (2018) Regulatory Sandbox, https://bit.ly/2kEoaxx


\textsuperscript{186} The term ‘de-risking’ has been used to describe the practice of financial institutions exiting product and service lines, terminating or restricting relationships with clients (including in classes) perceived as presenting a ‘high-risk’ of an undesirable outcome. Rather than attempting to manage associated risks (such as concerns surrounding AML/CFT) and/or mitigate economic challenges, some financial institutions have opted in favor of reducing their exposure by culling high-risk (or potentially competitive) clients, leaving them to find alternative financial arrangements. This practice presents special challenges to the underserved and parties providing services, which tend to be flagged as high-risk candidates. For more information on this topic, see Durner, T & Shetret, L (2015) Understanding Bank De-risking and its Effects on Financial Inclusion, available at https://bit.ly/2ErWQ5s; The World Bank (2016) The World Bank’s Data Gathering Efforts: De-risking? Key Findings and Recommendations, available at https://bit.ly/2yghKzf
payment institutions, or become electronic money institutions... These topics can have a special relevance to developing countries and financial inclusion applications, which are deemed high risk.

5 Multi-Jurisdictional Sandboxes and Collaboration

Jurisdictional challenges related to lack of regulatory capacity and limited economies of scale in developing countries can hinder the functionality, impact and success of regulatory sandboxes. Local and national sandboxes are limited to accomplishing what is contained within jurisdictional boundaries. Accordingly, consideration and attention should be given towards fostering international collaborative efforts and enabling cross-border transactions and activity.

5.1 Regional Sandboxes

The borderless nature of FinTech and benefits of larger economies of scale to support business models through cross-border transactions prompts consideration of regional sandboxing to promote an international agenda. A 2017 Inter-American Development Bank (IDB) and Finnovista survey found that 20% of FinTechs in Latin America and the Caribbean (LAC) operate within different jurisdictions within the region. Regional obstacles facing innovators, which include limited funding, local talent and varied legal and regulatory frameworks across jurisdictions, makes cross-border transactions challenging to accomplish. A subsequent IDB discussion paper recognized the study in its proposal of a regional sandboxing concept for LAC, with local initiatives leading to the ultimate objective of reaching regional regulatory convergence.

188 Blockchain solutions are being used for KYC and eKYC products and services, used for compliance requirements for money transfers and international remittances, of substantial importance to the poor in developing countries.
189 See Section 4.2: Risks
192 IDB & Finnovista (2017) Fintech Innovations that you may not know were from Latin America and the Caribbean, available at https://bit.ly/2YLHYF
193 Ibid.
Regional cooperative and collaborative efforts exist in Africa which include economic communities focused on promoting regional harmonization, cooperation and liberalization of trade to build economies of scale. These efforts can potentially initiate a regulatory sandbox. In July 2018, members of the East African Securities Regulatory Authorities (EASRA) adopted regional framework to ensure fitness of capital market practitioners who operate regionally. They further agreed to employ regulatory sandboxes to encourage innovation and adopt a model sandbox application and evaluation criteria for members to use as a template for national implementation. Regional intergovernmental organizations, economic unions and agreements in Africa could be vehicles for regional harmonization and foster movement towards cross-border transactions and a regional sandbox.

An initiative for developing countries to consider would be initially focusing on establishing thematic regional sandboxes, one which could impact upon financial inclusion across borders such as for international remittances. In doing so, the multi-jurisdictional collaborative effort can concurrently help address regulator exposure to innovation within the remittances sector and enhance capacity building needs and accountability in developing countries.

Establishing a regional regulatory sandbox to facilitate seamless “passporting” of FinTech solutions across borders is not a new concept, existing in the European Union (EU) for remittances among other examples. An EU regional sandbox is already a topic of discussion and examination. The European Commission’s (EC) “FinTech Action Plan” sets its sights on regional harmonization, proposing a regulation which includes framework to allow for a comprehensive passporting regime to establish a unified cross-border crowdfunding solution. In a separate but topically related issue, the EC noted that thirteen Member States had established FinTech facilitators and invited efforts to help identify best practices across the EU and set up common principles and criteria for innovation hubs and regulatory sandboxes.

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197 These organizations include the East African Community (EAC), Economic Community of West African States (ECOWAS) and the Continental Free Trade Area (CFTA).

