



Blueprint of a

# Fintech Regulatory Sandbox Law

Preparing for the Future of  
Fintech Innovations

Concept Paper | March 2020



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an independent,  
non-commissioned  
piece of work by the  
Vidhi Centre  
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better laws.**

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# Acknowledgements

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# Executive Summary

Advances in technology are transforming the financial services sector at an unprecedented rate. This calls for a governance framework to accelerate the positive and inclusive impacts of such technologies and contain or eliminate negative externalities. This concept paper envisages a legal framework for India that will be instrumental in defining the future of fintech innovations in India. It recommends that India should enact a law viz. 'Promoting Innovation in Financial Services Act' ("**Proposed Law**") to design a unified legal framework that will empower the existing financial sector regulators in India to: (a) operate a regulatory sandbox to test fintech innovations that fall solely within their respective regulatory domains; and (b) operate and participate in an inter-regulatory sandbox to test innovations that fall within the regulatory domain of more than one regulator.

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### Standalone law for regulatory sandbox testing of fintech innovations

Brings sandbox testing of all fintech innovations under a single framework

### Formal co-ordination mechanism for cross-sectoral fintech innovations

Proposes to set up an Inter regulatory co-ordination committee (IRCC) consisting of representatives from the four financial sector regulators for facilitating cross-sectoral fintech sandbox testing

### Innovation Department and Innovation Officer

- Regulators will be required to set up an Innovation Office to oversee sandbox testing
- Innovation Office to be headed by an Innovation Officer

### Least disruption to existing framework

Each regulator continues to operate its own respective sandbox under the Proposed Law

### Common minimum standards for sandbox testing

Sandbox testing of any fintech innovation will have to meet common minimum standards set out in the Proposed Law

### Case Officers

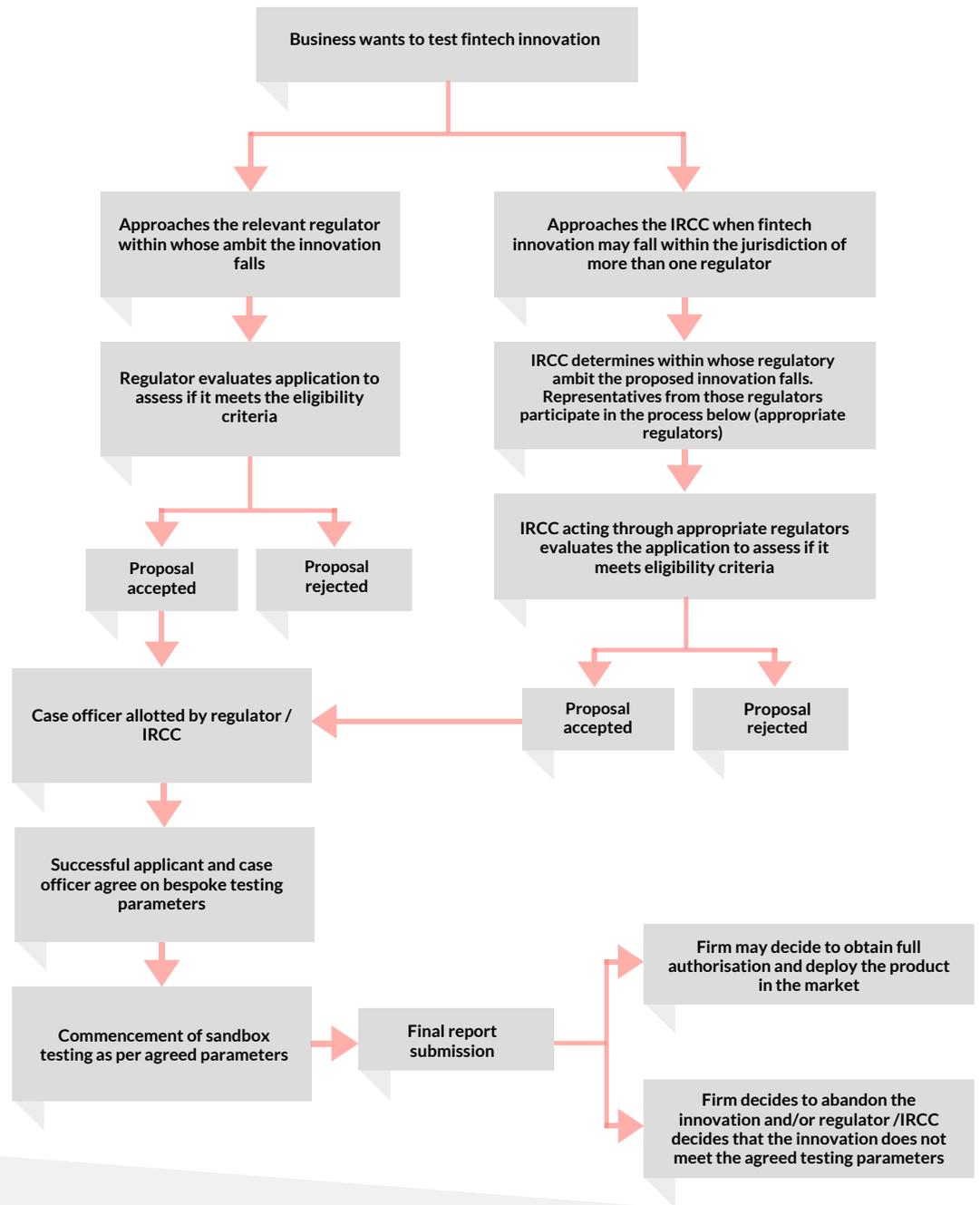
Regulator/IRCC will appoint a specific case officer for acting as the point of contact for all regulatory correspondence

## Key features of the Proposed Law

## Why do we need the Proposed Law?

Current Approach	Issue	Proposed Solution
Four financial regulators operating their own separate sandboxes in silos	Only such innovations within the purview of an individual regulator stand to make it to the market	Regulators continue to operate their own sandbox and participate in cross-sectoral fintech sandbox testing
No express statutory authority to operate a sandbox and grant regulatory exemption	Concerns about legal sanctity of sandbox testing	Proposed law will grant express authority to the regulator to operate its own sandbox, participate in cross-sectoral sandbox testing, and grant regulatory exemptions
No framework for facilitating sandbox testing of cross-sectoral fintech products	Businesses have to separately approach each regulator for cross-sectoral fintech innovations, which is inefficient and costly	Sets up a co-ordination committee consisting of relevant financial sector regulators
Lack of uniformity across the existing sandbox framework on common features such as eligibility criteria, duration, and consumer protection safeguards	Siloed framework with lack of uniformity across common features creates uncertainty for businesses.	Create a framework with common minimum requirements and safeguards, allowing regulators enough flexibility to develop bespoke requirements for testing

# How will sandbox testing work under the Proposed Law?



## Value Proposition of the Proposed Law

- 1 → Positive signal to global market about India's openness to fintech innovation
- 2 → Futuristic policy for encouraging cross-sectoral fintech innovations
- 3 → Legal sanctity for sandbox testing
- 4 → Harmonised and consistent approach to deal with new and emerging technologies
- 5 → Enhancing efficiencies and reduction of costs
- 6 → Shared learning for regulators for evidence-based policy making
- 7 → Shaping a positive narrative for Indian fintech market for participation in global and regional sandboxes

# Setting the Context

## Overview of the Indian Fintech Market

The disruption of the financial market by digital technologies has paved the way for traditional players in the financial sector and innovative financial technology (fintech) companies to create new business propositions to improve product offerings and expand their customer base. With a consumer adoption index of 87% as compared to the global average of 64%,<sup>1</sup> the potential of the Indian fintech market has generated significant investor interest as evidenced by the investment figures set out in Fig. 1 below.<sup>2</sup>

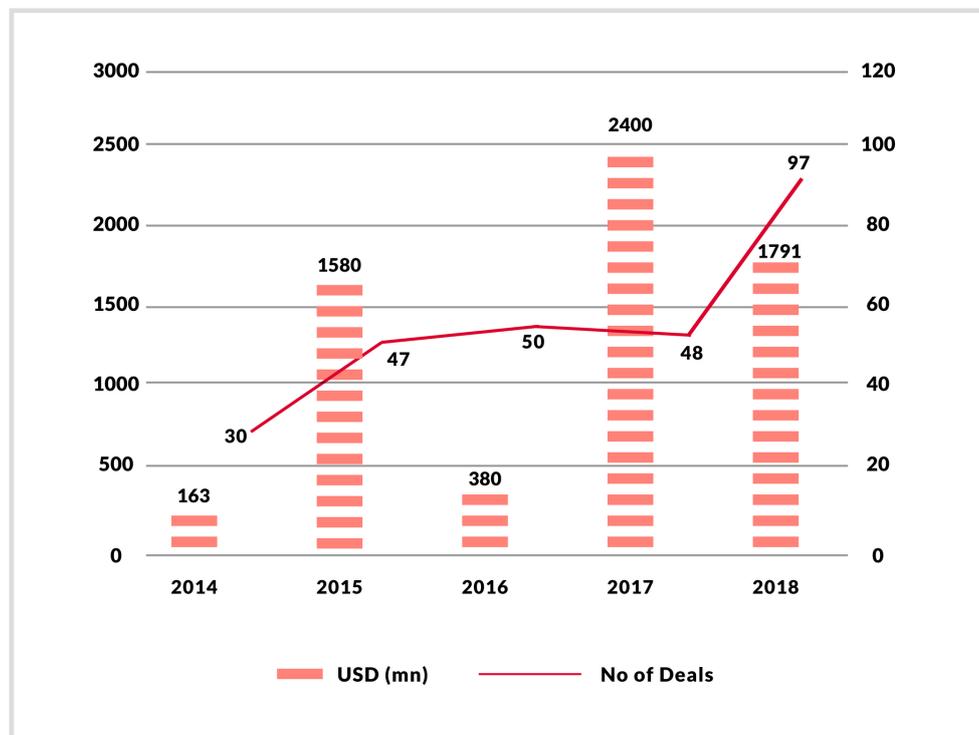


Fig. 1: India venture capital based fintech funding and deal count. Source: PwC and ASSOCHAM

<sup>1</sup> EY, 'Global FinTech Adoption Index 2019' (2019) <<https://fintechauscensus.ey.com/2019/Documents/ey-global-fintech-adoption-index-2019.pdf>> accessed 5 February 2020.

<sup>2</sup> PwC & ASSOCHAM 'Background paper on emerging technologies disrupting the financial sector' (2019) <<https://www.pwc.in/assets/pdfs/consulting/financial-services/fintech/publications/emerging-technologies-disrupting-the-financial-sector.pdf>> accessed 5 February 2020.

A recent study released by Innovate Finance,<sup>3</sup> a non-profit organisation representing the fintech industry in the United Kingdom (“UK”) notes that fintech investment (both venture capital and private equity) in the fintech sector in 2019 reached USD 3.8 billion with 153 reported deals. This brings India to the third position in terms of global fintech investment preceded only by the United States (“US”) (USD 16.3 billion with 1095 reported deals) and UK (USD 4.9 billion with 359 reported reported deals).<sup>4</sup> Driven by a strong technological ecosystem and a sizeable consumer base, the Indian fintech market presents unique opportunities for businesses and policymakers for driving economic growth. One study finds that the overall transaction value in the Indian fintech market is estimated to increase from USD 66.1 billion in 2019 to USD 137.8 billion in 2023, growing at a compounded annual growth rate (“CAGR”) of 20.18%.<sup>5</sup> Compared to this, the overall transaction value in the global fintech market is predicted to grow from around USD 5.49 trillion in 2019 to USD 9.82 trillion in 2023, at a CAGR of 15.64%.<sup>6</sup> This sizeable market is perhaps explained in part by the expected return on investment on fintech

projects, estimated at 20% by a 2017 study that interviewed 1308 top management officials in strategy and innovation from 71 countries.<sup>7</sup>

## Creating a competitive market for boosting fintech investments in India

Despite such investment activity in the Indian fintech sector, there remains substantial headroom for growth, especially when compared to jurisdictions such as the USA, UK and even China.<sup>8</sup> While India remains one of the largest markets for fintech innovations, growth is mostly led by two segments i.e. digital payments and alternative lending.<sup>9</sup> To boost investment in the fintech sector and harness its potential to contribute to India’s target of creating a digital economy worth USD 1 trillion,<sup>10</sup> policymakers must design a framework that encourages innovation and promotes competition in the fintech sector. This is particularly significant given India’s poor performance in the 2019 Global Competitiveness Index (“GCI 2019”) where India’s rank went down by 10 places to the 68th position out of 141 surveyed countries.<sup>11</sup>

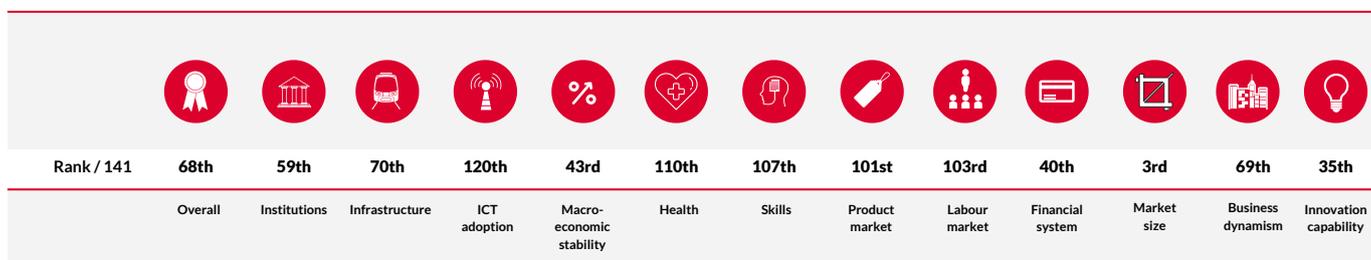


Fig. 2: Global Competitiveness Report – Overview of India’s Performance (2019)

<sup>3</sup> Innovate Finance, ‘2019 FinTech Investment Landscape’ (2020) <[https://cdn2.hubspot.net/hubfs/5169784/innovate-finance-2019-fintech-investment-landscape290120\\_29-01-2020\\_22-10-18.pdf](https://cdn2.hubspot.net/hubfs/5169784/innovate-finance-2019-fintech-investment-landscape290120_29-01-2020_22-10-18.pdf)> accessed 6 February 2020.

