

Regulatory Sandbox FAQs

During the livestream Q&A session we held on Thursday, 23 April we received a number of questions that we were unable to answer due to time constraints. This document consolidates the questions from the livestream and provides answers.

If you have additional questions, please email sandbox@ifwg.co.za

General

1. The IFWG seems a very progressive and innovative effort. How did it come about? Who is the visionary behind it?

The Intergovernmental Fintech Working Group (IFWG) was formed as a response to the pace of change and scale of impact that fintech has on the financial sector. The IFWG is a joint initiative between South Africa's financial sector regulators, the Financial Sector Conduct Authority (FSCA), the National Credit Regulator (NCR), the South African Reserve Bank (SARB), the Financial Intelligence Centre (FIC) and the South African Revenue Service (SARS), and policy maker, National Treasury (NT).

You can read more about the IFWG and Innovation Hub on the About Us page on the IFWG website which can be found here <https://www.ifwg.co.za/Pages/About-Us.aspx>

2. Very curious to hear how the Innovation Hub and Sandbox works with respect to inter-agency coordination?

a. Would love to hear how inter-agency coordination works with respect to the Regulatory Guidance Unit?

The Innovation Hub is a joint effort by the IFWG which includes financial sector regulatory authorities and policymakers. These regulatory authorities are participants in the IFWG's Regulatory Sandbox and the Regulatory Guidance Unit (RGU).

The FSCA and SARB, in particular, have fintech teams who make up the core team who is responsible for the central administration of IFWG's innovation structures. The core team leverages and coordinates across the broader IFWG network, for instance, the RGU has a 'first responder network' consisting of subject matter experts from across all member organisations which it calls upon in providing responses to RGU enquiries.

3. Is it possible for recently launched fintech products to derive benefit from the Regulatory Guidance Unit, if they believe that there might be grey areas in the way they interpreted regulations?

Yes, the Regulatory Guidance Unit is the first entry point for innovators to obtain support in navigating the regulatory landscape.

- 4. Is the IFWG considering looking back at fintech failures to see what the challenges were? They might have been regulatory. Now SA has chance to tackle those issues to help others.**

The IFWG is constantly looking at fintech successes and failures to extract learnings. Innovators are welcome to raise their particular views at respective workshops and outreaches related to specific topics. The IFWG is focussed on promoting responsible innovation and gathering market intelligence through different market engagements. These insights will be used to prioritise specific initiatives.

- 5. What is the difference between a regulatory sandbox and an incubator?**

The purpose of a regulatory sandbox is to test market ready solutions against regulation. It is therefore different to a 'commercial' sandbox in that the purpose of testing is not the testing of the technology itself e.g. surrounding security or market fit, but the focus is on regulation. Similarly, the primary difference to an incubator is that a regulatory sandbox is primarily focussed on testing against regulation, while an incubator would provide much wider services including business support services, which may include guidance surrounding business models and access to funding.

- 6. Are you guys coordinating with regulators elsewhere in SADC, Africa or indeed globally? Many fintech products are cross-border, e.g. remittances, crypto.**

The Regulatory Sandbox process involves the provision of regulatory relief for products and services from regulatory authorities. The IFWG includes regulatory departments such as the SARB's Financial Surveillance Department, responsible for the monitoring of cross border capital flows, whose regulatory ambit includes cross border remittances. Furthermore, preliminary discussions have been initiated to obtain regional and international participation from global innovation structures such as the BIS Innovation Hub. In addition, the IFWG, through the SARB, is represented on the Global Financial Innovation Network (www.thegfin.com) which has a work stream focused on cross-border testing. This is an important question as it highlights that for any cross-border testing to happen the responsible regulators in the different jurisdictions needs to agree on what is allowed into a sandbox.

- 7. Other than getting clarification on a regulatory grey matter, what other benefit is there for applicants? (Off the bat it seems that this cohort is weighted towards the regulators closing gaps?)**

The Innovation Hub has three innovation structures, whereas the RGU provides a central point for obtaining clarity on particular regulatory matters, the Sandbox provides regulatory relief within the existing legislative and regulatory framework. This relief will allow participants to test products in a 'real world' environment. The testing of products may infringe on existing regulatory frameworks; therefore relief may be provided for a specific period. This would not have been possible for innovators without a regulatory sandbox environment.