198 After two years of decline, remittances to low and middle-income countries have jumped 8.5% to reach a record amount at $613 billion. World Bank Group (2018) Migration and Remittances – Recent Developments and Outlook, available at https://bit.ly/2K7z6Bb

199 The ‘passporting’ concept allows for entities licensed in one-member country to operate across borders in another with an approved ‘passport’ within the union, which has been used for money transmitters in the EU. FCA (2018) Passporting, available at https://www.fca.org.uk/firms/passporting; Bnovich, M (2017) Regulatory sandboxes can help states advance fintech, available at https://bit.ly/2DDr990


202 FinTech facilitators is a term used to describe regulatory sandboxes or innovation hubs. ibid.

203 ibid.
Establishing regional regulatory sandboxes, however, will require substantial efforts including standardized and harmonized legal and regulatory framework across borders. Creating a harmonized regulatory framework for cross-border solutions would require several steps to be accomplished, some of which include the following: (i) reviewing the current legal and regulatory frameworks to determine whether sufficient enabling regulation exists; (ii) consideration at a regional level to identify inter-jurisdictional incompatibilities such as civil, common and religious law to reach acceptable levels of compatibility; (iii) standardization of products and services to ensure “passporting” of solutions across borders; and (iv) consideration of changes that may have a national impact such as AML/CFT.

Industry sandboxes are private sector, industry led and operated ‘off-market’ environments where participants can collaborate and access shared data which can assist in validating assumptions, spotting trends and solving common problems.\(^{204}\) These initiatives do not involve the regulator or provide any regulatory relief, although they can foster development of innovations capable of advancing financial inclusion.

**Asean Financial Innovation Network (AFIN).** An initiative of the IFC, MAS and ASEAN Bankers Association, AFIN is a regional industry sandbox promoting innovation and collaboration between regional\(^{205}\) banks, NBGFIs, microfinance institutions and FinTech innovators with an emphasis on financial inclusion.\(^{206}\) Ultimately it is a multi-jurisdictional effort to create a cloud-based virtual sandbox where banks and FinTechs can jointly test applications to solve similar industry problems, such as customer onboarding and alternative credit scoring.\(^{207}\)

Since banks and institutions in developing countries have limited resources to develop solutions to reach the underserved, partnerships like those facilitated by the AFIN sandbox can further financial inclusion by reducing costs for individual institutions.\(^{208}\) AFIN plans to collaborate closely with MAS and other regulators, providing them with an opportunity to better understand challenges faced by FinTechs and initiate policy harmonization within the ASEAN region which, in turn, can further business and investment opportunities.\(^{209}\)

In September 2018, AFIN announced the launch of its API Exchange (‘APIX’) consisting of a FinTech marketplace, collaborative industry sandbox environment and adoption of APIs ‘to drive digital transformation and financial inclusion across Asia-Pacific.’\(^{210}\) AFIN also entered into a partnership with ADGM to expand the reach of APIX beyond ASEAN borders.\(^{211}\)

**Industry Sandbox (UK).** Pursuant to FCA invitation, Innovate Finance originally chaired an industry-led consultation (and resulting report) to explore an industry sandbox environment, producing synergies from a collaborative ‘shared off-market development environment’ for financial innovation.\(^{212}\) Project objectives include providing the UK FinTech ecosystem with common access to valuable resources (such as a data exchange and open APIs), using collaboration to

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\(^{204}\) In its industry consultation report, Innovate Finance defined an industry sandbox as ‘...a shared off-market development environment where developers of FinTech solutions can access data, technologies, and services from different providers in order to validate innovative ideas or address common industry challenges.’ Innovate Finance (2017) *Industry Sandbox Consultation Report*, available at https://bit.ly/2rH4yhP

\(^{205}\) The Association of Southeast Asian Nations (ASEAN) consists of ten members in Southeast Asia promoting collaboration and cooperation among its members. ASEAN (2018) *Introduction*, available at https://on.cfr.org/2txlHEu


\(^{209}\) *ibid.*

\(^{210}\) *ibid.*

\(^{211}\) *ibid.*

solve complex problems and promoting regulatory efficiency through the involvement of regulators as observers. The Industry Sandbox Consultation Report includes comments recognizing how industry sandboxes can benefit innovation (and the process) and positively impact on consumers, advancing financial inclusion goals and can also supplementing thin data sets on important issues.