<sup>4</sup> *ibid.*

<sup>5</sup> PwC & ASSOCHAM (n 2).

<sup>6</sup> *ibid.*

<sup>7</sup> PwC, ‘Global FinTech Report 2017’ (2017) < <https://www.pwc.com/gx/en/industries/financial-services/assets/pwc-global-fintech-report-2017.pdf>> accessed 31 January 2020.

<sup>8</sup> While the fintech investment in China stood lower (at USD 1.8 billion) than that in India (at USD 3.9 billion) in 2019, in 2018, the fintech investment in China was USD 26 billion as compared to USD 1.2 billion in India.

<sup>9</sup> MedicIndia, ‘FinTech Report 2019 Executive Summary’ (2019) < [https://medicinnercircle.com/wp-content/uploads/2019/03/FintegrateReport\\_ExecutiveSummary\\_Final.pdf](https://medicinnercircle.com/wp-content/uploads/2019/03/FintegrateReport_ExecutiveSummary_Final.pdf)> accessed 5 February 2020; PwC (n 7); Deloitte, ‘Fintech in India Ready for Breakout’ (2017) <<https://www2.deloitte.com/in/en/pages/financial-services/articles/fintech-india-ready-for-breakout.html>> accessed 5 February 2020.

<sup>10</sup> Ministry of Electronics & Information Technology, ‘India’s Trillion-Dollar Digital Economy’ (2019) < [https://meity.gov.in/writereaddata/files/india\\_trillion\\_dollar\\_digital\\_opportunity.pdf](https://meity.gov.in/writereaddata/files/india_trillion_dollar_digital_opportunity.pdf)> accessed 5 February 2020.

<sup>11</sup> World Economic Forum, ‘The Global Competitiveness Report’ (2019) <[http://www3.weforum.org/docs/WEF\\_TheGlobalCompetitivenessReport2019.pdf](http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf)> accessed 25 February 2020.

Although growth of the fintech sector will be determined by several demand and supply drivers, one key enabler is the legal framework applicable to fintech innovations. This is significant since regulators often struggle to keep pace with technology-driven disruptions. A rigid regulatory framework is likely to adversely impact the scalability, adoption, and viability of innovative businesses. Notably, GCI 2019 ranks India at 25th and 33rd positions out of 141 countries on adaptability of legal framework for digital business models and growth of innovative companies respectively.

The desire to attract investment and drive competition in the financial market have motivated financial sector regulators in several jurisdictions to set up a regulatory sandbox. A regulatory sandbox allows for the testing of innovations in an environment with limited regulatory constraints, a lower risk of enforcement action and ongoing guidance from regulators.<sup>12</sup> Taking a cue from its counterparts in other jurisdictions, India's financial sector regulators viz. the Reserve Bank of India ("RBI"), Securities and Exchange Board of India ("SEBI"), Insurance Regulatory and Development Authority of India ("IRDAI") and the Pension Fund Regulatory and Development Authority ("PFRDA") have either adopted a regulatory sandbox or are in the process of implementing one.

## Laying the foundation for the future of fintech disruption

The aforesaid initiatives represent a growing awareness of the need for a meaningful legislative change to encourage fintech innovations. However, the disruptive nature of fintech innovations has the potential to blur the traditional sectoral demarcations within which Indian financial sector regulators operate. This

calls for a reassessment of the existing regulatory approach of multiple regulators operating their sandboxes in silos. Under the current framework, a fintech business desirous of developing a cross-sectoral fintech innovation<sup>13</sup> must separately approach each concerned regulator. This process is inefficient, creates uncertainty for businesses, and raises the likelihood of inconsistent regulatory approaches. In certain cases, the absence of a legislative authority to operate a sandbox and provide regulatory relaxations creates legal risks.

Against this background, this Concept Paper presents a blueprint of a standalone regulatory sandbox law that seeks to define the direction and shape the future of fintech innovations in India. The proposed framework provides for a structured process that will facilitate sector-specific innovations and encourage cross-sectoral fintech innovations.<sup>14</sup> This framework will act as a positive signal to businesses about India's openness to fintech innovation and will promote competition in the sector, thereby creating investment opportunities.

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<sup>12</sup> Dirk A Zetzche et al., 'Regulating a Revolution: From Regulatory Sandboxes to Smart Regulation' (2017) 23 Fordham Journal of Corporate and Financial Law 31, 45.

<sup>13</sup> For the purposes of this Concept Paper, cross-sectoral innovations refer to fintech innovations in the financial sector that may fall within the regulatory mandate of more than one regulator.

<sup>14</sup> Please note that a regulatory sandbox is one of many possible regulatory initiatives to promote innovation, such as innovation hubs, that have been adopted by regulators. The purpose of the Concept Paper is not to assess the suitability of these measures or the regulatory sandbox for India. The objective of the Concept Paper is to suggest a framework that can harness the potential of a sandbox to promote innovation in the financial sector.

# The Existing Regulatory Sandbox Model in India

Traditionally, regulation is envisaged as a top-down, command-and-control exercise, where regulators impose and enforce rules without any dialogue with the regulated entities. With the evolution of technological innovations, the regulatory state has expanded to cover complex activities. This has led to the exploration of new regulatory approaches that view regulation as a 'partnership' between the regulator and the regulated.<sup>15</sup> Towards this end, financial sector regulators in several jurisdictions, including India, have created a framework for a regulatory sandbox. This part analyses the regulatory sandbox model implemented or proposed to be implemented by the financial sector regulators in India. After providing an overview of the regulatory approach, the regulatory treatment of specific features of the sandbox under different regulatory frameworks is analysed.

## RBI

RBI has issued an 'Enabling Framework for Regulatory Sandbox' ("RBI RS Framework") pursuant to which, any financial institution, including banks and fintech companies can apply to the RBI to develop innovative products or services in specific sectors. Upon the RBI's approval, a sandbox entity can test products or services in a live environment. This will be subject to implementation of certain safeguards by the sandbox entity and the RBI's oversight. While the RBI cannot provide any waiver from legal requirements, the RBI RS Framework empowers the RBI to relax regulatory requirements for the duration of the sandbox on a case to case basis.<sup>16</sup>

## SEBI Innovation Sandbox

Pursuant to its powers under the SEBI Act, 1992 ("SEBI Act")<sup>17</sup> and the Depositories Act, 1996 ("Depositories Act"),<sup>18</sup> SEBI has issued a circular ("SEBI IS Circular")<sup>19</sup> to operationalise a framework to enable fintech firms and entities not regulated by the SEBI to undertake 'offline testing'<sup>20</sup> of their products or services based on market data made available to such entities by stock exchanges, depositories and qualified registrars and share transfer agents. The data made available to such fintech entities under the SEBI IS Circular will be historical and anonymised data. The circular is silent on whether the sandbox will provide any exemptions from regulations. Additionally, the circular envisages a Steering Committee (comprising of representatives from the market infrastructure institutions ("MIIs")<sup>21</sup> and qualified registrar and transfer agents) that will develop

<sup>15</sup> Hillary J Allen, 'Regulatory Sandboxes' 87 *George Washington Law Review* 579, 600.

<sup>16</sup> In this document, for the purpose of convenience we refer to statutory provisions as 'legal requirements' and delegated legislation enacted pursuant to statutory provisions as 'regulatory requirements.'

<sup>17</sup> SEBI Act 1992, s 11(1).

<sup>18</sup> Depositories Act 1996, s 19.

<sup>19</sup> Framework for Innovation Sandbox, Circular 2019 SEBI/MRD/CSC/CIR/P/2019/64 dated 20 May 2019.

<sup>20</sup> The term 'offline testing' denotes the testing of products in isolation from the live market.

<sup>21</sup> MIIs includes stock exchanges, clearing corporations and depositories. See SEBI IS Framework (n 19).

operating guidelines for the innovation sandbox. The National Stock Exchange (“NSE”) has issued operating guidelines for the innovation sandbox which provides guidance on the application process and the eligibility criteria.

### **SEBI Regulatory Sandbox**

SEBI has also published a discussion paper on the framework for a regulatory sandbox (“SEBI Discussion Paper”). While the SEBI IS Circular focuses on non-regulated entities and offline testing of fintech solutions, the proposed regulatory sandbox seeks to operationalise a framework for financial institutions regulated by the SEBI to test fintech solutions in a live environment with real customers. The discussion paper proposes that the SEBI may consider exemptions or relaxations, which can take the form of a comprehensive exemption from certain regulatory requirements or selective exemptions on a case-by-case basis. While SEBI is yet to issue a final framework for its regulatory sandbox, in its board meeting dated 17 February 2020, SEBI deliberated a proposal to insert a common chapter in relevant SEBI regulations to grant a limited certificate of registration to the entity interested in applying for testing in the proposed regulatory sandbox.<sup>22</sup> With a view to adopt a cross-domain approach, SEBI also discussed the issuance of a limited certificate of registration in order to permit a regulated entity to test activities for which it is not registered.

### **IRDAI Regulatory Sandbox**

Pursuant to its powers under the Insurance Act, 1938 (“Insurance Act”)<sup>23</sup> and the Insurance Regulatory and Development Authority Act, 1999 (“IRDA Act”),<sup>24</sup> the IRDAI has issued the IRDAI (Regulatory Sandbox) Regulations, 2019 (“IRDAI RS Regulations”). These regulations seek to facilitate the creation of a regulatory sandbox environment to promote innovation in the insurance sector. The regulations authorise the IRDAI to relax the applicability of any regulations, guidelines or circulars issued by the IRDAI. However, no relaxation from provisions of the parent legislation will be provided. Pursuant to its powers under Regulation 13 of the IRDAI RS Regulations, the IRDAI has also issued guidelines on operational issues pertaining to the sandbox (“IRDAI Operational Guidelines”).<sup>25</sup>

### **PFRDA Regulatory Sandbox**

In November 2018, the PFRDA constituted a group to identify areas under National Pension System (“NPS”) which could utilise fintech through a regulatory sandbox. The report of the group (“PFRDA Exposure Draft”) outlines a blueprint of a regulatory sandbox that provides innovators with an environment to test fintech innovations that will make the NPS value chain more efficient.<sup>26</sup> The PFRDA is yet to issue the final framework for its regulatory sandbox.

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<sup>22</sup> SEBI, ‘SEBI Board Meeting Minutes’ (2020) < [https://www.sebi.gov.in/media/press-releases/feb-2020/sebi-board-meeting\\_46013.html](https://www.sebi.gov.in/media/press-releases/feb-2020/sebi-board-meeting_46013.html) > accessed 18 February 2020.

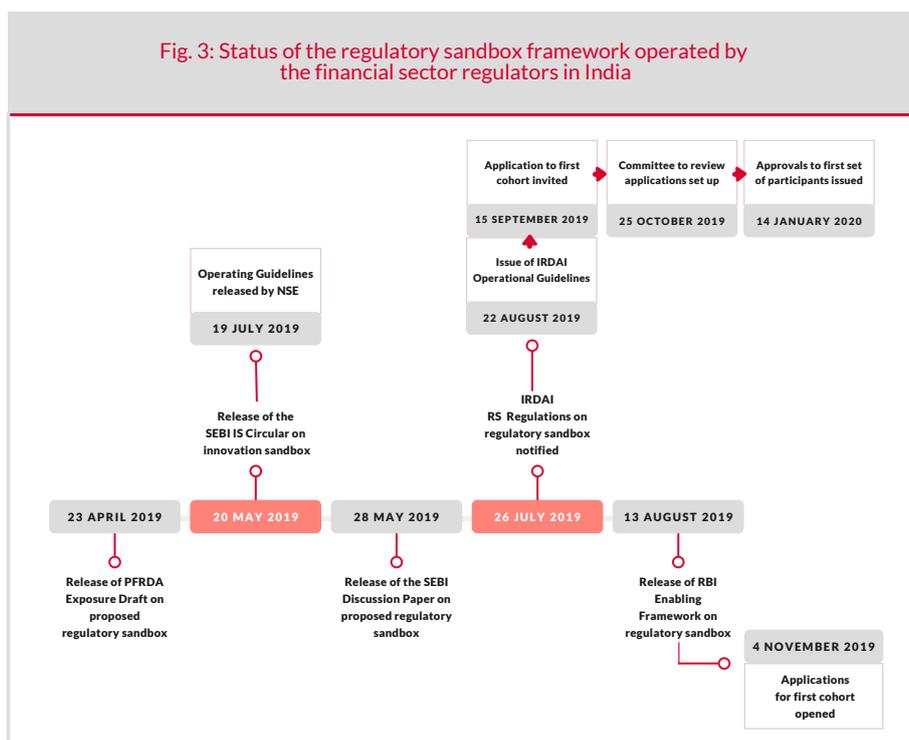
<sup>23</sup> Insurance Act 1938, s 114A(2)(zd).

<sup>24</sup> Insurance Regulatory and Development Authority of India Act, 1999 Act, s 26 (henceforth referred to as the “IRDAI Act”).

<sup>25</sup> IRDAI, ‘Guidelines on operational issues pertaining to the Regulatory Sandbox’, Notification bearing no. IRDAY INT/ GDL/ RSB/ I39IO8I2OT dated 22 August 2019.

<sup>26</sup> PFRDA, ‘Exposure Draft: Report of the Group to Identify Areas Under NPS Which Could Utilize FinTech through Regulatory Sandbox’ (2019) < <https://www.pfrda.org.in/writereaddata/links/exposure%20draft%20for%20comments2887f6e7e-1d57-4b66-8b7f-cf9abe445b42.pdf> > accessed 7 February 2020.

