Session 4:
Designing Effective Regulatory Sandboxes for FinTech Innovations

Schan Duff
The Aspen Institute
Regulators see regulation as a key barrier to innovation

MAIN BARRIERS TO FINANCIAL INNOVATION IN SELECTED JURISDICTIONS

- Reputational risk
- Operational risk
- Immature technology
- Lack of capital
- Lack of human resources
- Legal uncertainty
- Regulatory restraints

HIGH BARRIER | LOW BARRIER
---|---

MAIN BARRIERS PREVENTING REGULATORS FROM RESPONDING TO INNOVATION EFFECTIVELY

- Lack of management buy-in
- Political pressures
- Lack of technical knowledge
- Lack of financial resources
- Lack of human resources
- Regulatory restraints

HIGH BARRIER | LOW BARRIER
---|---

Source: CGAP/World Bank survey (2019)

Answered: 26  Skipped: 5

Answered: 30  Skipped: 1
Regulatory sandboxes around the world (March 29, 2019)
Global sandbox participants (by sector)

- Payments: 31%
- Wholesale & Infrastructure: 29%
- Savings: 5%
- Lending: 6%
- Insurance: 5%
- Other: 10%
- Asset Management: 7%
- Advice: 7%

Source: CGAP analysis (2019)
Global sandbox participants (by technology)

- Other: 31%
- Blockchain & Crypto: 25%
- Data Analytics: 16%
- Digital ID: 11%
- Online Distribution: 8%
- Multiple: 7%
- AI: 2%

Source: CGAP analysis (2019)
Motivations don’t always align with mandates

Motivation

- Need to deal with growing fintech industry
- Desire to learn about emerging innovations
- Desire to attract more innovators
- Drive competition in the market
- Follow the example of others
- Other (please specify)

Mandate

- Financial stability
- Consumer protection
- Regulation of wholesale financial markets
- Financial sector integrity
- Financial inclusion
- Regulation of retail banking
- Financial literacy
- Regulation of retail lending (e.g. P2P)
- Regulation of retail investments (e.g. crowdsourcing)
- Regulation of asset management
- Regulation of insurance
- Regulation of pensions
- Competition

Source: CGAP/World Bank survey (2019)
Most sandboxes are available to FIs and start-ups

ENTITIES ELIGIBLE TO PARTICIPATE

- Other facilitator: 4 New entrants (e.g. fintechs), 4 Licensed financial services providers
- Innovation hub: 15 New entrants (e.g. fintechs), 15 Licensed financial services providers
- Accelerator: 8 New entrants (e.g. fintechs), 9 Licensed financial services providers
- Regulatory sandbox: 23 New entrants (e.g. fintechs), 22 Licensed financial services providers

Source: CGAP/World Bank survey (2019)
Do sandboxes create loopholes?

Source: CGAP/World Bank survey (2019)
Sandboxes serve fewer firms than other facilitators

Formal applications that have been received vs accepted for the innovation facilitator(s)

Reasons for rejecting applications:
- Applicant not ready to use the facilitator: 17%
- Applicant does not need the facilitator: 25%
- Applicant is not genuinely innovative: 24%
- Applicant is not eligible for other reasons: 10%
- Other: 24%

Source: CGAP/World Bank survey (2019)
Informal guidance may be the primary benefit

SERVICES OFFERED TO ACCEPTED PROVIDERS

Source: CGAP/World Bank survey (2019)
Different models emerging

**Innovation Promoting**
- Encourage new market entrants
- Reduce initial cost of regulation
- Validate new business models and technologies
- Often cohort-based and/or linked to other market development initiatives

**Policy Promoting**
- Identify regulations that inhibit beneficial innovation
- Encourage policy modernization
- Open application with few participants – focus on resolving regulatory frictions prior to reaching sandbox

**Thematic**
- Leverage sandbox for (i) promoting specific innovations (i.e., SME finance) or (ii) accelerating adoption of regulatory enablers (i.e., eKYC, QR codes, etc.)