**New Payments Platform (NPP) API Sandbox.** NPP Australia (the national real-time payments service) has partnered with The Society for Worldwide Interbank Financial Telecommunications (SWIFT) to provide a cloud-based ‘API sandbox’ to enable innovators to learn, test and experiment with the NPP API Framework and integrate NPP payments functionality into their own products and services.

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### Exhibit 5: Industry Sandboxes

#### 5.2 Global Sandboxes

The Global Financial Innovation Network (GFIN) represents a network of eleven financial regulators (primarily from developed countries) and related organizations exploring the potential for a global sandbox. Goals enumerated in the GFIN consultation document include accomplishing the following on a global level: (i) a network of regulators (information and knowledge sharing about innovation); (ii) joint policy work and regulatory trials (regulator collaboration such as approaches on key policy questions, exploring RegTech synergies); and (iii) conducting cross-border innovations testing worldwide (both business to business and to consumers).

Pertinent to developing countries, GFIN calls for a channel of cooperation between financial regulators, assisting them with addressing common challenges and developing the capacity and knowledge of their staff. It also provides a platform for firms to interact with regulators, opportunities to scale ideas across borders and to reduce time to deploy products and services to the international market – an incentive which may attract more innovators into the sandbox.

It is crucial, however, that the sandbox is transparent, fair and available for all potential applicants. Inclusion of

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213 Goals of an industry sandbox as described in the consultation report include acceleration of developing solutions for the entire FinTech ecosystem through ‘access to resources such as data, APIs, or reference architectures which enable entrepreneurs to create solutions that are additive and more readily integrated with the existing technology stack.’ Innovate Finance (2017) *Industry Sandbox Consultation Report*, available at https://bit.ly/2rH4yhP

214 See comments of Omidyar Network and Azimo. *ibid.*


216 SWIFT is a cooperative non-profit organization which develops standards for global interactivity of financial transactions and operates the SWIFT messaging system, enabling over 11,000 institutions in over 200 countries to exchange payment information and instructions concerning cross-border financial transactions in a secure, standard and reliable environment. SWIFT (2018) *Messaging and Standards*, available at https://bit.ly/2ySBmc1


221 *ibid.*
EMDE jurisdictions as members at an earlier stage could prove mutually beneficial, recognizing and welcoming the value of the growth of ‘inclusive FinTech’ innovation\(^{222}\) occurring in global south.

6 Conclusions

Regulatory sandboxes have a short operating history and are evolving, only recently emerging in least developing countries. They present an important opportunity to foster valuable information and knowledge sharing between regulators and innovators, national and internationally, and to substantially increase regulatory capacity and a deeper understanding of FinTech innovation. Over time and by way of the learning experience, the sandbox framework can and should be improved, enhanced and refined so that they may reach their potential.

While sandboxes have generated substantial interest and enthusiasm, it is important to remember that they are but one of several regulatory frameworks and other options exist which may also be potentially more suitable. Challenges and risks for successful sandbox implementation exist. A long-term vision for developing countries who have assessed the need for a sandbox would be the establishment of thematic regulatory sandboxes which focus on specific national priorities rather than spanning multiple national agendas. The presence of adequate regulatory capacity is necessary to identify beneficial sandbox participants and technologies as well as for devising rules around the sandboxes and shepherding participants through the sandbox process.

The impact of these thematic regulatory sandboxes, however, will be limited at regional borders and issues with low participation rates and economies of scale may still persist. Ultimately, success for developing countries at a national level should include early consideration of how to leverage synergies and collaborative efforts on a multi-jurisdictional level. This includes planning enabling frameworks early in the process to effectuate harmonization from the ground up, fostering cross-border activity while avoiding incompatibility.