Fig. 3: Status of the regulatory sandbox framework operated by the financial sector regulators in India



## Review of Regulatory Sandbox Frameworks – Key Findings

The existing regulatory architecture in the financial sector is fragmented with multiple regulators working in silos. This has led to a disparate framework with each regulator adopting segmented policies. This part sets out the key findings of a review of the existing and proposed framework for regulatory sandboxes in India on specific parameters. While there is similarity in terms of broad features of a sandbox, regulatory treatment of all features is dissimilar.<sup>27</sup>

### Where is the legislative power to operate the regulatory sandbox derived from?

- Specific power to operate a regulatory sandbox will confer legal sanctity to the entire process of sandbox testing. This is particularly relevant when regulators provide regulatory relaxations or exemptions to sandbox participants.
- Notably, the IRDAI RS Regulations and the SEBI IS Circular expressly refer to specific statutory provisions pursuant to which the IRDAI's sandbox and the SEBI's innovation sandbox have been implemented. The IRDAI

derives its power to operate a regulatory sandbox from its residuary powers to issue regulations for the implementation of the Insurance Act<sup>29</sup> and the IRDAI Act<sup>30</sup> and its duty to promote efficiency in the conduct of the insurance business.<sup>31</sup> Similarly the SEBI innovation sandbox has been operationalised by the SEBI pursuant to its powers to issue directions to protect the interests of securities investors and to regulate and promote the development of the securities market.<sup>32</sup>

<sup>27</sup> Ministry of Finance, Government of India, 'Report of the Financial Sector Legislative Reforms Commission' (2013) <[https://dea.gov.in/sites/default/files/fslrc\\_report\\_vol1\\_1.pdf](https://dea.gov.in/sites/default/files/fslrc_report_vol1_1.pdf)> accessed 22 January 2020.

<sup>28</sup> Please note that parameters on which the SEBI Discussion Paper and the PFRDA Exposure Draft on their proposed sandboxes are silent are not discussed in this section.

<sup>29</sup> Insurance Act, s 114A(2)(zd).

<sup>30</sup> IRDAI Act, s 26.

<sup>31</sup> IRDAI Act, s 14(2)(e).

<sup>32</sup> SEBI Act, s 11; Depositories Act, 1996, s 19.

- Contrary to this approach, the RBI RS Framework is silent on the statutory provisions from which it draws the power to operate the regulatory sandbox.<sup>33</sup>

## What is the regulatory objective behind operating the sandbox?

- The objective of a regulatory sandbox is typically determined by the regulator's mandate.
- One common objective of the sandboxes operated by the RBI,<sup>34</sup> IRDAI,<sup>35</sup> the SEBI innovation sandbox and the proposed SEBI and PFRDA sandboxes is to promote or facilitate innovation.
- In addition to this, the RBI RS Framework also refers to the promotion of efficiency and consumer benefits as objectives of the RBI sandbox.<sup>36</sup> Similarly, the IRDAI RS Regulations state that the objective of the sandbox is to balance the development of the insurance sector with interests of the policy holders.<sup>37</sup> This underscores the existing consumer protection obligations of these regulators.

## Is the regulator expressly empowered to relax regulatory requirements?

- A key feature of most regulatory sandboxes is the regulatory exemption or relaxation provided to sandbox participants. In line with best practices in most jurisdictions, the existing and proposed frameworks in India also seek to provide some form of regulatory relaxation.

- Notably, the RBI RS Framework and the IRDAI RS Regulations empower the RBI and the IRDAI respectively, to relax regulatory requirements. However, the IRDAI RS Regulations expressly clarify that this power of exemption is limited to regulatory requirements issued by way of regulations, circulars and guidelines by the IRDAI.<sup>38</sup> No relaxation or exemption from statutory provisions in the Insurance Act and the IRDA Act will be granted.<sup>39</sup> While the RBI RS Framework provides that the RBI cannot waive any legal requirements,<sup>40</sup> it does not clarify if the RBI's power to relax regulatory requirements is limited to relaxation from subordinate legislation only.
- The SEBI IS Circular does not envisage any regulatory relaxation or exemption for participants of the innovation sandbox. However, the NSE Operating Guidelines provide that MIIs can relax specific legal and regulatory requirements for participants during the term of the sandbox.<sup>41</sup> The scope of such relaxations is not clear. If this provision is interpreted to empower the MIIs to relax statutory provisions or regulatory requirements prescribed by the SEBI, there exists a possibility that it may be struck down on grounds of excessive delegation.<sup>42</sup> On the other hand, the SEBI Discussion Paper on the proposed regulatory sandbox envisages a specific legal framework to provide relevant legal exemptions or relaxations to sandbox participants.<sup>43</sup>

<sup>33</sup> The Banking Regulation Act, 1949 and the Payment and Settlement Services Act, 2007 empower the RBI to issue directions to a banking company and any entity respectively for public interest.

<sup>34</sup> RBI, 'Enabling Framework for Regulatory Sandbox' (2019) <<https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=938>> accessed 27 January 2020 paras 2.2 and 5 (henceforth referred to as "RBI RS Framework").

<sup>35</sup> Insurance and Regulatory Development Authority of India (Regulatory Sandbox) Regulations 2019, Regulations F. No. IRDAI/Reg/11/162/2019, clause 2 (henceforth referred to as "IRDAI RS Regulations").

<sup>36</sup> RBI Enabling Framework, para 2.2.

<sup>37</sup> IRDAI RS Regulations, Regulation 2.

<sup>38</sup> IRDAI RS Regulations, Regulation 12.

<sup>39</sup> *ibid.*

<sup>40</sup> RBI Enabling Framework, para 8.

<sup>41</sup> NSE Operating Guidelines, para 2(iii).

<sup>42</sup> See *Indian Banks' Association, Bombay and Ors. vs. Devkala Consultancy Service and Ors*, AIR 2004 SC 2615 (in the context of RBI and excessive delegation).

<sup>43</sup> SEBI Discussion Paper, para 16.

- The PFRDA Exposure Draft envisages a simplified registration process for a sandbox applicant, relaxation from regulations or guidelines and the issuance of no enforcement letters if the PFRDA Act is violated. However, it clarifies that no waiver from any statutory requirement should be prescribed.<sup>44</sup>

## What regulatory requirements can the regulator relax?

- With a view to provide some certainty to businesses, regulators sometimes provide an indicative list of regulatory requirements that may be relaxed and requirements from which no relaxation will be provided.
- For instance, the RBI RS Framework provides an indicative list of regulatory requirements that may be relaxed, including requirements pertaining to liquidity, board composition, management experience, financial soundness, and track record.<sup>45</sup> However, the RBI cannot relax requirements pertaining to customer privacy and data protection, statutory restrictions, access to and storage of stakeholder payment data, transaction security, and provisions pertaining to Know-Your Customer (“KYC”), anti-money laundering (“AML”) and combating financing of terrorism (“CFT”).<sup>46</sup> The SEBI Discussion Paper on the proposed regulatory sandbox also provides an indicative list of regulatory requirements which may and may not be relaxed. In line with the RBI approach, the SEBI proposes the provisions regarding KYC, AML and customer confidentiality should not be relaxed.<sup>47</sup>
- IRDAI RS Regulations, SEBI IS Circular and

NSE Operating Guidelines are silent on the provisions from which regulatory exemption may be provided.

## Who can apply to the regulatory sandbox?

- The RBI and the IRDAI have opened their regulatory sandboxes to entities registered with them as well as unregistered entities.<sup>48</sup> Notably, while the IRDAI RS Regulations allow both registered and unregistered entities to apply, the IRDAI Operational Guidelines provide that a sandbox application for an activity involving underwriting or product category or both must be filed in association with an insurer. The SEBI innovation sandbox is open to entities not regulated by the SEBI.<sup>49</sup> However, the SEBI Discussion Paper recommends that the SEBI’s proposed regulatory sandbox should only be open to regulated entities in the initial phase.<sup>50</sup>
- The PFRDA Exposure Draft recommends that its proposed sandbox will be open to both registered intermediaries and entities not registered with it.<sup>51</sup> However, only fintech applications that fall within the regulatory ambit of the PFRDA will be permitted to participate in the sandbox. It has been expressly clarified that applications for an inter-regulatory sandbox will not be entertained by the PFRDA.<sup>52</sup>
- Unlike the SEBI Innovation Sandbox,<sup>53</sup> the RBI RS Framework and the IRDAI RS Regulations do not allow the participation of an individual in the sandbox. Although the RBI only allows participants with a minimum net worth of INR twenty five lakhs,<sup>54</sup> the IRDAI sets a lower

<sup>44</sup> PFRDA Exposure Draft, pp 12, 21.

<sup>45</sup> RBI Enabling Framework, para 6.2.

<sup>46</sup> *ibid.*

<sup>47</sup> SEBI Discussion Paper, para 14.

<sup>48</sup> RBI Enabling Framework, para 6.5; IRDAI RS Regulations, Regulation 3(1)(b).

<sup>49</sup> SEBI Enabling Framework, para 3. See also NSE Operating Guidelines, para 5.

<sup>50</sup> SEBI Discussion Paper, para 12.

<sup>51</sup> PFRDA Exposure Draft, p 47.

<sup>52</sup> *ibid.*

<sup>53</sup> NSE Operating Guidelines, para 5.

<sup>54</sup> RBI Enabling Framework, para 5.

threshold, permitting entities with a net worth of INR ten lakhs and above.<sup>55</sup> Additionally, the RBI does not mention any additional participation criteria for start-ups, whereas the NSE Operating Guidelines have defined specific criteria for start-ups.<sup>56</sup>

- The RBI, SEBI, and the PFRDA recognise that an applicant must meet pre-defined fit and proper criteria. However, while the RBI RS Framework specifically sets out such fit and proper criteria, the NSE Operating Guidelines only mention that applicants must meet fit and proper criteria set out in SEBI regulations. While the SEBI (Intermediaries) Regulations, 2008 provide the fit and proper criteria for SEBI intermediaries, it is not clear if the same is applicable to SEBI innovation sandbox applicants.

### **What are the factors that regulators take into account when determining whether a proposed product or service is eligible for sandbox testing?**

- While there are some overlapping factors, most regulators have a wide discretion in assessing the suitability of proposals.
- Some common grounds include (a) benefits to consumers from the proposed innovation,<sup>58</sup> (b) existence of a regulatory barrier for such products or services;<sup>59</sup> and (c) the potential of the product or service to be deployed in the market after testing.<sup>60</sup> In case of the RBI RS Framework and the SEBI Discussion Paper on the proposed regulatory sandbox, genuineness of the proposed innovation is also one of the factors that regulators may consider. However, concerns regarding the technical expertise of financial sector

regulators to determine the genuineness of a fintech product or service have been questioned by some writers.<sup>61</sup>

### **Is the sandbox testing available for specific products and services?**

- RBI, IRDAI and PFRDA specify areas under their regulatory ambit within which sandbox testing may be permissible. For instance, the RBI RS Framework sets out an indicative list of activities where such testing may be permitted, which includes retail payments, digital KYC, wealth management services, financial inclusion products and financial advisory services. Similarly, the IRDAI RS Regulation provides that sandbox testing is available for solicitation or distribution, insurance products, underwriting, policy and claims servicing, and any other category recognised by IRDA.
- Notably, the RBI RS Framework also sets out a negative list of activities and products which cannot be tested in a sandbox, including credit information, credit registry, crypto currencies and crypto-assets and initial coin offerings.
- SEBI does not provide any such indicative list of products or services that may or may not be admitted for sandbox testing.

### **What are the key consumer protection measures?**

- While individual frameworks recognise or provide for some form of consumer protection, specific safeguards vary across the frameworks. The RBI RS Framework, IRDAI Operational Guidelines and the proposed SEBI sandbox require disclosure of risks to and explicit consent from consumers who use the innovations being tested.<sup>62</sup>

<sup>55</sup> IRDAI RS Regulations, Regulation 3.

<sup>56</sup> See Department for Promotion of Industry and Internal Trade, Notification G.S.R 127(E) dated February 19, 2019; NSE Operating Guidelines, para 5.

<sup>57</sup> RBI Enabling Framework para 6.5; SEBI Discussion Paper, para 19; PFRDA Exposure Draft, p 47.

<sup>58</sup> See PFRDA Exposure Draft, p 48; RBI Enabling Framework, para 6.5.2; SEBI Discussion Paper para 9; SEBI Enabling Framework 5; IRDAI RS Regulations, Regulation 6.

<sup>59</sup> RBI Enabling Framework, para 6.5.2; SEBI Framework para 18; PFRDA Exposure Draft, p 46.

<sup>60</sup> RBI Enabling Framework, para 6.5.2; PFRDA Exposure draft, p 29; SEBI Enabling Framework, para 19.

<sup>61</sup> Dirk A. Zetzche (n 12) 69-70.

<sup>62</sup> RBI Enabling Framework, paras 6.8 and 6; SEBI Enabling Framework, para 2(c); IRDAI Operational Guidelines, para 11; NSE Operating Guidelines, para 2(v); SEBI Discussion Paper, para 23.

The RBI and proposed SEBI sandboxes also provide for a compensation mechanism to these consumers.<sup>63</sup> The IRDAI Operational Guidelines lay stress on customer confidentiality requirements. In testing involving an unregistered entity, the guidelines pin the responsibility on insurers or insurance intermediaries to ensure that customer data is not parted or retained.<sup>64</sup>

- All sandboxes (either existing or proposed), including the SEBI innovation sandbox require sandbox participants to provide a grievance redressal mechanism for consumers.<sup>65</sup>
- Participants under the RBI RS Framework are required to purchase liability or indemnity insurance to cover the maximum projected liability to consumers.<sup>66</sup>
- Notably, the RBI RS Framework also provides that the sandbox should have specific boundary conditions, which includes some conditions associated with the nature and number of customers, limits on the transaction or cash holding, etc.<sup>67</sup>

### **What is the prescribed duration of the sandbox?**

- There is no uniformity insofar as the duration of the sandbox is concerned. While the duration of testing in the RBI, IRDAI and the proposed PFRDA sandbox is for six months, the term of the SEBI innovation sandbox and the proposed SEBI sandbox is twenty four and nine months respectively.<sup>68</sup>
- All sandboxes launched or yet to be launched provide for an extension of the original term of the sandbox. RBI does not cap the period of such extension. However, SEBI Discussion Paper provides for an extension of three months and IRDAI and PFRDA provides for

an extension of six months. While the SEBI IS Circular does not envisage extension of the original duration of the term of the SEBI innovation sandbox, the NSE Operating Guidelines envisage such extension without putting any cap on the same.<sup>69</sup>

### **Does the regulator have the power to revoke its permission to participate in the sandbox prior to the expiry of the term of the sandbox?**

- The existing and proposed framework for regulatory sandboxes in India empowers the concerned regulator to discontinue the testing in a regulatory sandbox prior to its expiry.<sup>70</sup>
- Common grounds include failure of the sandbox participant to meet with applicable legal requirements as maybe required by the regulator, failure of the participant to meet with specific sandbox testing conditions, operations of the participant is not in the interest of consumers and submission of false information by the participant.<sup>71</sup>

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<sup>63</sup> *ibid.*

<sup>64</sup> IRDAI Operational Guidelines, para 10.

