

Regulatory tools to promote digital innovation

Introduction to group exercise

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Can take many forms. In practice, every sandbox is different.

Regulatory Sandbox

Framework set up by a financial sector regulator to allow small scale, **live testing of innovations** by innovators in a **constrained environment** under the regulator's supervision

- **Structured approach**: led by regulator, information made publicly available
- **Explicit & transparent entry criteria** for applicants
 - different approaches: only incumbents, only start-ups, both
- **Restrictions & safeguards** put in place: e.g. max. number of customers, strengthened disclosure, time-bound

Test & Learn

Same underlying principle as sandbox

(Regulator, in close cooperation with an innovator, crafts a framework to test a new idea in a live environment and adopt safeguards.)

But: usually **provider approaches regulator** with certain business model

- **Ad hoc & tailor-made**
 - **Restrictions & safeguards** are put in place e.g. on MoU, letter of no objection
- >> **Example**: Central Bank of Kenya allowing Safaricom to launch M-Pesa (2007)

Wait & see

Monitoring of a trend to understand it better **before any intervention** by regulator.

Usually applied when:

- Innovation is **not yet fully understood**
- Innovation **not yet mature** or scaled-up

>> **Example:** P2P lending in China

Workshop “regulating for (digital) innovation”

Group Work Worksheet
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Group Exercise 1: Evaluation of regulatory tools

Please evaluate the different tools available to regulators:

(i) add any missing approaches deemed relevant, (ii) add any criteria deemed relevant, (iii) score each approach within each category on the scale from 1 (lowest intensity) to 4 (highest intensity).

	Wait-and-see	Test-and-learn	Sandbox	License
Formality						
Resources Needed						
Flexibility						
Transparency						
Capacity Needed						
.....						

Step in the shoes of a supervisor!

Group Exercise 2: Impact of regulatory approaches on the market and consumers

Please choose one digital innovation (discussed before within your group in session 2) and decide:

- a) How would you suggest a regulator to respond if a provider wants to introduce this innovation in a given jurisdiction where this innovation currently falls outside of the regulatory framework?
- b) What are the impacts on the market and the impacts on consumers that you would foresee?
 - Impact on the market could for example be: provision of regulatory certainty, incentive to invest, creation of level playing field.
 - Impact on consumers could for example be: consumers are informed, innovation is available to consumers, trust is maintained, consumers are protected.

Implementation: tools available

Regardless of exact form, broadly, two categories of implementation tools exist:

- Explicitly reduce regulatory barriers for innovators with **temporary bespoke regulatory treatment**
- Implicitly reduce regulatory barriers with **communication and support tools**

Innovation implementation tools: Tools available

Temporary bespoke	Communication support
<ul style="list-style-type: none">• Restricted authorisation/reduced licensing requirements• Waivers or exemptions• No enforcement action letter/letter of no objection• Active engagement with providers, other regulatory authorities, flexibility• Appropriate safeguards	<ul style="list-style-type: none">• Innovation forums• Advice• Funding support• Training• Signalling• Facilitating collaboration
BNM Malaysia, CMA Kenya, IPEC Zimbabwe, UCC Uganda, FCA UK, NIC Ghana, TIRA Tanzania	Australia, France, Hong Kong, Japan, Korea and UK

Critical considerations

Coordination



- Innovations often cut across authorities

Capacity



- Required for monitoring, advice, understanding risks
- Recruit and train for skills appropriate to the changing nature of the sector!

Objective



- The tools implemented need to address the actual challenges faced by innovators in the market.
- Consult with market players to understand primary challenges faced

Thank you!

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