The Regulatory Sandbox does therefore provide participants with regulatory clarity for innovations that do not neatly fit within existing frameworks. The participant therefore has access to several different regulators at the same time to help resolve 'grey matter' regulatory issues. The regulatory clarity provided may translate to a participant being able to access the

market with greater certainty that it is compliant with (potential) regulation. Additional benefits potentially include greater speed to market for innovative products and services and increased certainty when speaking about regulatory matters to potential investors. The Financial Conduct Authority in the UK has put out a report on the benefits their sandbox participants have identified. That report can be accessed here: <https://www.fca.org.uk/publication/research-and-data/regulatory-sandbox-lessons-learned-report.pdf>.

8. How many innovation / ideas did you receive during this time (lockdown) and are you seeing certain trends coming through?

The Innovation Hub was launched on 7 April 2020, and we are early in the process of receiving applications to the Sandbox. Some of the applications we have received are related to payment innovations, but it is still too early to discuss trends and numbers.

9. Would NDAs be considered as a normal requirement between the Sandbox and fintech participants?

All engagements are considered confidential between the regulator and innovator and all information shared will be used for regulatory purposes only.

10. How can Risk and Compliance professionals who may work with fintech companies best work with the Innovation hub to appropriately guide the businesses?

The IFWG Innovation Hub is open to different types of market outreaches and engagements. The IFWG, for instance, previously hosted workshops on topics such as open banking. This is one potential way for Risk and Compliance professionals to engage with the Innovation Hub. The IFWG is also open to additional forms of engagement such as one-on-one meetings or speaking at group gatherings, as we have done with incubators and other fintech-orientated organisations across the country. We also host other events such as discussions surrounding new papers such as our recently released Crypto Assets Position Paper. Further, Risk and Compliance professionals could work with fintech firms to log queries with the RGU and consider feedback received. You are welcome to contact us at innovation@ifwg.co.za

11. How [are] the traditional banks responding to fintech challenges in your jurisdiction?

Each traditional bank has their own response and action plan to the changing financial market. Anecdotally, one adopted approach is to partner with fintech firms, as they bring new products and services, through agile delivery.

It is important to note that the IFWG Innovation Hub serves fintechs, traditional banks and other incumbents in the financial sector equally, and we are eager to engage with entities across the South African financial sector.

Application and selection process

1. Please elaborate on some practical examples of companies you expect to see taking part

Some examples may include business-to-consumer companies e.g. third-party payments providers or peer to peer insurance; business-to-business companies e.g. regtech or risk management companies. The Sandbox is however not themed and all firms who meet the entry criteria are welcome to apply.

2. How did you decide on the entry criteria?

Through connection to international bodies, we have observed global developments and, as part of the project to establish the Innovation Hub, research was conducted on the entry criteria established for other regulatory sandboxes. The respective criteria were reviewed and customised for our Sandbox. Further, in looking to have locally applicable entry criteria we considered the mandates of the regulators in the IFWG as well as policy objectives important to the IFWG members.

a. In light of low forecast GDP would the Sandbox prioritise businesses that create profits fast and increase the RSA Tax base?

One of the entry criteria of the Sandbox is that the solution should be beneficial to consumers and the market at large, and this should include solutions which may contribute to economic growth. We have however decided to not have a themed cohort at this stage, and we will consider all applications. If you believe your solution will contribute to economic growth, please highlight that in your application along with how you address other entry criteria.

3. Does the Sandbox identify problems to be solved by fintech startups? How do you go about identifying what the startups should focus on?

The current cohort is not themed, and potential participants are not provided guidance on what products they should focus on. However, in the future the Sandbox may have a particular focus, which may be identified through engagement with industry or be based on a specific regulatory focus area.

4. Are you able to apply to the Sandbox to both (1) assess if solution is in line with current regulation and (2) want to test further innovation?

Yes, (1) the main priority of the Sandbox is to test innovation against regulations e.g. benefits vs risks; and (2) after testing we will assess the benefits against the risks emanating from the innovation which will eventually inform the outcome of the testing.