<sup>65</sup> See IRDAI RS Regulations, Regulation 9; PFRDA Exposure Draft, pp 49, 55.

<sup>66</sup> RBI Enabling Framework, paras 6.8 and 6.

<sup>67</sup> RBI Enabling Framework, para 6.3.

<sup>68</sup> RBI Enabling Framework, paras 6.1 and 6.6.; IRDAI RS Regulations, Regulation 6(2) read with Regulation 8; PFRDA Exposure Draft, p 53; SEBI Enabling Framework, para 11; SEBI Discussion Paper, para 41.

<sup>69</sup> NSE Operating Guidelines, para 9.

<sup>70</sup> RBI Enabling Framework, paras 6.6 and 8; SEBI Enabling Framework, para 4; NSE Operating Guidelines, para 9; SEBI Discussion Paper, para 64; IRDAI RS Regulations, Regulation 7; PFRDA Exposure Draft, p 53.

<sup>71</sup> *ibid.*

# International Perspective

With the evolution of regulatory sandboxes, distinct models have been implemented in different jurisdictions. A 2019 report released by the United Nations Secretary General's Special Advocate for Inclusive Finance for Development notes that some form of regulatory sandbox is either live or planned in almost fifty jurisdictions.<sup>72</sup> One of the first regulatory sandboxes was launched by the Financial Conduct Authority ("FCA") in the UK in December 2015.<sup>73</sup> Other prominent jurisdictions that have adopted some form of a framework to implement a regulatory sandbox in the financial sector includes Australia,<sup>74</sup> Canada,<sup>75</sup> Singapore,<sup>76</sup> Malaysia,<sup>77</sup> Thailand,<sup>78</sup> Indonesia,<sup>79</sup> Hong Kong,<sup>80</sup> Taiwan,<sup>81</sup> South Korea,<sup>82</sup> Netherlands,<sup>83</sup> Bahrain,<sup>84</sup> and the United Arab Emirates.<sup>85</sup>

Cross border regulatory sandboxes have also been implemented. The Global Financial Innovation Network ("GFIN")<sup>86</sup> that was launched in 2019 is an international group of financial regulators and related organisations. The GFIN launched a cross border regulatory sandbox to test innovative products, services, and business models across more than one jurisdiction.

<sup>72</sup> United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA) and Cambridge Centre for Alternative Finance, 'Early Lessons on Regulatory Innovations to Enable Inclusive FinTech: Innovation Offices, Regulatory Sandboxes, and RegTech' (2019) <[https://www.unsgsa.org/files/3515/5007/5518/UNSGSA\\_Report\\_2019\\_Final-compressed.pdf](https://www.unsgsa.org/files/3515/5007/5518/UNSGSA_Report_2019_Final-compressed.pdf)> accessed 22 January 2020. Please note that the terminology and the design of the sandbox may vary by jurisdiction.

<sup>73</sup> UNSGS, 'Briefing on Regulatory Sandboxes' <<https://www.unsgsa.org/files/1915/3141/8033/Sandbox.pdf>> accessed 22 January 2020.

<sup>74</sup> Australian Securities & Investments Commission, 'Fintech regulatory sandbox' <<https://asic.gov.au/for-business/innovation-hub/fintech-regulatory-sandbox/>> accessed 22 January 2020.

<sup>75</sup> Canadian Securities Administrators, 'CSA Regulatory Sandbox' <[https://www.securities-administrators.ca/industry\\_resources.aspx?id=1588](https://www.securities-administrators.ca/industry_resources.aspx?id=1588)> accessed 22 January 2020.

<sup>76</sup> Monetary Authority of Singapore, 'Fintech Regulatory Sandbox Guidelines' (2016) <<https://www.mas.gov.sg/-/media/MAS/Smart-Financial-Centre/Sandbox/FinTech-Regulatory-Sandbox-Guidelines-19Feb2018.pdf?la=en&hash=B1D36C055AA641F580058339009448CC19A014F7>> accessed 9 January 2020 (henceforth referred to as "MAS Sandbox Guidelines").

<sup>77</sup> Bank Negara Malaysia, 'Financial Technology Regulatory Sandbox Framework' (2016) <<https://www.bnm.gov.my/index.php?ch=57&pg=137&ac=533&bb=file>> accessed 9 January 2020 ("BNM Framework").

<sup>78</sup> Bank of Thailand, 'Annual Report 2016' (2017) <[https://www.bot.or.th/English/ResearchAndPublications/Report/DocLib\\_AnnualEconReport/BOTAnnualReport\\_2016.pdf](https://www.bot.or.th/English/ResearchAndPublications/Report/DocLib_AnnualEconReport/BOTAnnualReport_2016.pdf)> accessed 9 January 2020.

<sup>79</sup> Sukarela Batunaggar, 'Fintech Development and Regulatory Frameworks in Indonesia' (2019) <<https://www.adb.org/sites/default/files/publication/532761/adbi-wp1014.pdf>> accessed 20 January 2020.

<sup>80</sup> HKMA, 'Fintech Supervisory Sandbox' (6 September 2016) <<https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2016/20160906e1.pdf>> accessed 20 January 2020 (HKMA FSS); Securities and Futures Commission, 'Circular to announce the SFC Regulatory Sandbox' (29 September 2017) <<https://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=17EC63>> accessed 9 January 2020; Hong Kong Insurance Authority, 'Insurtech Sandbox' (2017) <[https://www.ia.org.hk/en/aboutus/insurtech\\_corner.html#1](https://www.ia.org.hk/en/aboutus/insurtech_corner.html#1)> accessed 22 January 2020.

<sup>81</sup> Financial Technology Development and Innovative Experimentation Act, 2018 <<https://law.moj.gov.tw/ENG/LawClass/LawAll.aspx?pcode=G0380254>> accessed 22 January 2020.

<sup>82</sup> Financial Services Commission, 'Financial Innovation Support Act Passed in the National Assembly' (2018) <[https://www.fsc.go.kr/eng/new\\_policy/fintechpolicy.jsp](https://www.fsc.go.kr/eng/new_policy/fintechpolicy.jsp)> accessed 22 January 2020.

<sup>83</sup> Dutch Authority for the Financial Market and DeNederlandscheBank, 'More room for innovation in the financial sector' <[https://www.dnb.nl/en/binaries/More-room-for-innovation-in-the-financial%20sector\\_tcm47-361364.pdf?2020012213](https://www.dnb.nl/en/binaries/More-room-for-innovation-in-the-financial%20sector_tcm47-361364.pdf?2020012213)> accessed 22 January 2020.

<sup>84</sup> Central Bank of Bahrain, 'Regulatory Sandbox Framework' <<https://www.cbb.gov.bh/fintech/>> accessed 22 January 2020.

<sup>85</sup> Abu Dhabi Global Market, 'World's second most active regulatory sandbox' <<https://www.adgm.com/setting-up/reglab/overview>> accessed 22 January 2020.

<sup>86</sup> Financial Conduct Authority (henceforth referred to as "FCA"), 'Global Innovation Network (henceforth referred to as "GFIN")' <<https://www.fca.org.uk/firms/global-financial-innovation-network>> accessed 22 January 2020.

After an initial screening of applications, the GFIN has decided to work with eight firms.<sup>87</sup> There are seventeen regulators who are currently involved in the cross-border testing,<sup>88</sup> including the Australian Securities and Investments Commission (“ASIC”), the Central Bank of Bahrain (“CBB”), the Hong Kong Monetary Authority (“HKMA”) and the Monetary Authority of Singapore (“MAS”).

While there are common features of such regulatory sandboxes, there is some divergence in terms of the regulatory approach adopted by each jurisdiction in designing and implementing a sandbox. Each jurisdiction has contextualised its sandbox based on the needs of its market and regulatory architecture. This part provides an overview of the different regulatory approaches adopted in designing a regulatory sandbox in specific jurisdictions.

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## Limited or Restricted Authorisation

The FCA was one of the first regulators to launch a regulatory sandbox for financial services (“FCA Sandbox”). The FCA Sandbox is open to authorised and unauthorised firms, including technology businesses that are looking to deliver innovation in the financial services market in UK.<sup>89</sup> Firms are required to submit an application setting out how they meet the eligibility criteria.<sup>90</sup> An innovation that ‘does not easily fit the existing regulatory framework, making it difficult to get the innovation to market’ is typically preferred for sandbox experimentation.<sup>91</sup> The FCA Sandbox provides participants with access to certain sandbox regulatory tools.<sup>92</sup> It envisages a restricted authorisation or registration that allows the firm to conduct regulated activities relevant to their test by meeting such authorisation requirements that are proportionate to their testing activities.<sup>93</sup> It also

provides for firms to apply to the FCA for individual guidance to understand its interpretation on the applicability of specific rules. The FCA can waive or modify specific rules for the purposes of the test pursuant to its powers under the parent statute.<sup>94</sup> However, no waiver or modification of national or European Union law is permissible. In cases where individual guidance or waivers cannot be issued, the FCA can issue “no enforcement action letters” for disciplinary action that the FCA is empowered to take.<sup>95</sup>

While the FCA encourages firms to develop and arrange for robust consumer protection safeguards, it can determine and ensure that these safeguards are suitable and adequate.<sup>96</sup> Each firm that conducts tests within the sandbox creates specific parameters for their test proposition. In addition to these bespoke testing

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<sup>87</sup> FCA <<https://www.fca.org.uk/firms/gfin-cross-border-testing-pilot-next-steps>> accessed 22 January 2020

<sup>88</sup> GFIN (n 86)

<sup>89</sup> FCA, ‘Applying to the regulatory sandbox’ <<https://www.fca.org.uk/firms/regulatory-sandbox/prepare-application>> accessed 22 January 2020.

<sup>90</sup> FCA, ‘Regulatory sandbox lessons learned report’ (2017) <<https://www.fca.org.uk/publication/research-and-data/regulatory-sandbox-lessons-learned-report.pdf>> accessed 22 January 2020. Applications are assessed on specific parameters, such as: (a) genuine innovation (b) consumer benefit; (c) genuine need to test the innovation in the sandbox; and (d) readiness of the innovation to be deployed in the real market with consumers.

<sup>91</sup> FCA, ‘Sandbox eligibility criteria’ <<https://www.fca.org.uk/publication/documents/sandbox-eligibility-criteria.pdf>> accessed 22 January 2020.

<sup>92</sup> FCA, ‘Sandbox tools’ <<https://www.fca.org.uk/firms/regulatory-sandbox/sandbox-tools>> accessed 22 January 2020.

<sup>93</sup> *ibid.*

<sup>94</sup> *ibid* read with Financial Services and Markets Act 2000, s 138A.

<sup>95</sup> *ibid.*

<sup>96</sup> Cambridge Centre for Alternative Finance and Academy of Internet Finance, Zhejiang University ‘Guide to Promoting Financial & Regulatory Innovation: Insights from the UK’ (2018) <[https://www.jbs.cam.ac.uk/fileadmin/user\\_upload/research/centres/alternative-finance/downloads/2018-06-ccaf-whitepaper-guide-to-promoting-financial-regulation-innovation.pdf](https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2018-06-ccaf-whitepaper-guide-to-promoting-financial-regulation-innovation.pdf)> accessed 7 February 2020.

<sup>97</sup> *ibid.*

parameters, the FCA has developed a number of standardised testing parameters that apply to all participating firms.<sup>98</sup>

## Fintech Licensing Exemption

Australia does not have a comprehensive framework to implement a regulatory sandbox. It relies on the existing legislative authority of the ASIC to provide exemptions to innovative businesses in the fintech space. Australia's regulatory sandbox framework consists of three components<sup>99</sup> – (a) existing flexibility in the regulatory framework or exemptions provided by the law; (b) ASIC's 'fintech licensing exemption' provided under ASIC Corporations (Concept Validation Licensing Exemption) Instrument 2016/1175 and ASIC Credit Concept Validation Licensing Exemption) Instrument 2016/1176 (collectively referred to as "ASIC Fintech Licensing Exemption", which applies to certain products or services; and (c) tailored, individual licensing exemptions granted by the ASIC to a particular business to facilitate product or service testing. Australian law requires an entity to hold an Australian financial services license to provide financial services and a credit license to engage in credit activities. The ASIC Fintech Licensing Exemption enables certain fintech businesses to provide specific services without a license, subject to compliance with safeguards. Unlike the FCA's restricted authorisations discussed above, which still require sandbox firms to apply to the FCA for an authorisation, the ASIC Fintech Licensing

Exemption does not require fintech firms to apply for any authorisation for a twelve-month period. As long as the fintech firms meet the eligibility criteria for the ASIC Fintech Licensing Exemption, they are required to notify ASIC of their intention to rely on the exemption and the provide certain information. After the expiry of the exemption period, the firm will be expected to comply with all the applicable legal provisions.<sup>100</sup>

This exemption is limited to provision of financial advice and dealing with specific products<sup>101</sup> or provide credit services in relation to specific types of credit contracts.<sup>102</sup> It is not available for issuing financial products or for providing credit.<sup>103</sup> In addition to these constraints, the ASIC Fintech Licensing Exemption limits the number of retail clients and their exposure to the sandbox products, and firms relying on the exemption must make specified disclosures and maintain adequate insurance coverage and a dispute resolution system.<sup>104</sup> Finally, ASIC reserves the power to revoke the availability of the exemption in certain cases. These include concerns about poor conduct, failure to meet one or more of the conditions of relief or previous misconduct.<sup>105</sup>

This framework reflects the desire of the ASIC to balance the objectives of promotion of innovation and consumer protection. While such a framework brings about notable certainty for businesses, it is often argued that it 'creates limited experimental space' for innovative firms.<sup>106</sup>

<sup>98</sup> FCA, 'Default standards for sandbox testing parameters' <<https://www.fca.org.uk/publication/policy/default-standards-for-sandbox-testing-parameters.pdf>> accessed 22 January 2020.