## Annex A: Status of Regulatory Sandboxes in Developing Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>Central Bank of Bahrain announced its regulatory sandbox in Q2 of 2017. As of August 2018, there are 12 approved entities in its sandbox. In an effort to bolster the use of FinTech in Islamic finance worldwide, Bahrain FinTech Bay launched the Global Islamic &amp; Sustainable FinTech Center in October 2018.</td>
</tr>
<tr>
<td>Brazil [collaboration]</td>
<td>In May 2018, the Central Bank of Brazil (BCB) launched the Laboratory of Financial and Technological Innovations (LIFT), a collaboration between the Central Bank of Brazil, Fenasbac Institute and industry partners. It is incubator in a ‘virtual collaborative environment’ involving a diverse, experienced community of participants who focus on projects aligned with the BCB agenda (increase financial education and inclusion, make credit cheaper, modernize legislation and make the financial system more efficient.) Of projects submitted on its website, 22 projects were selected for the first edition of LIFT.</td>
</tr>
<tr>
<td>Egypt [private]</td>
<td>VentureLab at The American University in Cairo (a startup accelerator in the MENA region) and Tenemos (banking software company) collaborate to provide sandbox service to companies in the accelerator program. Objective is to promote FinTech innovation in Egypt.</td>
</tr>
<tr>
<td>India</td>
<td>On February 8, 2018, the RBI published its Report of the Working Group on FinTech and Digital Banking, a committee representative of all the financial sector regulators and select industry members ‘to study the entire gamut of regulatory issues relating to FinTech and Digital Banking in India.’ IDRBT (Institute for Development and Research in Banking Technology) is recommended as a group whose expertise could run a regulatory sandbox and innovation hub in collaboration with the RBI. The Insurance Regulatory and Development Authority of India (IRDAI) published a circular</td>
</tr>
</tbody>
</table>

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223 See Footnote 15 for this paper’s definition of developing countries, defined loosely as primarily emerging markets and developing economies which have a national financial inclusion strategy.
227 The LIFT website is available at LIFT (2018) LIFT - Laboratório de Inovações Financeiras Tecnológicas, available at https://www.liftlab.com.br
233 RBI organized a working group consisting of representatives from various regulators Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDAI), Pension Fund Regulatory and Development Authority (PFRDA) and ‘select financial entities regulated by these agencies, rating agencies…and FinTech consultants/companies.’ RBI (2017) ibid.

33
announcing the establishment of a committee to prepare a consultation paper on a “Regulatory Sandbox Approach” which creates a safe and contained space for FinTech experimentation.235

<table>
<thead>
<tr>
<th>Country</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indonesia</strong></td>
<td>Bank Indonesia (the country’s central bank) launched its sandbox, open to innovations qualifying as ‘payments systems’ in Q4 2017. As of September 2018, 34 companies have registered as FTOs and are eligible for consideration for admission to the sandbox. In August 2018, OJK (the financial sector regulator) issued a regulation establishing its regulatory sandbox and requirements for IKD operators (which cover activities involving transaction settlements, crowdfunding and fundraising, investment management, insurance, others.)</td>
</tr>
<tr>
<td><strong>Jordan</strong></td>
<td>The Central Bank of Jordan launched its sandbox in Q2 2018. Two entities have been admitted to the sandbox. One provides the ‘possibility of issuing, exchanging and accepting cheques electronically.’ The other is a blockchain-based remittance company.</td>
</tr>
<tr>
<td><strong>Kazakhstan</strong></td>
<td>The AIFC financial hub launched in July 2018. Its independent regulator, the AFSA, launched its regulatory sandbox in Q1 2018 and is open to a wide array of activities under its purview as the regulator and registrant of companies seeking admission to the AIFC and Kazakhstan. As of September 2018, there are 5 participants registered and listed as being accepted into its sandbox.</td>
</tr>
<tr>
<td><strong>Kenya</strong></td>
<td>In August 2017, the Capital Markets Authority published its latest draft of its consultative paper on policy framework to consider the implementation of a regulatory sandbox to support the promotion of FinTech innovation in the capital markets. Its objectives include using FinTech innovation to enhance capital market activity.</td>
</tr>
<tr>
<td><strong>Malaysia</strong></td>
<td>In Q3 2016, BNM issued its sandbox framework with its regulatory sandbox operated by FTEG. It is currently live with 6 participants, 1 successful exit in May 2018.</td>
</tr>
<tr>
<td><strong>Mauritius</strong></td>
<td>The Economic Development Board officially launched the Mauritius Regulatory Sandbox License in Q4 2016 and subsequently issued guidelines. The MEDB does not officially publish a list of entities admitted to its sandbox.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>On March 10, 2018, Mexico’s ‘Law to Regulate Financial Technology Institutions’ became effective, which includes the authorization to create a regulatory sandbox.</td>
</tr>
<tr>
<td>Mozambique</td>
<td>Bank of Mozambique launched an incubator sandbox program in Q2 2018 to support non-bank financial institutions offering FinTech innovation, including startups. It includes 5 pre-selected participants. The central bank is trying to have the banking law modified to allow these fintechs to participate in the financial ecosystem.</td>
</tr>
<tr>
<td>Nigeria</td>
<td>The &quot;Financial Industry Sandbox&quot; is to be managed by the newly created Financial Service Innovators Association and supervised by the Central Bank of Nigeria (CBN) and the Nigeria Interbank Settlement System (NIBSS) – the result of a collaborative effort. The sandbox is likely to have financial inclusion initiatives (a partnership with the Bill and Melinda Gates Foundation) and with a focus on startups being able to test innovations. The Securities and Exchange Commission, Nigeria is in the process of setting up a sandbox and has provided an assessment form for interested companies.</td>
</tr>
<tr>
<td>Philippines</td>
<td>The governor of the Philippines central bank (BSP) has stated that he considers the country’s 'test-and-learn' regulatory framework the country's regulatory sandbox.</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>The Central Bank of Russia CBR) launched its regulatory sandbox in Q1 of 2018 and has been accepting applications. Sberbank is the first entity to pass through the CBR sandbox and is a ‘service that helps remotely control permissions to carry out transactions using corporate client accounts.’</td>
</tr>
</tbody>
</table>