5. Does the product have to be at the MVP stage or could be even a prototype?

- a. **Is it optimal to have a fully functional product as entry point, if regulatory elements coming from the sandbox test, may have significant impact on the design?**
- b. **You discussed MVP's and "ready for market" products. What about products & services already in the market - would these be eligible for inclusion?**

In response to the above group of questions: One of the requirements for entry into the Sandbox is “fully developed technology”. This can be assessed on a case-by-case basis, however, using some of the language in the questions, it is unlikely that a prototype would be ready to go to market, while certain minimum viable products could be – as long as it is fully operational and does not expose consumers to any risk due to its state of development.

Part of the consideration would be that entry into the Sandbox is granted for a particular solution, which includes the test plans and the exemption granted. If the solution pivots materially during the Sandbox period it may change the conditions under which the solution was granted entry and the IFWG would have to consider whether to continue with that particular test case. A certain level of stability is therefore important.

There may be solutions which are already in the market and if they meet the entry requirements, it will be considered. Some of the crypto asset solutions, for instance, may possibly include such examples.

6. Will we have to be ready with our marketing and costing models?

The Sandbox was created for ‘live’ testing in regulation and the participant will therefore have to identify how it will attract customers for the Sandbox and how pricing would work in the environment. The marketing and pricing may be specific to the Sandbox. Such considerations should form part of planning for the Sandbox, including test plans, etc. and may be determined in discussion with the IFWG Sandbox team.

The applicant must have a clear and detailed test plan, including:

- Clear objectives and success criteria for testing;
- Timeline and milestones for testing;
- Identification of regulatory requirements and/or required regulatory relief;
- Possible risks (including risks to consumers) and risk mitigation strategies; and
- An acceptable exit and transition strategy.

7. To what extent will the Sandbox environment allow a regulated entity to structure its offering in a manner different to that prescribed by legislation?

Some regulators participating in the Sandbox have the powers to exempt specific regulatory requirements. This will be done on a case-by-case basis, and only for where such exemptions are allowed. The Sandbox is not intended, nor the space, to create regulatory arbitrage (i.e. evasion of existing regulation).

8. For fintechs operating in payments, lending, insurtech, etc. there are regulations already required in order to operate within these industries. How will existing regulation differ to the Sandbox?

Sandbox participants will typically require regulatory relief granted by financial sector regulators in order to test their innovative product or service within the Sandbox. Therefore, applicants have to be clear in their application as to what specific relief is required. Regulators will then consider whether such requested relief is possible within the existing legal and regulatory regime. Outside the specific regulatory relief that the Sandbox participant receives, all other regulations related to the product or service being tested must be complied with.

9. Would fintechs that don't cleanly fit within a single FSCA license category be allowed into the Sandbox?

Fintechs that do not fit into a single FSCA license category are welcome to apply to the Sandbox.

10. Will fintech and regtech software providers be able to test in the Sandbox? We have multiple financial-customers with different operations and products so we would like a central point of testing.

Yes, the Sandbox is open to both business-to-consumer companies as well as business-to-business, which might include fintechs and regtech software providers.

11. Just to clarify, items selected for entry into the Sandbox will only be those that are currently not covered by the existing proposed crypto asset regulations?

- a. **If the business model is covered by the proposed crypto asset regulations, then the business can continue to provide its service by complying accordingly?**
- b. **Would a firm [be] eligible to apply to participate in the Sandbox where a regulatory authority may have not actively regulated? e.g. in regulatory areas where the SARB may only have issued position papers?**

The Position Paper on Crypto Assets provides the policy recommendations for crypto assets. The process for enacting the regulatory amendments will follow. The specific recommendations related to the use case for payments using crypto assets does refer to a sandbox approach. We therefore urge entities involved in providing such activities to apply for admission to the Regulatory Sandbox. In addition, applications will be considered on a case-by-case basis and do not have to be related to crypto assets as the Regulatory Sandbox considers all financial services.

The Regulatory Sandbox process may assist regulatory authorities to further include such innovations where regulatory certainty is required.

12. Is the Regulatory Sandbox focused on domestic solutions only or will there also be testing of cross-border solutions?