<sup>99</sup> ASIC, 'Regulatory Guide 257: Testing fintech products and services without holding an AFS or credit license' (2017) <<https://download.asic.gov.au/media/4420907/rg257-published-23-august-2017.pdf>> accessed 22 January 2020.

<sup>100</sup> *ibid.*

<sup>101</sup> Such products include listed Australian securities, deposit products, simple managed investment schemes.

<sup>102</sup> This includes acting as an intermediary or provide credit assistance in relation to a credit contract that has a maximum amount of credit of no more than \$25,000; has a maximum annual cost rate of 24%; is not subject to tailored responsible lending obligations (i.e. is not a reverse mortgage or a small amount credit contract); and is not a consumer lease.

<sup>103</sup> Regulatory Guide 257 (n 99).

<sup>104</sup> *ibid.*

<sup>105</sup> *ibid.*

<sup>106</sup> Dirk A. Zetzche (n 12) 83.

It is reported that only seven firms have taken advantage of this exemption.<sup>107</sup> With a view to further promote Australia's fintech capability, the Australian Parliament has recently passed a law<sup>108</sup> empowering the ASIC to pass regulations that will allow more businesses to test a wider range of new financial and credit products and services without a licence from ASIC, for a longer time, subject to such conditions as set out in the regulations.

## Separate Law

Taiwan and South Korea have enacted a separate law to create and operate a regulatory sandbox in the financial sector. Taiwan has enacted the Financial Technology Development and Innovative Experimentation Act, 2018 with the objective of "creating a safe environment for experimentation involving innovative financial technologies". The law comprehensively outlines the process of testing innovative financial technologies within a regulatory sandbox. The Financial Supervisory Commission ("FSC"), the competent authority for the development and supervision of the financial market in Taiwan, is empowered to administer the regulatory sandbox. Where the scope of the innovative experimentation is covered by regulations, orders or administrative rules set forth by the competent authority or government agencies, the FSC may grant exemption from such regulations, orders or administrative rules in consultation with such other government agencies (as may be applicable). However, no exemption from laws on AML and CFT is permitted. The law expressly clarifies that innovative experimentation is not subject to penalties under specific laws. Similarly, South -

Korea has enacted the Financial Innovation Support Act, 2018 which establishes the legal basis to introduce a regulatory sandbox. It is understood that a review committee under the Financial Services Commission has been established to review applications and designate applicants as innovative financial service providers. The review committee will consist of financial services officials, ministers of the related departments and one expert in each of the areas related to technology, finance, law, and consumer rights.<sup>109</sup> Designated financial service providers will be permitted to test their innovation for a period of two years in the sandbox where certain regulations can be exempted.

## Inter-Regulatory Coordination

A fragmented regulatory sandbox framework is not unique to India. Even in Hong Kong, the Hong Kong Monetary Authority, the Securities and Futures Commission and the Insurance Authority administer their separate sandboxes. However, in case a firm intends to undertake a trial testing of a cross-sectoral fintech product, it may apply to seek access to the sandbox, it considers most relevant. This regulator will act as the primary point of contact and assist in liaising with the other regulators for the firm to access the sandboxes concurrently.<sup>110</sup>

In the US, the Consumer Financial Protection Bureau ("CFPB") seeks to encourage innovations in the fintech space through various initiatives such as the No Action Letter Policy and Compliance Assistance Sandbox. The No-Action Letter Policy and Compliance Assistance Sandbox. The No-Action Letter Policy and

<sup>107</sup> ASIC, 'Regulatory sandbox: License exemption users' <<https://asic.gov.au/for-business/innovation-hub/fintech-regulatory-sandbox/regulatory-sandbox-licence-exemption-users/>> accessed 22 January 2020.

<sup>108</sup> Parliament of the Commonwealth of Australia, 'Treasury Laws Amendment (2018 Measures No. 2) Bill 2019' (2019) <[https://www.aph.gov.au/Parliamentary\\_Business/Bills\\_Legislation/Bills\\_Search\\_Results/Result?bld=r6341](https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6341)> accessed 25 February 2020; Parliament of the Commonwealth of Australia, 'Explanatory Memorandum to Treasury Laws Amendment (2018 measures No. 2) Bill 2019' (2019) <[https://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r6341\\_ems\\_54c01a4c-d610-49a1-8822-829d8ff9c444/upload\\_pdf/711025.pdf;fileType=application%2Fpdf](https://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r6341_ems_54c01a4c-d610-49a1-8822-829d8ff9c444/upload_pdf/711025.pdf;fileType=application%2Fpdf)> accessed 25 February 2020.

<sup>109</sup> Jongsoo (Jay) Yoon et. al, 'Korean Financial Regulators Advance Legislation to Introduce Regulatory Sandbox to Spark FinTech' <<http://www.leeko.com/news/fintech/1812/Legal%20500%20LK%20Article%20Finance%2020190116.pdf>> accessed 22 January 2020.

<sup>110</sup> HKMA, 'Fintech Supervisory Sandbox' <<https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/fintech/fintech-supervisory-sandbox-fss/>> accessed 27 January 2020.

Compliance Assistance Sandbox. The No-Action Letter policy provides firms with a statement that the CFPB will not bring a supervisory or enforcement action within its jurisdiction against a company which provides a particular consumer product or service under agreed circumstances.<sup>111</sup>

In cases of regulatory uncertainty, the Compliance Assistance Sandbox administered by the CFPB helps regulated entities obtain approvals from the CFPB assuring that specific aspects of a product or service are compliant with specified legal provisions.<sup>112</sup> However, a recent report of the US Treasury Department noted that the sheer number of agencies that have to be consulted when bringing in a new financial product or service creates an unnecessary burden in terms of time, money, and opportunity cost for innovative businesses. The report further notes that relief from one agency may be of limited use without assurance that other agencies with jurisdiction will provide comparable relief. Accordingly, the report suggests federal and state financial regulators establish a unified solution that coordinates regulatory relief under applicable laws and regulations to allow meaningful testing of fintech innovations.<sup>113</sup>

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<sup>111</sup> Consumer Finance Protection Bureau (henceforth referred to as “CFPB”), ‘Policy on No-Action Letters’ (2019) <[https://files.consumerfinance.gov/f/documents/cfpb\\_final-policy-on-no-action-letters.pdf](https://files.consumerfinance.gov/f/documents/cfpb_final-policy-on-no-action-letters.pdf)> accessed 27 January 2020.

<sup>112</sup> CFPB, ‘Policy on Compliance Assistance Sandbox’ (2019) <[https://files.consumerfinance.gov/f/documents/cfpb\\_final-policy-on-cas.pdf](https://files.consumerfinance.gov/f/documents/cfpb_final-policy-on-cas.pdf)> last accessed 27 January 2020.

<sup>113</sup> U.S. Department of the Treasury, ‘A Financial System that Creates Economic Opportunities’ (2019) <<https://home.treasury.gov/sites/default/files/2018-08/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financials-Fintech-and-Innovation.pdf>> accessed 27 January 2020. Notably, Republican Congressman Patrick McHenry introduced a bill in late 2016 titled the “Financial Services Innovation Act of 2016, which sought to create a uniform framework for a regulatory sandbox in USA. The bill requires twelve different federal regulators to have a mandate to foster innovation in financial services through the creation of Financial Services Innovation Offices (FSIOs) within their agencies. Companies may apply for an “enforceable compliance agreement” with the FSIOs that, if accepted, will allow them to provide an innovative product or service under an alternative compliance plan, which waives or modifies regulation that is out-of-date or unduly burdensome <<https://mchenry.house.gov/news/documentsingle.aspx?DocumentID=398355>>. The bill may be accessed here <https://www.congress.gov/bill/114th-congress/house-bill/6118/text>> last accessed 27 January 2020.

# The Need for a Unified Framework for Fintech Regulatory Sandbox

Unlike jurisdictions such as the UK and Australia, which have a twin-peak regulatory model, or Singapore, that has one regulator for the entire financial sector, the Indian financial sector has multiple financial sector regulators. Owing to this regulatory architecture, the existing sandbox framework is spread across different financial regulators. The challenges associated with sandboxes implemented in a multi-peak jurisdiction are well-recognised as is evident in the case of the US. With a view to deal with these challenges, a co-ordination mechanism for cross-sectoral innovations is often suggested.<sup>114</sup> However, the Indian framework does not recognise any formal framework for co-ordination in case of cross-sectoral fintech innovations that may fall within the remit of more than one financial sector regulator. Such a fragmented framework fails to fully realise the potential of a regulatory sandbox as an important legal and policy tool to spur growth in the fintech sector.

The development of new and emerging technologies creates opportunities for such products or services that may require cross-sectoral testing. Further, the emergence of new technologies require that regulators develop a common understanding with a view to adopt a consistent regulatory approach. To deal with such new and emerging technologies, encourage businesses to invest in fintech innovation, and develop a harmonised regulatory and policy approach to deal with fintech, this Concept Paper recommends that India should enact a Promoting Innovation in Financial Services Act (“Proposed Law”) to create a unified framework to operate regulatory sandboxes in the financial sector. The Proposed Law will create a legal framework that will empower the financial sector regulators in India to: (a) operate a sandbox to test innovations that fall solely within their respective regulatory domain; and (b) operate and participate in an inter-regulatory sandbox to test innovations that fall within the regulatory domain of more than one regulator. The need for the Proposed Law emanates from the points discussed below.

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<sup>114</sup> UNSGSA FinTech Working Group and CCAF ‘Early Lessons on Regulatory Innovations to Enable Inclusive FinTech: Innovation Offices, Regulatory Sandboxes, and RegTech’ (2019), p 32; Ivo Jenik and Kate Lauer, ‘Regulatory Sandboxes and Financial Inclusion’ (2017) p 8 <<https://www.cgap.org/sites/default/files/Working-Paper-Regulatory-Sandboxes-Oct-2017.pdf> > accessed 16 February 2020.

## Fintech blurs the existing sectoral demarcations in the financial sector

Technology is reshaping the financial services industry. New and emerging technologies have compelled incumbents to rethink their business models, and embrace digital innovations, leading to new partnerships in the financial space. Driven by such technological evolution and shifts

in consumer demand, the scope of fintech based products and services is expanding rapidly. While the initial focus was on payment, lending and money transfers, the reach of the fintech industry has expanded into other areas as outlined below.<sup>115</sup>



Fig. 4: Disruptive trends in the financial sector  
Source: McKinsey and Wall Street Journal.

It is evident that the focus of fintech innovations has shifted from frontline activities to a broad engagement throughout the value chain.<sup>116</sup> The new offerings cut across a wide array of financial services such as payments, wealth management, insurance, and supervisory technology. This is likely to expand further with the evolution of new technologies. Therefore, fintech can blur the usual delineation of markets and sectors. For instance, an application that helps a farmer buy crop insurance, provides advice on loan products

for meeting her credit requirements, manages her cashflows from sales and so forth may not strictly fall within the regulatory ambit of one particular financial sector regulator. Similarly, applications of new technologies such as artificial intelligence and distributed ledger technology to streamline regulatory compliance or improve supervisory oversight can cut across different sectors in the financial market. Despite such developments, the existing framework that looks at fintech innovations

<sup>115</sup> Miklos Dietz, Vinayak HV, and Gillian Lee 'Bracing for Seven Critical Changes as Fintech Matures' (McKinsey, November 2016) <<https://www.mckinsey.com/industries/financial-services/our-insights/bracing-for-seven-critical-changes-as-fintech-matures>> accessed 7 February 2020; Wall Street Journal, "Davos: World Economic Forum Tackles Fintech" <<https://deloitte.wsj.com/cio/2016/02/03/davos-world-economic-forum-tackles-fintech/>> accessed 4 March 2020.

<sup>116</sup> *ibid.*

within the traditional silos of banking, securities and insurance fails to take into account the disruptive and cross-sectoral nature of fintech innovations. Such a framework envisages rules for each new type of financial product or institution. Such an approach is ill-equipped to deal with emerging technologies as it may lead to inconsistent regulatory approaches. The Proposed Law, however, strives to view fintech innovations in the financial markets as a whole to develop common, principles-based policy responses that can be applied consistently across the financial sector to meet clearly defined objectives.

### **Leverage the value proposition of emerging technologies**

By failing to recognise the inherent nature of fintech innovations, the existing regulatory sandbox framework fails to harness its true potential. The current framework only covers barriers native to the concerned regulator, disregarding barriers across regulators. As a corollary, only a narrow set of useful innovations within the purview of an individual regulator stand to make it to the market. As a result, innovations that are eventually permitted are not those that best serve consumer needs, but rather those that best fit the circumscribed limits of each financial sector regulator. While such a framework may pave the way for development of innovations that fall within the perimeter of a single regulator, it is likely to inhibit the development of potentially useful cross-sectoral innovations that do not necessarily adhere to individual regulators' boundaries. Technological developments such as distributed ledger technology, internet of things, big data, and artificial intelligence affect multiple segments in the financial market. These developments will result in an increasing number of propositions that could benefit from cross-sectoral testing.