255 Remarks by the Bank of Mozambique at the Alliance For Financial Inclusion Global Policy Forum in Sochi, Russia, September 2018.
256 The association is a cross-industry, not-for-profit organization intended to facilitate collaboration within the FinTech ecosystem. It has also announced development on the regulatory sandbox. Association of Financial Service Innovators (2018) About Financial Service Innovators, available at https://fsi.ng/pages/aboutus.html
262 ibid.
bank also was reported to have completed conducting a test ICO trial successfully from a technical standpoint, although some legal issues do remain.\textsuperscript{264}

<table>
<thead>
<tr>
<th>Country</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rwanda</td>
<td>Draft regulatory sandbox framework November 8, 2017 was issued by the Rwanda Utilities Regulatory Authority (RURA).\textsuperscript{265} Riha Mobile Wallet was announced as the first entity admitted to the regulatory sandbox being launched by the National Bank of Rwanda (BNR).\textsuperscript{266}</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>Bank of Sierra Leone launched its regulatory sandbox with four participants in May 2018.\textsuperscript{267}</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>The Central Bank of Sri Lanka invited stakeholders (academics, innovators, investors, government, NGOs, banks, NBFIs, others) to provide the bank with expectations for a sandbox, comments due May 31, 2018.\textsuperscript{268}</td>
</tr>
<tr>
<td>Thailand</td>
<td>The BOT sandbox launched in December 2016 covering lending, payments and fund transfers products.\textsuperscript{269} As of February 2018, there were 4 participants with 8 having exited the sandbox.\textsuperscript{270} The TSEC launched several thematic sandboxes in the first half of 2017, starting with investment advisors and private funds, clearing and settlements, KYC, and an electronic trading platform.\textsuperscript{271} At least ten participants were expected in the TSEC sandbox launch.\textsuperscript{272} The OIC launched its InsureTech sandbox in June 2017, with a reported five pilot projects as of April 2018.\textsuperscript{273}</td>
</tr>
</tbody>
</table>

\textsuperscript{264} TACC (2018) CB conducted a successful ICO trial within the test site, https://tass.ru/ekonomika/5548251
Annex B: Status of Regulatory Sandboxes Worldwide

