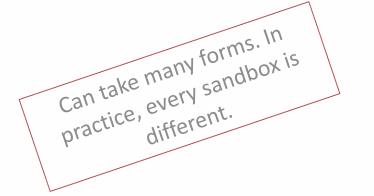


# Regulatory tools to promote digital innovation

### Introduction to group exercise

Stefanie Zinsmeyer I October 2018



### **Regulatory Sandbox**

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

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

### Test & Learn

### Same underlying principle as sandbox

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

<u>But</u>: usually provider approaches regulator with certain business model

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

### Wait & see

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

Usually applied when:

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

>> Example: P2P lending in China

Source: CGAP (2017): http://www.cgap.org/sites/default/files/Working-Paper-Regulatory-Sandboxes-Oct-2017.pdf



#### Workshop "regulating for (digital) innovation"

Group Work Worksheet October 2018

#### Group Exercise 1: Evaluation of regulatory tools

Please evaluate the different tools available to regulators:

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

	Wait-and- see	Test- and- learn	Sandbox	License			
Formality					of	£	
Resources Needed			in the	shor	25 01		
Flexibility	-	stef		srvisc	)1:		
Transparency	<b>1</b>		sup				
Capacity Needed							

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

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

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

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### Implementation: tools available

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

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

## Innovation implementation tools: Tools available

Temporary bespoke	Communication support		
<ul> <li>Restricted authorisation/reduced licensing requirements</li> <li>Waivers or exemptions</li> <li>No enforcement action letter/letter of no objection</li> <li>Active engagement with providers, other regulatory authorities, flexibility</li> <li>Appropriate safeguards</li> </ul>	<ul> <li>Innovation forums</li> <li>Advice</li> <li>Funding support</li> <li>Training</li> <li>Signalling</li> <li>Facilitating collaboration</li> </ul>		
BNM Malaysia, CMA Kenya, IPEC Zimbabwe, UCC Uganda, FCA UK, NIC Ghana, TIRA Tanzania	Australia, France, Hong Kong, Japan, Korea and UK		

### **Critical considerations**

Coordination



Capacity



• Required for monitoring, advice, understanding risks

Innovations often cut across authorities

→ Recruit and train for skills appropriate to the changing nature of the sector!

**Objective** 

• The tools implemented need to address the actual challenges faced by innovators in the market.



 $\rightarrow$  Consult with market players to understand primary challenges faced

### Thank you!

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