The Proposed Law that envisages a cross sectoral sandbox that is likely to encourage businesses to develop such products or services that may better serve consumer needs and accordingly propel further growth in the sector. The need for cross-sectoral innovations in multi-peak jurisdictions like India is also evident from the experience in Hong Kong. As discussed above, Hong Kong provides a co-ordination mechanism between the sandboxes operated by its banking, securities and insurance regulator for cross-sectoral innovations. A recent study notes that by linking up the three sandboxes that provided a single point of entry for fintech product trials, the number of firms testing across the three sandboxes has now increased.<sup>117</sup>

### **Legal sanctity for sandbox testing**

The legal sanctity for the operation of regulatory sandboxes is critical since most of these sandboxes empower regulators to relax a range of regulatory requirements. However, the existing statutory framework neither expressly recognises the power of a regulator to operate a sandbox nor does it empower the regulator to provide exemptions or relaxations from statutory provisions and in certain cases from subordinate legislation. Nevertheless, regulators like the SEBI and the IRDAI have traced their powers to operate a regulatory sandbox and innovation sandbox (as the case may be) from their broad powers to develop the markets that they are regulating coupled with their power to issue directions in public interest or interest of the relevant market, investors or their power to issue regulations for the development of the market.<sup>118</sup> Notably, most financial regulators in India have extensive powers to issue subordinate legislation (either as regulations or directions).<sup>119</sup> While courts have been inclined to interpret these powers expansively, especially in the context of the RBI and the SEBI,<sup>120</sup> the

<sup>117</sup> UNSGSA FinTech Working Group and CCAF (at n 114)

<sup>118</sup> See *Ashok Kumar and Co. v Reserve Bank of India*, 2014 (106) ALR 471, para 21; *Punjab & Sind Bank v. Debts Recovery Appellate Tribunal and Ors.*, (2008)149PLR203.

<sup>119</sup> See RBI Act 1934, S 45JA; BR Act, 1949, s 35A; PSS Act S.17, 2007; SEBI Act, s 11 and Depositories Act, 1996, s 19; Insurance Act, Section 114A(2)(zd); IRDAI Act, ss 26, 14(2)(e); PFRDA Act 2013, s 14.

<sup>120</sup> See *Dharani Sugars and Chemicals Ltd. vs. Union of India (UOI) and Ors.*, 2019 (3) ALT 177.

exercise of such directions is subject to the settled principles of delegated legislation.<sup>121</sup> Therefore, such directions must be within the scope of the parent statute pursuant to which they are issued. Arguably, in the event the parent statute is silent on matters dealt with by the directions issued by the regulator, the same can be potentially struck down by courts on grounds of excessive delegation. This is particularly critical since a sandbox will necessarily involve the relaxation of certain regulatory requirements. Typically, the power to exempt from all the provisions of a statute or specific provisions of a statute is expressly conferred by the statute. Similarly, in case of subordinate legislation, courts have held that such power to relax or exempt must be expressly conferred and strictly interpreted.<sup>122</sup> Therefore, the power to exempt or relax regulatory requirements either under the statute or subordinate legislation must be expressly sanctioned by law. Further, the law must require that such a power is exercised in specific cases. This is important in the context of a sandbox where regulators will be required to exercise these exemption or relaxation powers on a case-by-case basis and possibly across several subordinate legislations and therefore, a blanket authority to exempt may lead to inconsistency or arbitrary decision-making. While the IRDAI RS Regulations<sup>123</sup> expressly confers powers on IRDAI to relax requirements under subordinate legislation issued by it, there is ambiguity insofar as the scope of SEBI and RBI's power to relax regulatory requirements under the RBI RS Framework and SEBI IS Circular respectively is concerned. Assuming all financial sector regulators rely on their existing powers to issue directions or regulations for operating a sandbox, a high-level review of such powers indicates that the scope and extent of these powers vary across different laws. For instance, (a) the BR Act does not empower RBI to issue regulations; (b) the PFRDA Act does not empower PFRDA with the power to issue directions; (c) while the BR Act, RBI Act, IRDA Act empower the regulator to issue such

directions to specific entities registered with it, the SEBI Act and the PSS Act expands the scope of the power to include directions issued to persons associated with the securities market or any person respectively; and (d) while the BR Act and IRDAI Act empowers RBI and IRDAI respectively to modify or cancel directions issued by it, this power is not explicitly provided to RBI under the RBI Act or the PSS Act or to SEBI.

### **Need for a harmonised and consistent approach to deal with new and emerging technologies**

The lack of regulatory uniformity acts as a barrier to innovations rather than as a safeguard for consumers. Such a regulatory architecture is likely to create an additional hindrance for a start-up that is already dealing with the challenge of developing a product and raising capital. The existing framework for sandbox testing in India indicates that there is no uniformity in the regulatory approaches adopted by different regulators. The key findings of the review of the existing and proposed regulatory sandbox frameworks discussed in the previous part indicates that regulators have adopted a different approach on issues such as eligibility criteria, duration of the sandbox, objective of sandbox, consumer protection measures and the nature of provisions from which regulatory relaxation is permissible. Further, in the absence of a common framework, procedural requirements and timelines for testing may vary across different regulators. Under the existing framework, a cross-sectoral fintech innovation developer will not only be required to approach different regulators, but may also be subject to different conditions, timelines of testing for the same innovation. This patchwork of regulatory framework with no coordination between different regulators is likely to create uncertainty for businesses and stifle the growth of such innovations. By laying down minimum

<sup>121</sup> See Reserve Bank of India v Pattem Surya Prakash Rao and Ors, 2008 (6) ALD 57, paras 53, 61-63 & 69; B. Ramachandran Adityan v Tamil Nadu Mercantile Bank, (2010) 1 Comp LJ 515 (Mad).

<sup>122</sup> See generally State of Orissa and anr. v. Mamata Mohanty, (2011) 3 SCC 436; Secretary, A.P. Public Service Commission v. B. Swapna, (2005) 4 SCC 154.

<sup>123</sup> IRDAI RS Regulation, clause 12.

standards for common features of a sandbox and by providing a formal mechanism of co-ordination, the Proposed Law will enable financial sector regulators to develop a consistent approach to deal with new and emerging technologies.

## **Enhancing efficiencies and reduction of costs**

Regulatory uncertainty and incompatibility can hinder and discourage investment in innovation by increasing cost, risk and effort.<sup>124</sup> Further, compliance costs faced by new and smaller businesses may divert resources that may otherwise have been dedicated to innovation.<sup>125</sup> Under the existing framework, businesses that are desirous of developing cross-sectoral innovations will have to separately approach each regulator to seek different exemptions, in addition to meeting varied prescriptive criteria and bearing associated compliance costs. By providing a coordinated and common point of entry for sandbox testing across different regulated sectors, the Proposed Law will make sandbox testing more cost and time effective. Further, a streamlined process with specific timelines is likely to reduce the time it takes a product to get to market, as well as ensuring products are compliant with multiple regulations at the same time.

## **Shared learning for regulators for evidence-based policy making**

The existing framework that is spread across different regulators without any formal means of co-ordination or information sharing mechanism prevents these regulators from harnessing the full potential of the exercise, as it disregards mutual lessons that may be drawn from each other's experience and expertise in the fintech space. This is particularly relevant to gather

insights about new and emerging technologies which may pose complex or nuanced issues, such as the use of distributed ledger technology or the treatment of crypto-assets as a payment mechanism or use in the financial services sector. The shared learnings drawn from results of the sandbox testing and the regulatory interaction will be instrumental for evidence based policy making in the relevant sector.

## **Shaping a positive narrative for participation in global and regional sandboxes**

Having a uniform framework for regulatory sandbox testing across various sectors in the financial market, including for cross-sectoral innovations is a positive signal to the world market about the futuristic policy of the Indian government on fintech innovations and the legal certainty that will be provided to businesses. The proposed law will provide a focal point for foreign businesses to test their cross-border offerings in India. This increases the value proposition of Indian membership in global and regional sandboxes.

## **Expansion of sandbox testing to non-financial sectors**

The inherent nature of technological innovations is likely to blur the usual delineation of markets and sectors, both financial and non-financial. This is evident from the convergence of the media, telecommunications and digital platforms market.<sup>126</sup> For instance, China has seen the emergence of a platform model where a business group conducts activity from 'social commerce platforms, retail and wholesale marketplaces, marketing technology, cloud computing, logistics and financial services'.<sup>127</sup> Moreover, technologies such as machine learning may develop further through cross-sectoral testing, due to the large

<sup>124</sup> Michael C, Leon Perlman and Nora Gurung, 'The State of Regulatory Sandboxes in Developing Countries' (2018) <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3285938](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3285938)> accessed 22 January 2020.

<sup>125</sup> Hillary J Allen (n 15) 591.

<sup>126</sup> OECD, 'Regulatory Effectiveness in the Era of Digitalisation' (2019) <<https://www.oecd.org/gov/regulatory-policy/Regulatory-effectiveness-in-the-era-of-digitalisation.pdf>> accessed 6 February 2020.

<sup>127</sup> FCA, 'Call for Input: Cross-Sector Sandbox' (2019) <<https://www.fca.org.uk/publication/call-for-input/call-for-input-cross-sector-sandbox.pdf>> accessed 6 February 2020, p 10.

quantities of data required to train algorithms. Proposals such as the treatment of cryptoassets as a payment mechanism for utility or phone bills or for use in the financial sector cut across the ring-fencing already in place. Recognising this, the FCA has issued a call for inputs on designing a cross sectoral regulatory sandbox for UK that will act as a single point-of-entry sandbox for firms to test innovative propositions with multiple UK regulators, in a controlled environment. The experience from sandbox testing under the Proposed Law will also be instrumental in case India seeks to devise a broader cross-sectoral sandbox covering financial and non-financial sectors in the future.

For reasons discussed above, this Concept Paper recommends that India should enact the Proposed Law. In proposing a standalone law on regulatory sandbox for the financial sector, the authors also considered the possibility of amending the existing statutory framework to empower the regulators to operate a sandbox and to provide necessary regulatory relaxations to sandbox participants. While such an approach is likely to grant legal sanctity to the entire sandbox process, this will require separate amendments to each of the parent statutes being implemented by the financial sector regulators. Further, such a process may not be suited to deal with the lack of uniformity in the regulatory treatment of sandbox features that has been discussed earlier. This approach will leave ample scope for each regulator to separately design and implement their sandboxes without any common minimum standards or common features as is possible under the Proposed Law.

# Proposed Fintech Regulatory Sandbox Law – Key Features & Process Flow

This part of the Concept Paper sets out the main features of the Proposed Law and the procedure for sandbox testing under the Proposed Law. In doing so, the Concept Paper draws insights from the existing framework in India and in other jurisdictions. The main features recommended will be the minimum requirements applicable to any sandbox testing. Regulators may be empowered to determine additional requirements or safeguards relevant to the market that they are regulating.

## Authority to administer the Sandbox

Given that technological innovation is likely to blur the regulatory demarcations in the financial sector, with products and services falling within the scope of more than one regulator, the operation of regulatory sandboxes in silos requires to be revisited. Ideally, the regulator operating a regulatory sandbox should have the expertise and perspective that spans across all financial products and services. Locating the regulatory sandbox within one financial regulator will limit the type of regulatory relief available to sandbox firms. In fact, in the US, the CFPB's inability to provide exemptions from enforcement by other agencies has been cited as one of the reasons why its Project Catalyst (that provided innovative firms with no enforcement action letters) has not been frequently utilised.<sup>128</sup> With a view to leverage the potential of a regulatory sandbox, the Proposed Law must empower the financial sector regulators to operate the sandbox (including issue requisite regulatory exemptions) for testing innovations that may fall within the regulatory domain of a specific regulator or more than one regulator.

## Recommendation

- There are different possible approaches for determining the authority to administer the sandbox under the Proposed Law. These are: (a) set up a separate statutory authority; (b) empower existing regulators along with a framework for coordination for operating an inter-regulatory sandbox; and (c) set up a separate legal entity, such as a section 8 company under Companies Act, 2013 with equal shareholding of all financial sector regulators.<sup>129</sup> The implementation of option (a) and option (c) will require creation of a separate entity, thereby redesigning the regulatory architecture, amend the parent statutes to specifically recognise these entities and will require significant investment in resources to set up these entities.
- Keeping in mind the existing framework in India and with a view to cause the least disruption to the regulatory architecture in the financial sector in India, the Proposed Law recommends implementation of option (b) pursuant to which the law should require each financial regulator to set up a specific department / office for administering a

<sup>128</sup> Patrick McHenry, 'CFPB's 'Project Catalyst' Failed. Fintech Deserves Better' (2017) American Banker <<https://www.americanbanker.com/opinion/cfpbs-project-catalyst-failed-fintech-deserves-better>> accessed 22 January 2020.

<sup>129</sup> This model has been previously suggested. A report published by the Household Finance Committee recommended a blueprint of a regulatory sandbox. See RBI 'Report of the Household Finance Committee: Indian Household Finance' (2017) <<https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/HFCRA28D0415E2144A009112DD314ECF5C07.PDF>> accessed 7 February 2020.

sandbox for the relevant sector (“Innovation Office / Innovation Department”). The Innovation Office / Innovation Department should be headed by an officer who shall meet such qualifications as set out in the law. This department will be empowered to process applications to participate in the sandbox, engage with the sandbox participants throughout the testing period, and administer the sandbox for that particular sector in the financial market.

- Currently, the existing regulatory framework implemented by the financial sector regulators does not envisage a coordination mechanism for dealing with inter-regulatory or cross sectoral fintech innovations. With a view to facilitate such innovations, the Proposed Law should also set up an inter-regulatory coordination committee (“IRCC”) consisting of representatives (not below a specific rank) from all financial sector regulators. In case of any application, that is likely to fall within the regulatory ambit of more than one regulator, the same should be referred to the IRCC. Please note that IRCC is not envisaged to be a distinct and separate regulator for fintech innovations, but instead has been proposed with a view to facilitate a formal mechanism for the testing of cross-sectoral products and services.
- In case of applications that fall within the ambit of the IRCC, the concerned regulators in the IRCC may also decide that a particular financial sector regulator is best suited (in terms of subject-matter expertise and institutional resources) to take the lead (as the nodal agency or focal point of contact) on a particular case. That regulator can then serve as the lead regulator / point of contact for the duration of the sandbox trial.

## Objective

The scope and objective of a regulatory sandbox is typically limited to the mandate of the regulator operating it under the relevant statute. Typically, sandbox objectives include promoting competition, fostering innovation, creating greater efficiencies, and enhancing and modernising the marketplace. A few sandboxes also refer to financial inclusion.<sup>130</sup> While in the UK and Australia the sandbox goals have been disseminated through informal guidance published on the regulator’s website, it has been argued that such measures may undermine its legitimacy.<sup>131</sup>

## Recommendation

- The Proposed Law should require regulators to consider and balance the objectives of promoting innovation and consumer protection.