<table>
<thead>
<tr>
<th>Country</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Live[^274]</td>
</tr>
<tr>
<td>Bahrain</td>
<td>Live[^275]</td>
</tr>
<tr>
<td>Bermuda</td>
<td>Officially announced, in progress.[^276]</td>
</tr>
<tr>
<td>Brunei</td>
<td>Live[^277]</td>
</tr>
<tr>
<td>Canada</td>
<td>Live[^278]</td>
</tr>
<tr>
<td>China</td>
<td>Reported in city of Ganzhou[^279]</td>
</tr>
<tr>
<td>Denmark</td>
<td>Live[^280]</td>
</tr>
<tr>
<td>Fiji</td>
<td>Officially announced[^281]</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>Live[^282]</td>
</tr>
<tr>
<td>India</td>
<td>Working Group Report published[^283]</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Live[^284]</td>
</tr>
<tr>
<td>Japan</td>
<td>Proposed, operating a ‘FinTech PoC Hub’[^285]</td>
</tr>
<tr>
<td>Jordan</td>
<td>Live[^286]</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Live[^287]</td>
</tr>
<tr>
<td>Kenya</td>
<td>Proposed, consultation document published. Agreement to implement via EASRA[^288]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Status</th>
<th>Source</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Status and Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>Officially announced (draft bill)&lt;sup&gt;308&lt;/sup&gt;</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>Officially announced&lt;sup&gt;309&lt;/sup&gt;</td>
</tr>
<tr>
<td>Sweden</td>
<td>Tabled for discussion, pursuing an ‘Innovation Center’&lt;sup&gt;310&lt;/sup&gt;</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Live&lt;sup&gt;311&lt;/sup&gt;</td>
</tr>
<tr>
<td>Taiwan</td>
<td>Live&lt;sup&gt;312&lt;/sup&gt;</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Agreement to implement via EASRA&lt;sup&gt;313&lt;/sup&gt;</td>
</tr>
<tr>
<td>Thailand</td>
<td>Live&lt;sup&gt;314&lt;/sup&gt;</td>
</tr>
<tr>
<td>Uganda</td>
<td>Agreement to implement via EASRA&lt;sup&gt;315&lt;/sup&gt;</td>
</tr>
<tr>
<td>UAE</td>
<td>Live&lt;sup&gt;316&lt;/sup&gt;</td>
</tr>
<tr>
<td>UK</td>
<td>Live&lt;sup&gt;317&lt;/sup&gt;</td>
</tr>
<tr>
<td>US</td>
<td>Live&lt;sup&gt;317&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

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## Annex C: Summary Comparison Chart of Select Regulatory Sandboxes

<table>
<thead>
<tr>
<th>Country</th>
<th>Regulator Mandate / Mission / Objectives</th>
<th>Sandbox Objective</th>
<th>Eligibility Criteria</th>
</tr>
</thead>
</table>
| Bahrain [CBB] | Objectives in CBB and Financial Institutions Law 2006\(^{320}\)  
- Set/implement monetary, credit, financial sector policy;  
- Act as central bank;  
- Develop the financial sector;  
- Protect depositors, customers in financial institutions;  
- Enhance credibility as a financial center;  
- Issuance of national currency;  
- Licensing, regulation and supervision of persons undertaking regulated financial services;  
- Manage Kingdom gold and foreign currency reserve  
- ‘... promote effective competition, embrace new technology, encourage financial inclusion and improve customer experience.’ | - Innovation: truly, significantly different from existing offerings;  
- Customer benefit: identifiable, direct/indirect;  
- Technical Testing for existing Solution: prior tested or have external validation;  
- Ready for testing: due diligence performed, risk mitigation, reporting  
- Intent to deploy in Bahrain: proposed exit strategy | |
| Bermuda [BMA] | The Bermuda Monetary Authority released an Information Bulletin outlining what documentation is required when submitting an application for a digital asset business (DAB) license.\(^{321}\)  
- The Digital Asset Business Act 2018 makes provision for DAB licenses.  
- There is also an insurance sandbox in progress.\(^{322}\)  
- Two classes of DAB licenses are available; Class F (full) and Class M (modified). Modified licensees will operate in a sandbox environment (similar to, but separate from the Authority’s Insurance Regulatory Sandbox) before graduating to become full licensees, where applicable.  
- To supplement the Act, the Digital Asset Business (Cybersecurity) Rules 2018, Digital Asset Business (Client Disclosure) Rules 2018, and Digital Asset Business (Prudential Standards) (Annual Return) Rules 2018 are also in effect. | Framework built to ensure that core objectives of financial regulation are respected, that is: protecting consumers, ensuring stability of our institutions and maintaining the integrity and confidence in financial markets – with a focus on maintaining the highest standards of AML/ATF. | - Requires annual returns and broad disclosure data |