We are open to both domestic and cross-border solutions as long as the offering is intended for the South African market and South African consumers. If a product or service operates across borders there is a need to engage with other jurisdictions to get permission to enable entry into their market.

a. Can non-RSA companies apply for the Sandbox, IF the product faces RSA clients, Bank, and creates taxable revenue in RSA?

Yes, one of the requirements for participating in the Sandbox is that the innovation to be tested must be intended for deployment in the South African market.

b. A developed digital solution currently being implemented globally has high applicability to what you are looking for. By entering the Sandbox, will that inhibit our roll out timing in SA in any way?

No, the purpose of placing the product in the Sandbox is to enable us to assess the risks against the benefits. If we are satisfied that the product benefits exceed the risks, there is a high likelihood for the product to be rolled out in SA.

13. Will there be future cohorts for the Sandbox?

a. Why is there a closing date? Surely this should be an ongoing process/initiative?

b. Will there only be one sandbox per annum?

In the response to the above group of questions: There are typically two approaches to how applications are handled in sandboxes globally, namely the cohort-based approach and the ad hoc approach. The IFWG considered both approaches and chose the cohort-based approach since it helps us to create efficiencies in both the application process as well as during testing. This, however, does not mean that there will only be one cohort. Towards the end of the first cohort, there will already be other considerations for subsequent cohorts, including its timing. The number of cohorts will also be dependent on the volume and quality of submissions.

14. Application process - how scalable is this solution/offering?

To optimise resources, applicants with the same business model might not all be accepted into the Sandbox. Once a decision has been made on the outcome of a Sandbox participant's testing the IFWG will report on those findings, and those findings will be universally applied to all market participants.

15. Will Open Banking/API's form part of this Regulatory Sandbox going forward?

a. How can the Sandbox assist in the API process?

In response to the above group of questions: There are likely two ways in which application programming interfaces (APIs) may play a role in the Sandbox. Firstly, if an API-based solution, looking at open banking more broadly, meets the entry criteria and we accept the participant into the Sandbox. Secondly, the Sandbox may consider in the future the use of APIs in meeting reporting requirements by participants in the Sandbox.

Testing period

- 1. Can you please walk through the process once a business has been chosen to participate in this cohort? What are the steps and what would constitute conclusion of the testing?**

It may be important to look at the process more broadly. Once an application is received it will be evaluated by the Sandbox Coordinator who does an initial assessment and assigns it to a Case Manager. The Case Manager, along with the relevant regulatory Subject Matter Experts (SMEs), will consider the application. For those applications that pass the initial evaluation, the Case Manager and SMEs will work with the potential participant to refine the parameters for testing, including regulatory relief, test plans, as well as exit and transition strategies. For those firms which are then chosen for the cohort, the specific parameters which make up the conditions for the testing must determine what success would look like and how testing may be concluded. In addition, testing is time bound with the cohort period being six months. During the testing, and in line with the initial planning, the participant must periodically report to the relevant regulators who will monitor the performance of the solution against the test plan, which will also inform decision making surrounding the conclusion of testing.

It is worth noting that all testing is done by the Sandbox participant and the IFWG merely provides oversight. The Sandbox participant will work from their own premises using their own systems and technologies.

- 2. Does the scope of testing cover processes to technology, including security and data sharing?**

The innovation should be ready for testing and it should include fully developed technology solutions, including all data requirements and partnerships required for testing.

- 3. Would a single start-up [be] allowed to test multiple products?**

If the start-up's solutions meet the acceptance criteria, multiple products may be considered.

- 4. How will a fintech protect their IP during testing?**

It is important that all Sandbox participants engage with the appropriate legal counsel when they have intellectual property which requires protection. There is certain information which may have to be shared as part of the Sandbox testing and assessment process, for instance, the names of the participating firms. However, as with currently regulated firms, no strategic or sensitive information will be shared.

- 5. Some products will need to be piloted on the ground [and] therefore cannot be done virtually, what considerations are given to this?**

The inaugural cohort of the Regulatory Sandbox is currently open and will remain open until 15 May 2020. Accepted applicants will be informed by early June 2020, and testing is expected to begin on 1 July 2020.