## Who can apply?

A regulatory sandbox is usually open to such entities that are or may potentially be subject to a regulator’s authority and can meet published entry requirements<sup>132</sup> and that are not under the exclusive authority of any other regulator. The Concept Paper already highlights different regulators in India have adopted a different approach insofar as the nature of applicants is concerned. Similarly, even in other jurisdictions, there is no uniform approach. While the HKMA only allows authorised institutions (though potentially in conjunction with FinTech firms) to apply to the sandbox<sup>133</sup> Australia, the UK and Singapore permit the participation of new firms. In the UK, while unauthorised firms may be exempted or granted a restricted license, authorized firms may benefit from no-action letters, informal individual guidance on FCA’s interpretation of the law, and waivers from certain mandatory requirements.

<sup>130</sup> Michael Wechsler (n 124).

<sup>131</sup> Hillary J. Allen (n 15).

<sup>132</sup> Michael Wechsler (n 124).

<sup>133</sup> HKMA FSS (n 80).

## Recommendation

- The Proposed Law should open the participation in the sandbox to both regulated and unregulated entities.
- For unregistered entities seeking to carry out activities subject to licensing or registration requirement or such activities where there is a lack of regulatory clarity under the current regime, a simplified and fast track process for limited authorisation may be envisaged. Under this process, the unregistered entity will be authorised by the regulator or the IRCC (as the case may be) to carry out the relevant activity within the confines of the sandbox and subject to necessary safeguards. Entities that are already registered with the regulator for carrying out the relevant activity can apply to the sandbox and avail regulatory relief such as relaxation from regulatory requirements.

## Eligibility Requirements

The entry into a regulatory sandbox is determined on the basis of some eligibility requirements. One of the benefits of being accepted into a sandbox is that it lends credibility and legal sanctity to the innovative product or service being tested by the sandbox participant.<sup>134</sup> While this may enable the sandbox participant to attract customers and investors, it may also raise reputational issues for the regulator in selecting participating firms. Therefore, participation in a sandbox is subject to the sandbox applicant and the proposed innovation meeting certain eligibility requirements. The selection process and the and the eligibility requirements warrant close attention to ensure that the sandbox applicants

do not skew the regulators' understanding of the innovation with a view to obtain an undue relaxation. Based on a review of such criteria in other jurisdictions, there are some common factors that most regulators rely on for assessing sandbox applications. First, the regulator examines if the proposed technological innovation is appropriate for sandbox testing.<sup>135</sup> This includes assessing if the innovation is a genuine innovation or the innovation includes new or emerging technology, or uses existing technology in an innovative way<sup>136</sup> and whether the innovation benefits consumers.<sup>137</sup> Second, the regulator may also assess if the existing regulatory framework covers the proposed innovation.<sup>138</sup> Third, regulators may examine the preparedness of the applicant to participate in the sandbox and deploy the innovation in the market after testing.<sup>139</sup> Similar criteria have also been set out for sandboxes in India. In addition to these, other criteria may include definition of test scenarios, outcomes, boundary conditions of the sandbox experiments in the application, significant risks, exit, and transition strategies<sup>140</sup> and sufficient consumer protection measures to address any grievances.<sup>141</sup>

While some regulators are required to make a determination about a sandbox applicant's 'genuine innovation', questions have been raised about the ability of financial regulators to make such a determination, "a task arguably far beyond their skill set."<sup>142</sup> For example, financial regulators may not have the expertise necessary to distinguish between purely supply-driven innovations, and innovations that meet a real market need. Therefore, regulators, such as ASIC do not undertake a full review of the business model and focus principally on risk considerations.<sup>143</sup>

<sup>134</sup> Christopher Woolard, *Speech at the Innovate Finance Global Summit (2016)* <<https://www.fca.org.uk/news/speeches/innovate-finance-global-summit>> accessed 22 January 2020.

<sup>135</sup> Dirk A. Zetzche (n 12) 69.

<sup>136</sup> FCA, MAS, BNM, CBB.

<sup>137</sup> FCA, MAS, CBB.

<sup>138</sup> FCA, MAS, BNM, DNB.

<sup>139</sup> FCA, MAS, BNM, CBB, DNB.

<sup>140</sup> MAS, FCA.

<sup>141</sup> FCA.

<sup>142</sup> Dirk A. Zetzche (n 12) 69-70.

<sup>143</sup> *ibid* 70.

## Recommendation

- If selection criteria are vaguely defined or there is a lack of transparency in the selection process, it may lead to selection bias or the appearance of selection bias. Therefore, the Proposed Law should adopt formal criteria that are related to the sandbox's overarching regulatory goals. While regulators should be provided with some flexibility in applying the criteria, delineating a list of criteria in the Proposed Law would provide greater certainty to applicants. This will also provide a means to the regulator to justify its selection of any specific entity to participate in the sandbox, thereby offering some cover in the event of litigation. Based on a review of the practices in other jurisdictions and the RBI RS Framework, the Proposed Law should assess proposals for participating in the sandbox on the basis of factors such as the promise of the innovation to ease or effect the delivery of financial services, the need for testing in the sandbox, consumer benefit, need for relaxing existing regulation, the preparedness of the business to deploy the model in the market post experimentation, compliance of applicant with specific fit and proper criteria, etc.
- Due to concerns regarding the ability of a financial sector regulator to assess the genuineness of a fintech innovation, this Concept Paper recommends that such a criteria may only be incorporated in the Proposed Law after assessing and ensuring that the regulators have necessary expertise

and resources to make such a determination.<sup>144</sup>

## Target Customers

Given the risks that new technologies may have and in furtherance of the consumer protection mandate of many financial sector regulators, typically there are some limits on the customers that a sandbox participant is allowed to target. For instance, the HKMA allows an entity to conduct pilot trials involving a limited number of customers, such as staff members or focus groups of selected customers.<sup>145</sup> In the UK, the default standards applicable to the FCA Sandbox require that the type of customers should be appropriate for the type of innovation and the intended market and the type of risks they are exposed to.<sup>146</sup> In Malaysia, the Bank Negara Malaysia ("BNM") may restrict the participation of customers to a certain segment or profile of customers if warranted by the business model.<sup>147</sup>

In Singapore, while the MAS does not place any restriction on the type of customers, the boundary conditions for the sandbox that must be outlined in the application must mention the limit on the customers involved.<sup>148</sup> In Australia, the Fintech Licensing Exemption limits the number of retail clients that a testing business can engage and the exposure of each client.<sup>149</sup> Therefore, most regulators retain some form of power to impose restrictions. In case of the UK, the FCA recognises that the type of customers has to be appropriate to the tested products and to the exposed risks.<sup>150</sup> Such a proportionality principle underscores most sandboxes, where more the retail clients comprise the focus of the fintech innovation, the more restrictions regulators impose.<sup>151</sup>

<sup>144</sup> Please note that if the genuineness of the innovation is a criterion, expert professionals must be engaged to evaluate this metric. Some writers have expressed concerns about the regulator's ability to determine genuineness. Please see our recommendation below entitled "Miscellaneous".

<sup>145</sup> HKMA FSS (n 80).

<sup>146</sup> FCA, 'Default standards for sandbox testing parameters' <<https://www.fca.org.uk/publication/policy/default-standards-for-sandbox-testing-parameters.pdf>> accessed 7 February 2020.

<sup>147</sup> BNM Framework (n 77).

<sup>148</sup> MAS Sandbox Guidelines (n 76).

<sup>149</sup> ASIC 'Testing fintech products and services without holding an AFS or credit license' (2017) <<https://download.asic.gov.au/media/4420907/rg257-published-23-august-2017.pdf>> accessed 7 February 2020. Testing businesses relying on the exemption can provide services to up to 100 retail clients. It is also provided that the exposure of each retail client to deposit products, simple managed investment schemes, securities, government bonds and payment products in relation to which testing services are provided does not exceed \$10,000. Further, the amount of credit under a credit contract in relation to which services are provided does not exceed \$25,000. There are no individual exposure or client limits for wholesale or sophisticated clients. However, to avoid systemic risk, the total maximum exposure of all clients taking part in the testing must not exceed \$5 million.

<sup>150</sup> FCA (n 146).

<sup>151</sup> Dirk A. Zetzche (n 12) 34, 35.

### Recommendation

- The Proposed Law should incorporate the proportionality principle discussed above. While applicants may be given the discretion to specify and justify the type, number and exposure of customers that they want to target for the innovative product, the financial regulator should also be empowered to review this and impose reasonable limitations on the same in the interest of consumers and systemic risks.

### Form of Relief

The existing regulatory sandboxes in India empower the regulator to provide regulatory relaxations (which we understand is a reference to subordinate legislation issued by the regulator). The RBI RS Framework and the SEBI Discussion Paper on the proposed SEBI sandbox also provide an indicative list of regulatory requirements that may be relaxed. Typically, most regulators determine the scope of regulatory relaxation after analysing the proposal of the sandbox applicant and based on discussions with the applicant. Regulators in other jurisdictions have adopted a varied approach in terms of the relief that they provide. While ASIC provides a full exemption from licensing requirements, FCA offers a limited relief in the form of restricted authorisations as well as waivers and no-enforcement letters. Further, the ongoing engagement of sandbox participants with the regulator encourages information sharing and may be instrumental when sandbox participants decide to deploy their products in the market and apply for authorisation.

### Recommendation

- As discussed above, none of the parent statutes under the current regime expressly empower the regulator to provide exemptions from requirements under the statute or regulatory requirements from subordinate legislations. Therefore, with a view to deal with the legal challenges discussed in the previous part, the Proposed Law should provide a clear legislative authority to the financial sector regulators to: (a) operate their respective sandboxes; (b) operate and participate in the IRCC sandbox; and (c) empower them to provide relaxation from subordinate legislation issued by them for the specific purpose of participating in the sandbox.
- Needless to say, any such relaxation will only be provided to eligible entities and will be subject to safeguards imposed on sandbox participants pursuant to the Proposed Law. Such a clear power to the regulator will provide legal certainty to the regulatory sandbox model.
- With a view to provide certainty to a business on its eligibility to participate in a particular sandbox, the Proposed Law should also envisage an informal and non-binding consultation between the regulator and the prospective sandbox applicant prior to the submission of the formal proposal for participating in the sandbox.

### Mandatory Provisions

Like the RBI RS Framework, MAS and HKMA also provide an indicative list of regulatory -

requirements that may be relaxed.<sup>152</sup> However, MAS also specifies that there are certain requirements that all entities have to meet, including requirements relating to confidentiality, fit and proper criteria on honesty and integrity, handling of customer's money and assets by intermediaries and prevention of money laundering and countering the financing of terrorism.<sup>153</sup> Similarly, the RBI RS Framework also outlines specific mandatory provisions from which no relaxation is possible.

### Recommendation

- The Proposed Law should provide flexibility to the regulators to determine the scope and extent of regulatory relaxations based on discussions with sandbox participants. Such power may be restricted to subordinate legislation issued by the regulator.
- Having said that, with a view to provide certainty to businesses and to balance the objectives of promoting innovation, financial stability and consumer protection, the Proposed Law may provide a list of regulatory requirements from which no regulatory relaxation can be provided. This may include provisions on money laundering, customer confidentiality and data protection, handling of customer's money and assets, etc.

## Consumer Protection Measures

Most regulatory sandboxes operated either in India or other jurisdictions have some form of safeguards in the interest of consumers. While some jurisdictions specifically set out such safeguards in the regulatory framework governing the sandbox, others require entities to outline the risks and corresponding safeguards adopted by such entities to address or mitigate

the risks. Such safeguards include a proper procedure to target customers who understand the associated risks with the project and consent to participate in it,<sup>154</sup> procedure for the customers to withdraw from the process,<sup>155</sup> limiting the number and type of customers,<sup>156</sup> security risk controls,<sup>157</sup> maintain sufficient systems and procedures in respect of the handling of clients' money and/or assets, and the risk management and internal controls systems to address this requirement,<sup>158</sup> presence of a grievance redressal mechanism along with provision for compensation to consumers in case of loss.<sup>159</sup>

### Recommendation

- In line with the best practices discussed above and the RBI RS Framework, the Proposed Law should provide minimum consumer protections safeguards. The sandbox participant must notify the customers involved about the proposed innovation and its potential risk and must explicitly seek their consent for using the proposed innovation. The sandbox participant must also be required to set up a grievance redressal mechanism for dealing with consumer complaints. The regulators may also consider providing access to their internal complaints management system to consumers. The RBI RS Framework requires sandbox entities to take liability / indemnity insurance to safeguard the interest of the consumers. The Proposed Law may also consider imposing a similar requirement.
- As discussed below, most sandboxes also enable regulators to keep an oversight over the activities of the sandbox participant through ongoing engagement with such participant, requirement to submit reports on specific issues, and empowering the

<sup>152</sup> This includes requirements relating to asset maintenance, board composition, credit rating, financial soundness, license fee, management experience and minimum liquid assets.

<sup>153</sup> MAS (n 76).

<sup>154</sup> FCA, HKMA, BNM, MAS, CBB.

<sup>155</sup> HKMA.

<sup>156</sup> ASIC, BNM, CBB.

<sup>157</sup> HKMA, BNM, CBB.

<sup>158</sup> CBB.

<sup>159</sup> HKMA, CBB, FCA.

regulator to call for information from the participant. Similar safeguards may also be incorporated in the Proposed Law.

- The recommendation set out in ‘Target Customers’ may also be relevant from a consumer protection standpoint.

## Ongoing Administration

Most regulators continuously engage with the sandbox participants during the testing phase. Such engagement is necessary to ensure that the agreed targets have been achieved and that the entities have complied with the conditions attached to the regulator’s permission to participate in the sandbox. In the FCA Sandbox, sandbox firms are assigned a case officer who supports the design and implementation of the test. The case officer’s continuous engagement with the firm helps firms understand how their innovative business models fit within the regulatory framework. It also ensures that appropriate safeguards are built into innovative products and services during and after testing.<sup>160</sup> Similarly, most sandboxes have reporting requirements that is relevant to keep the regulator informed.<sup>161</sup> The interim reports pertain to information on key performance indicators, key milestones,<sup>162</sup> log of technical cyber security issues or breaches, details of consumer complaints,<sup>163</sup> etc. Further, in case of any material changes in the product or service during the testing period, requisite permission may be sought from the regulator after such changes are reported.