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\(^{318}\) Source of the sandbox objective is the regulatory sandbox framework for the respective jurisdiction.  
\(^{319}\) Source of eligibility criteria is the regulatory sandbox framework for the respective jurisdiction.  
| **Malaysia [FTEG] [BNM]** | **BNM:** 323 ‘...excellence in promoting monetary and financial system stability and fostering a sound and progressive financial sector, to achieve sustained economic growth.’  
**FTEG:** 324 Support innovations that will improve the quality, efficiency, accessibility of financial services; - Formulate and enhance regulatory policies to facilitate adoption of technological innovations in the financial services industry.  
‘... to provide a regulatory environment that is conducive for the deployment of fintech.’  
‘... to enable innovation of fintech to be deployed and tested in a live environment, within specified parameters and timeframes.’ | - Innovation must (i) improve accessibility, efficiency, security, quality in provision of financial services; (ii) enhance efficiency and effectiveness of domestic financial institutions risk management; or (iii) address gaps, open financing or investments in the economy;  
- Adequate assessment performed  
- Necessary resources and expertise to test and mitigate potential risks;  
- Realistic plan to deploy in Malaysia;  
- Innovation is wholly/partially incompatible with law, regulations or standards issued by BNM;  
- Credible management team.  
- Companies collaborating with financial institutions or create high value jobs are assessed more favorably. |
| **Sierra Leone [BSL]** | **BSL Objectives: Bank of Sierra Leone Act 2011:** 325  
- Achieve and maintain price stability;  
- Formulate and implement monetary policy, financial regulation and prudential standards;  
- Act as banker, adviser, fiscal agent of Government;  
- Formulate, implement the foreign exchange policy;  
- Conduct foreign exchange operations;  
- Own, hold and maintain the official international reserves including gold reserves;  
- Issue and manage the currency;  
- Establish, promote, license and oversee sound and efficient payment and securities settlement systems;  
- License, register, regulate and supervise financial institutions per BSL Act or other enactment;  
- Depository for funds from international organizations.  
- Provide regulatory environment conducive for deployment of new and innovative FinTech and business models domestically;  
- Enable testing innovations in live environment before deployment;  
- Facilitate BSL’s understanding of emerging technologies, support evidence-based approaches to regulation that advance the goals of financial inclusion, financial stability, integrity and consumer protection.  
- Foster responsible innovation that benefits consumers in Sierra Leone by | - Registered business in Sierra Leone  
- 10% or more ownership of applicant by a citizen  
- FinTechs can apply as a cohort, incumbents on a rolling basis if proposed innovation is incompatible with existing law / regulation.  
Evaluation criteria requires proof of:  
- Potential to advance financial inclusion  
- Legal due diligence conducted  
- Ready for testing  
- Sufficient resources to participate  
- Clear business plan and exit strategy  
- Fit and proper management and leadership |

<table>
<thead>
<tr>
<th>Country</th>
<th>Mission</th>
<th>Evaluation criteria include:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore [MAS]</td>
<td>- Grow smart financial center, encourage adoption of innovative, safe technology in financial sector; - Enhance value, increase efficiency, better manage risks; - Create new opportunities, improve lives of people/residents - Encourage FinTech experimentation of promising innovations</td>
<td>- Innovation: not similar to existing offering unless new technology offered or used in a different manner; - Due diligence performed: legal and regulatory; - Benefits to consumers/industry; - Intended deployment in Singapore, adequate exit and transition strategy; - Defined testing plan and outcomes; - Risk assessment and mitigation plans.</td>
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<tr>
<td>United Kingdom [FCA]</td>
<td>- Promote more effective competition in the interests of consumers by allowing firms to test innovative products, services and business models in a live market environment, while ensuring that appropriate safeguards are in place. - Promote competition by supporting disruptive innovation - Deliver more effective competition in the interests of consumers by: (i) reducing time and potentially cost of getting innovative idea to market; (ii) enabling greater access to finance for innovators; enabling more product testing prior to market and allowing FCA to work with innovators to ensure adequate consumer protection safeguards are implemented.</td>
<td>- In scope: innovation intended for UK; - Genuine innovation: significantly different than other market offerings; - Consumer benefit: direct or indirect, the innovation promotes competition and includes risk mitigation; - Needs a sandbox: innovation is incompatible or difficult fit with regulation, full authorization impractical, benefit from live testing; - Ready for testing: plan is developed, all/partial testing performed, sufficient resources for sandbox testing, adequate safeguards are/can be established for consumer protection; - Qualification with threshold conditions.</td>
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</tbody>
</table>