Where on the ground piloting is required, it will be reviewed against the Covid-19 actions implemented by Government. For applicants that are concerned that their participation may be limited due to the Covid-19 restrictions, we encourage you to still submit your application and we may consider it for a later cohort consisting of similarly impacted participants.

6. Can we get details of the extent of the exemption?

a. Please elaborate on "exemption" whilst in Sandbox mode.

One of the eligibility criteria for the Regulatory Sandbox is that the innovation to be tested falls outside the regulatory framework. This entails that the innovation to be tested requires some form of relief from current regulations in order to participate in the Sandbox. Many of the participating financial sector regulators have existing mechanisms to provide this sort of regulatory relief to entities that fall within their regulatory oversight. The Financial Sector Regulation Act (FSRA), for instance, makes provision for granting exemptions where existing financial sector law does not provide the power to grant exemptions. Where legislation is not specifically classified as financial sector law, the applicable legislation has to be considered along with the relevant regulatory authorities and it may still be possible to grant specific regulatory relief.

There are instances where testing would be possible without regulatory relief, including where regulation does not currently exist or where testing may be required to determine how firms could comply using innovative solutions without the relaxation of requirements. This is why it is important to highlight in your Sandbox application what the regulation is that you are looking to test against and particularly what challenges this may pose.

To enable Sandbox participation, Sandbox Case Managers and Subject Matter Experts from participating regulators will facilitate the granting of specific regulatory relief or exemptions from certain aspects of regulation over a pre-defined period of time.

It is important to highlight that the Sandbox is not going to create new avenues to grant regulatory relief. It will exclusively utilise pre-existing mechanisms for regulatory relief across participating IFWG member organisations. Similarly, the Sandbox will not enable regulatory arbitrage or prolonged exclusion from regulatory compliance. The objective is that solutions that prove to be beneficial to consumers and the market-at-large motivate changes to the regulatory framework.

b. How long will be exemptions be for? Is there an exemption monitoring framework already in place?

c. If testing for an insurance product requires more time, so definitely a longer than 6 months test period would be considered?

d. How will the IFWG assist Businesses whose Fintech solutions have traction & are real world Pilot/Implementation ready & might not fit into a 6 month testing timeline?

In the response to the above group of questions: This will be determined on a case-by-case basis. The general testing period is six months, but it is possible to extend this period should the regulators or Sandbox participants determine that a longer period is required. In addition, one of the outcomes from testing may be that the exemption is

extended until regulation is updated. The applicable regulators will monitor compliance with exemptions granted.

It is possible that exemptions may be granted for periods longer than six months. It is, however, important to highlight that the objective of regulatory relief is to allow exemptions of specific requirements for a determined period of time. It is, therefore, important to consider the products that will be allowed for testing. For example, a year-long trial period could be considered, but a product that has a lifetime of five years or a customer's lifetime may not be suitable for testing in the Sandbox.

7. Can you provide any guidance on regulatory areas - or areas for testing - that will not be included as part of this initiative?

Applications will be assessed against the Regulatory Sandbox's eligibility criteria:

- The innovation must be for the South African market;
- The innovation must not clearly fit within the existing regulatory framework;
- The innovation must be beneficial to consumers or the market at-large;
- The innovation is significantly different from other offerings in the market; and
- The innovation is ready to be tested, including fully developed technology, sufficient funding to cover the full testing period, and secured partnerships (if required for testing).

No additional restrictions have been set to limit participation in the Sandbox. Learnings from our first round of participants in the Sandbox may inform additional future eligibility criteria or restrictions.

8. Should we assume restrictions will apply in the Sandbox in terms of how far and wide we can drive adoption during the test phase?

Yes, testing will be done on a limited scale. All testing parameters will be defined and agreed to before testing begins.

9. Please clarify: What exactly does one get access too? Bankserv? PASA? What exactly can one do? Take deposits, make payments through EFT and Card? GN5 Distribution: is a sponsor bank required?

Whilst each applicant and requirement will be handled on a case-by-case basis, the primary resource that a Sandbox participant gains access to is guidance from Subject Matter Experts across the regulatory landscape.