## Recommendation

- The Proposed Law should also empower the concerned financial sector regulator to monitor the ongoing activities of the sandbox participant. In this regard, the Proposed Law

may empower the concerned financial sector regulator to appoint a specific case officer for the purpose of conducting such ongoing monitoring and engagement with the sandbox participant. This officer will serve as the main point of contact between the regulator and the sandbox participant for issues relating to sandbox testing. Case officers will also participate in defining bespoke testing parameters, for which specific principles must be separately delineated in the Proposed Law in order to limit the discretion of the officer.

- In case of an application that falls within the ambit of the IRCC, the IRCC acting through the relevant regulators may appoint such case officer(s) as may be agreed by the concerned regulators.
- The Proposed Law should also mandate submission of interim reports to update the regulator on key performance indicators as may be mutually agreed by the regulator and the sandbox participant, details of transactions undertaken, complaints received (if any), security breaches (if any), etc.

## Duration

Most jurisdictions that have been reviewed for this Concept Paper have limited the duration of regulatory relief available to sandbox participants. The duration may range from six months (UK), nine months (Bahrain) to twelve months (Australia and Malaysia). Typically, a provision for extension is also provided. However, jurisdictions such as Singapore and Hong Kong do not specify the exact sandbox duration. Limiting the duration of a sandbox provides certainty to both the regulator and the regulated entities. Given that entities within

<sup>160</sup> FCA (n 90).

<sup>161</sup> BNM, CBB, FCA.

<sup>162</sup> BNM, CBB.

<sup>163</sup> CBB.

the sandbox are typically subject to lighter regulation, specifying a time period limits potential negative deregulatory impacts on consumers and financial stability. Further, a specific time period also limits the cost and resources spent by a regulator in overseeing a particular sandbox innovation. The prospect of being subject to full regulatory oversight and obligations upon termination of the sandbox duration has the potential to act as a factor causing sandbox participants to scale their innovation towards full regulatory compliance in a way that they would not if the sandbox relief were available indefinitely.<sup>164</sup> This also provides the entity and the regulator to assess the impact of a new financial innovation on the real financial markets.

### Recommendation

- The Proposed Law should provide for a uniform duration for sandbox testing.
- Such a duration should be determined based on inter-regulatory consultations and after consultation with relevant stakeholders. While provision should also be made for an extension of such term, the period of extension should be capped.

### Exit from Sandbox

Sandbox participants exit the sandbox upon the expiry of the term of the sandbox, when the sandbox entity desires to exit the sandbox or when the sandbox is terminated by the regulator for specific grounds set out in the law. Grounds for discontinuance of the sandbox by the regulator include<sup>165</sup> failure of the sandbox innovation to achieve its intended purpose, the sandbox entity is unable to comply with the relevant legal and regulatory requirements at the end of the sandbox period, detection of risks in the proposed innovation that pose risks to consumers which outweigh the benefits, the breach of sandbox conditions by the sandbox

entity and submission of false or misleading information by the sandbox entity. Most jurisdictions also require sandbox applicants to prepare an exit strategy should the test fail or if it is discontinued by the regulator and a transition plan for deployment of the product or service in case of a successful testing.

### Recommendation

- The Proposed Law should empower the financial sector regulator to discontinue testing by a sandbox participant before the expiry of its term. In case of a sandbox that is operated by the IRCC, concerned regulators may mutually agree on the discontinuation of such testing. The Proposed Law should also set out the grounds for directing such discontinuance which can include violation of the sandbox condition, violation of applicable laws, submission of false and misleading information, when the test is prejudicial to consumer interests, or failure of the test to meet specific targets.
- The sandbox participants should be specifically required to prepare an exit strategy to exit the sandbox in case of an unsuccessful testing and a transition strategy for deployment of the innovation into the broader market.
- The Proposed Law should also specifically provide for an enabling power to the sandbox entity to exit the sandbox.

### Miscellaneous

In addition to the aforesaid, the Proposed Law may also consider incorporating the following provisions.

<sup>164</sup> Hillary J. Allen (n 125) 639.

<sup>165</sup> Singapore, BNM, Bahrain.

### Recommendation

- Subject to confidentiality requirements applicable to a financial sector regulator, the Proposed Law should envisage an information sharing framework between the financial sector regulators to share the information such regulators glean from sandbox testing under the law. Such information can be relied on by regulators to consider whether legal reforms are necessary. Such reforms could include amending existing laws, revisiting the rules governing the sandbox itself or issuing new rules.

### Recommendation

- With a view to foster certainty, the Proposed Law may specifically empower each financial sector regulator with a power to issue non-binding guidance on its interpretation of specific key issues under applicable laws that may be relevant for fintech innovations.

### Recommendation

- The Proposed Law should also empower the financial sector regulators to enter into arrangements with other sectoral regulators and regulators with other jurisdictions for creating or implementing cross border regulatory sandboxes.

### Recommendation

- The Central Government in consultation with the financial sector regulators should be empowered to assess the continuance of the regulatory sandbox model under the Proposed Law based on experience gained by the regulators.

### Recommendation

- Poor selection of sandbox firms because of the limited capacity of the regulator to assess the technology underlying the innovation is

one of the key challenges in designing a regulatory sandbox. Accordingly, the regulator should be equipped with necessary expertise and skills to properly parse and process the information provided by the sandbox applicant. Failure to do so will lead to the regulator increasingly being reliant on the applicant's interpretation of its product. Therefore, regulators will need to invest in human resources with relevant expertise to supervise testing of fintech innovations, including assessing whether a sandbox applicant has the underlying information technology infrastructure to participate in the sandbox and assess the cyber-security risks associated with an innovation. The Proposed Law may therefore require that specific officers of the concerned department assessing sandbox applications meet such qualifications as set out in the law.

# The Ten Step Model for Sandbox Testing

The process flow for carrying out testing of innovative technologies under the Proposed Law is set out below.

## Step 1

### Seek Informal Guidance

The business seeking to participate in a regulatory sandbox under the Proposed Law (“**Sandbox Applicant**”) shall approach the Innovation Office of the relevant financial sector regulator (“**Regulator 1**”) within whose statutory mandate the innovation is likely to fall. The Sandbox Applicant shall seek informal guidance of Regulator 1 on its eligibility to participate in the regulatory sandbox and the process to be followed.

## Step 2

### Issuance of Informal Guidance

**Step 2A:** If Regulator 1 determines that the proposed innovation falls solely within its statutory mandate, it will issue a non-binding informal guidance to the Sandbox Applicant to apply formally for participating in its sandbox.

OR

**Step 2B:** If the innovation is likely to fall within the regulatory mandate of two or more financial sector regulators, the regulator will issue a non-binding informal guidance to the Sandbox Applicant advising it to approach the IRCC.

OR

**Step 2C:** If the innovation is likely to fall solely within the statutory mandate of another regulator (“**Regulator 2**”), Regulator 1 may issue a non-binding informal guidance to the Sandbox Applicant to apply to the relevant regulator.

## Step 3

### Application for participating in the Regulatory Sandbox

**Step 3A:** Post Step 2A, the Sandbox Applicant will approach Regulator 1 with a formal proposal for participating in its regulatory sandbox (“**Proposal**”).

OR

**Step 3B:** Post Step 2B, the Sandbox Applicant will request Regulator 1 to forward its Proposal to the IRCC. In case the Sandbox Applicant decides that its innovation falls within the statutory ambit of more than one regulator, the Proposed Law should also provide for a facility for directly approaching the IRCC (thereby skipping Steps 1 and 2) through an authorised officer of the IRCC as identified under the Proposed Law.

OR

**Step 3C:** Post Step 2C, the Sandbox Applicant may approach Regulator 2 for participating in its sandbox.

The contents of the Proposal should be set out in the Proposed Law. Amongst other things, the Proposal should outline the regulatory requirements applicable to the Sandbox Applicant and the legal relaxations that are sought.

## Step 4

### Processing Application

**Step 4A:** Post Step 3A, Regulator 1 will assess if the Proposal meets the eligibility criteria set out under the Proposed Law. If the Proposal meets such requirements, the Sandbox Applicant will be admitted into the regulatory sandbox operated by the regulator (“**Sandbox Participant**”). In admitting the Sandbox Participant, the regulator shall also decide on the nature of regulatory relaxations or exemptions that may be granted. If the Proposal does not meet the eligibility requirements, the Proposal of the Sandbox Applicant will be rejected.

OR

**Step 4B:** Post Step 3B, the IRCC will determine the relevant regulators within whose statutory mandate such innovation falls. Upon such determination, the IRCC acting through the relevant regulators will discharge Step 4A to Step 10.

OR

**Step 4C:** Post Step 3B, Regulator 2 will carry out the actions set out in Step 4A to Step 10.

## Step 5

### Appointment of Case Officer

Regulator 1 / IRCC acting through the concerned regulators / Regulator 2 (“Concerned Authority”) shall intimate its decision to accept or reject the Proposal of the Sandbox Applicant. The Concerned Authority shall also appoint a case officer who shall be the point of contact and responsible for engaging with the Sandbox Participant throughout the duration of the sandbox testing. In case of the IRCC, the concerned regulators shall appoint such case officer(s) as may be mutually agreed by them.

## Step 6

### Interaction with the Case Officer

The Sandbox Participant and the case officer shall meet to define and agree bespoke testing parameters. This will be relevant for the case officer to assess the progress of the testing.

## Step 7

### Testing

The Sandbox Participant formally enters the sandbox of the Concerned Authority and starts testing the innovation.

## Step 8

### Continuous monitoring and reporting

The case officer shall be responsible for ongoing monitoring of the innovation testing. As per the arrangement with the case officer and in accordance with the Proposed Law, the Sandbox Applicant shall submit report(s) periodically to the case officer on key milestones and other issues.

## Step 9

### Final Report

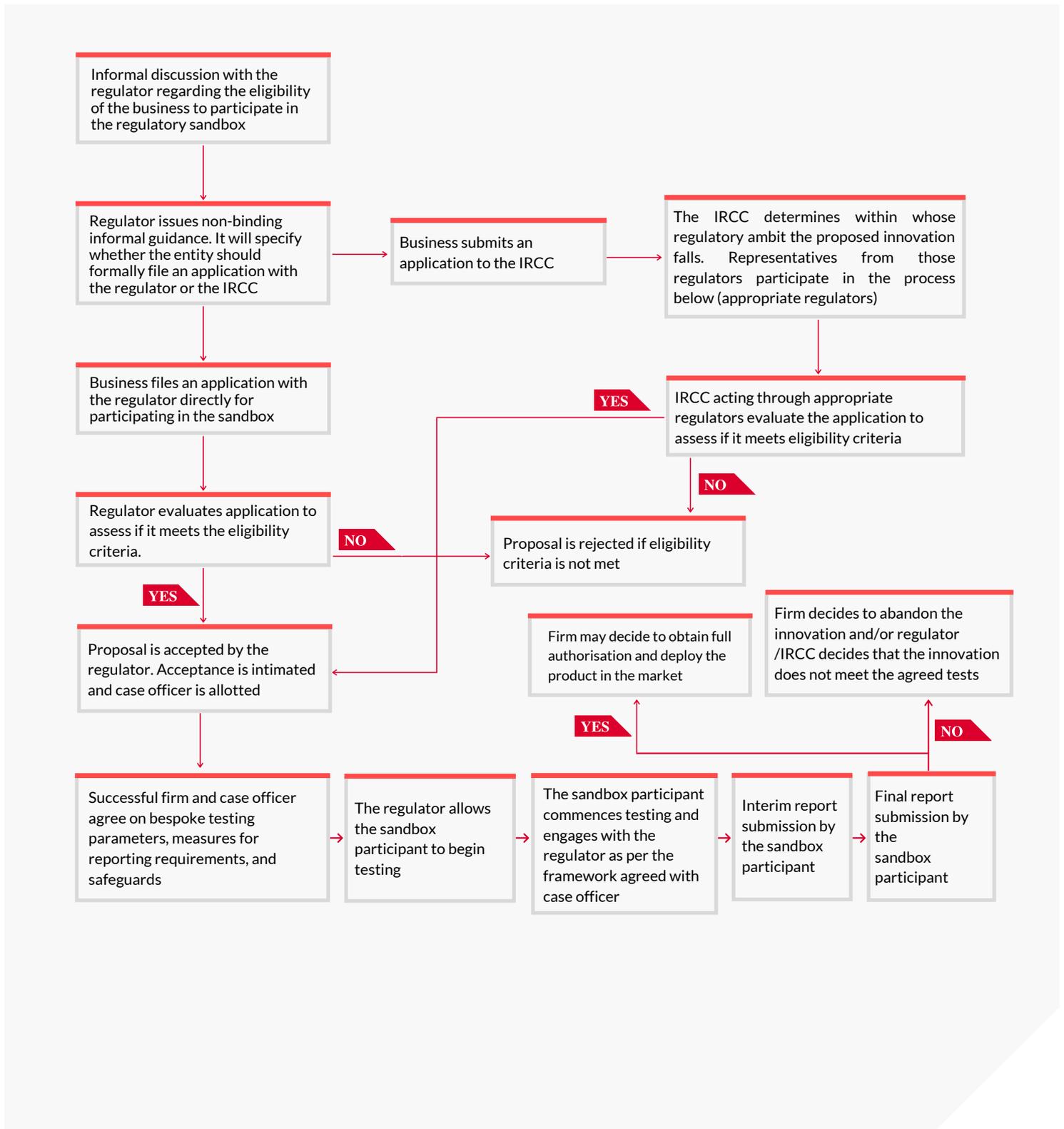
Upon the termination of the duration of the sandbox, a final report must be submitted to the case officer on the outcome of the test against the agreed parameters. Upon final testing, the Sandbox Participant shall also indicate its desire to formally deploy the product in the market along with full compliance with applicable legal requirements. The Sandbox Participant may also decide to abandon the innovation.

## Step 10

### Review of the Final Report

The Concerned Authority shall review the report to assess if the innovation can be launched formally in the market in full compliance with legal requirements.

# Snapshot of the Regulatory Sandbox Testing Flow





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