## Annex D: Potential Regulatory Relaxation and Maintenance in Select Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Regulator</th>
<th>Possible to Relax Requirements</th>
<th>Possible to Maintain Requirements</th>
</tr>
</thead>
</table>
| Singapore   | Monetary Authority of Singapore[^329]          | • Asset maintenance requirement  
• Board composition  
• Cash balances  
• Credit rating  
• Financial soundness  
• Fund solvency and capital adequacy  
• License fees  
• Management experience  
• MAS Guidelines, such as technology risk management guidelines and outsourcing guidelines  
• Minimum liquid assets  
• Minimum paid-up capital  
• Relative size  
• Reputation  
• Track record | • Confidentiality of customer information  
• Fit and proper criteria particularly on honesty and integrity  
• Handling of customer’s moneys and assets by intermediaries  
• Prevention of money laundering and countering the financing of terrorism |
| Bahrain     | Central Bank of Bahrain[^330]                  | Depending on the case of the Applicant, the CBB will determine which requirements will be relaxed and to what extent. For example, in Bahrain, cryptocurrency exchanges are being provided sandbox licenses in order to study and define rules to regulate them.                                                                                                      | • Confidentiality of customer information  
• KYC  
• AML/CFT |
| Canada      | Canadian Securities Administrators Sandbox[^331] | • Applicants have previously been granted relief related to:  
  ○ audit requirement regarding financial statements  
  ○ know-your-client requirements  
  ○ suitability requirements  
  ○ dispute resolution requirements  
  ○ certain disclosure and reporting requirements  
  ○ the requirement to issue and distribute a prospectus | • KYC requirements for initial coin offerings |
| Indonesia | **Bank of Indonesia**\(^{332}\) | Bank Indonesia will determine the testing scenario for products, services, technology, and/or business models and submit a letter to the Financial Technology Operator after the Financial Technology Operator declares their undertaking to enact the testing scenario. | ● Consumer protection  
● Risk management |
| --- | --- | --- | --- |
| Malaysia | **Bank Negara Malaysia**\(^{333}\) | Applicants need to identify the legal or regulatory requirements that are incompatible with the proposed product, service or solution and the regulatory flexibilities needed to undertake the test. For example:  
● Risk management or outsourcing requirements when collaborating with emerging technology and software companies  
● Conduct of Business rules that do not apply neatly to AI or big data applications  
● Licensing requirements such as track record or capital resources requirements | ● Regulated activities under the purview of the Securities Commission Malaysia (e.g. fund management, peer-to-peer lending, equity crowd funding)  
Bank will give due regard to:  
○ preserving sound financial and business practices consistent with monetary and financial stability;  
○ enforcing sufficient consumer protection measures;  
○ establishing proper procedures for anti-money laundering and countering terrorism financing;  
○ protecting the confidentiality of customer information;  
○ promoting the safety, reliability and efficiency of payment systems and payment instruments;  
○ having sufficient risk management systems including IT and cyber security  
○ ensuring innovative solutions for Islamic financial services are consistent with prevailing Shariah standards; and  
○ encouraging healthy competition for financial products and services. |

<table>
<thead>
<tr>
<th>Country</th>
<th>Institution</th>
<th>Requirements</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sierra Leone</td>
<td>Bank of Sierra Leone</td>
<td>● BSL will determine the specific regulatory requirements it is prepared to temporarily modify during a Sandbox test on a case-by-case basis.</td>
<td>● Character and fitness requirements for the Applicant, its founders and directors</td>
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<td></td>
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<td>● Suitability requirements pertaining to business premises</td>
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<td>● AML/CFT regulation</td>
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<td>Thailand</td>
<td>Bank of Thailand</td>
<td>● Participants in the sandbox may test their financial products or services in a live but limited environment, without being fully subject to all licensing/supervision requirements that normally would be applicable.</td>
<td>● Not exempt from having to apply for any applicable licenses that are necessary to conduct their intended businesses</td>
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<td></td>
<td></td>
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<td>● Regulations related to electronic transactions</td>
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<td></td>
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<td>● Customer’s information and secret protection</td>
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<td>● Customer’s money and asset management</td>
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<td>● Security of work system and information, Integrity of work system and information, Availability of work system.</td>
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<td></td>
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<td>● Protection of money laundering and terrorism financing</td>
</tr>
<tr>
<td>Australia</td>
<td>Australian Securities and Investment Commission</td>
<td>ASICs provides regulatory sandbox licenses that allows eligible firms that are not currently authorized to provide services covered by the exemption to test these services for 12 months without an AFS or credit license.</td>
<td>● Consumer protection</td>
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<td></td>
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<td>● Dispute resolution</td>
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<td></td>
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<td>● Compensation arrangements</td>
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