Post-testing outcomes

1. Could an outcome of the Sandbox result in an amendment to current regulatory frameworks?

Yes, the primary objective of the IFWG is to promote responsible innovation. Therefore, it is our goal that successful outcomes of the Regulatory Sandbox will inform changes to the regulatory framework that enable greater innovation in the South African financial sector.

a. By when can we expect the first draft set of regulations applicable to fintechs based on results from the Regulatory Sandbox?

Similar to emerging regulatory practice, South African regulators are increasingly following an activity and risk-based approach to fintech regulation in South Africa. This implies that, where possible, if the activity matches existing regulations, no new fintech regulations may be required. Furthermore, where the existing regulation needs to be updated or new regulation needs to be developed, this will be considered on a case-by-case basis. After each cohort, the insights gained from the testing will highlight potential regulatory changes and possible next steps.

b. Will select data sets be made available between the cohorts and six regulators within the Sandbox that can be used to test and inform the regulatory framework?

The cohort participants must provide reporting (determined on case-by-case basis for each participant) to the participating regulators. This data should contribute to creating an understanding of the operations and performance of the solution, as well as help to inform possible regulatory responses. In reference to 'data sets', sensitive and company-specific data will not be shared wider than necessary. Relevant data protection requirements may apply.

c. Is the Sandbox supported by commitments from individual regulators to promptly respond to amendments of regulation to enable firms to be able to service customers beyond the initial 6 months?

d. What happens to clients after the 6 months if the regulation does not change to accommodate the innovative product?

The regulators in the IFWG are committed to the Sandbox process and understand the possible implications from a regulatory framework perspective. These considerations will be paramount in considering which test cases are allowed into the Sandbox. It should, however, be stressed that exit and transition strategies must take into consideration that any potential regulatory framework changes would still have to go through due process and that this typically takes time. Part of the transition strategy would consider how the firm may still service customers as regulation is amended, including potential extension of regulatory relief.

2. Is there an intention for the IFWG to publish regular progress/consolidated reports generated from the monthly reports startups within the sandbox while the cohort is running?

a. Will the IFWG be publishing learnings from the Sandbox for the benefit of the market? And how does this fit with protecting privacy of ideas of applicants?

b. Will results of the cohorts be published. So those with similar ideas can leverage off results of matters already tested?

- c. **Will there be a detail public report of the Cohort results outcome in terms of regulatory limitation risk, recommendations for way forward in the future with regards the cohort business proposal?**

- d. **Will there be a detail report of the Cohort results outcome be made available?**

It is the intent of the IFWG to produce a public document at the end of the cohort which will highlight elements such as some of the statistics of surrounding testing e.g. the number of firms in the cohort, the categories of solutions provided etc., as well as regulatory insights gained. It is important to share some of this information, particularly surrounding the regulatory insights gained, which may impact regulatory frameworks so that the wider market may benefit from the testing.

Participants should take the necessary steps to protect the privacy of some of their information and their customers' information. As regulators we may require access to certain information, but, as with currently regulated entities, we do not share one company's strategic or sensitive information with another company or the broader public.

- e. **Will the cohort participants & the nature of their sandbox submission be made public like in the UK?**

Yes, we will report publicly on cohort participants. However, other applicants to the Sandbox will not be made public. Once in the Sandbox, a crucial aspect is that customers are aware that the product or service they are engaging with under the Sandbox is offered within that environment.

3. **What does success look like? Are you considering social metrics like job creation in South Africa as part of your assessment of success?**

As previously mentioned, the primary objective of the Innovation Hub is to promote responsible innovation in the South African financial sector. Whilst our first set of success factors focusses on the number of successful participants in the Sandbox and the degree to which the regulatory framework changes to accommodate new innovations, we also understand the broader potential implications of the Sandbox on the South African financial sector and economy. We will strive to quantify these secondary impacts of the Sandbox.

4. **Will new fintech banking licenses be an outcome of this opportunity? Similar to UK, Hong Kong, India Banking Payment licenses.**

As applications are received, the possible regulatory relief (e.g. exemptions) will be considered for each specific case.

It is too early to tell whether specific licences will be an outcome or what other learnings there will be from the Innovation Hub and Sandbox. That said, the IFWG is committed to using learnings from the Sandbox to inform a regulatory framework that promotes responsible innovation.