CGAP-World Bank: Regulatory Sandbox Global Survey (2019)

SUMMARY RESULTS
Disclaimer

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Survey Summary

• This survey was designed to provide the evidence base for a comparative understanding of how regulators across the world deal with innovation and the impact of their actions
• It complements similar initiatives (e.g. FSB, BIS, EBA and WBG-IMF Global Fintech Survey) and is meant to close the existing knowledge gaps while establishing a baseline for further measurement
• It was conducted between February and April 2019, with 62 financial sector regulators inquired, 31 total responses collected (27 fully completed) and 28 countries covered around the world
• The survey covers the following areas: (i) Law, Regulation and Innovation, (ii) Barriers to Innovation, (iii) Motivation for Innovation Facilitator(s), (iv) Implementation, (v) Resource, (vi) General Impact, and (vii) Regulatory Sandbox Specific Impact
• The country-level survey data received by CGAP and the World Bank Group are treated as confidential
• The aggregated data summarized in this slide deck will feed into a range of CGAP and the World Bank Group knowledge products
Innovation Facilitators
Around the World
The most popular innovation facilitators in operation are regulatory sandboxes and innovation hubs.
Regulatory Sandboxes Around the World

As of March 28th 2019

Countries with regulatory sandbox
Regulatory Sandboxes Around the World
As of March 28th 2019

- Countries with regulatory sandbox
- Countries considering regulatory sandbox

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Regulatory Sandboxes Around the World

There is no significant dominance of any particular legal system
Motivations for Considering an Innovation Facilitator
Regulators see regulation as a key barrier to financial innovation.
Most regulators react to innovation by adjusting/adopting regulation

| PRACTICED RESPONSES TO INNOVATION OUTSIDE THE LEGAL AND REGULATORY FRAMEWORK |
|-----------------------------|------------------|------------------|
| Other                       | 3                |
| Test and learn              | 15               |
| Wait and see                | 9                |
| Regulatory or legislative change | 21           |
| Restricted or temporary license | 8              |
| No enforcement action letters | 3               |
| Regulatory exemptions or waivers | 13          |

Have there been any regulatory changes as a consequence of your organization's innovation facilitator(s)? (Answered: 24, Skipped: 7)
No – 13
Yes – 11

Did any laws or regulatory powers need to be amended to allow for the creation of the innovation facilitator(s)? (Answered: 29, Skipped: 2)
No – 23
Yes – 6
In the fast-paced world of FinTech, regulators seek new tools to keep up to speed.

MOTIVATIONS FOR CONSIDERING INNOVATION FACILITATOR(S)

- Need to deal with growing fintech industry
- Desire to learn about emerging innovations
- Desire to attract more innovators
- Drive competition in the market
- Follow the example of others
- Other (please specify)
Motivations driving implementation of innovations facilitators are not always aligned with legal mandates

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

**Mandate**
- Financial stability
- Consumer protection
- Regulation of wholesale financial markets
- Financial sector integrity
- Financial inclusion
- Regulation of retail banking
- Financial literacy
- Regulation of retail lending (e.g.,
- Regulation of retail investments (e.g.,
- Regulation of asset management
- Regulation of insurance
- Regulation of pensions
- Competition
Who Can Benefit From Innovation Facilitators and How?
Most innovation facilitators are available to both authorized financial institutions & start-ups

ENTITIES ELIGIBLE TO PARTICIPATE

- Other facilitator
- Innovation hub
- Accelerator
- Regulatory sandbox

- Other entities that require authorization
- Technology providers that do not require authorization
- New entrants (e.g. fintechs)
- Licensed financial services providers

Answered: 28  Skipped: 3
Sectors represented correspond with the regulatory remit of the sponsoring agency

**ORGANIZATION'S MANDATES**

- Regulation of retail investments (e.g. financial advice and investment platforms)
- Regulation of pensions
- Regulation of retail lending (e.g. mortgages and credit)
- Regulation of asset management
- Regulation of insurance
- Regulation of wholesale financial markets
- Regulation of retail banking
- Competition
- Financial literacy
- Financial inclusion
- Consumer protection
- Financial sector integrity
- Financial stability

Answered: 31  
Skipped: 0

**MOST COMMON SECTORS REPRESENTED BY PARTICIPATING PROVIDERS**

- Other (please specify)
- Pensions
- Wholesale financial markets
- Asset management
- Retail lending
- Financial advice
- Savings
- Insurance
- Payments, clearing and settlements

Answered: 23  
Skipped: 8
Guidance is the main benefit that innovation facilitators offer to participating firms.
Testing firms also benefit from limited, temporary regulatory exemptions

REGULATORY DISCRETIONS APPLIED TO ACCEPTED PROVIDERS

- **Other facilitator**
  - Conditional licensing or regulation: 1
  - Test and learn: 1
  - No enforcement action letters: 2
  - Regulatory exemptions (waivers): 2

- **Innovation hub**
  - Conditional licensing or regulation: 0
  - Test and learn: 4
  - No enforcement action letters: 4
  - Regulatory exemptions (waivers): 3

- **Accelerator**
  - Conditional licensing or regulation: 0
  - Test and learn: 1
  - No enforcement action letters: 3
  - Regulatory exemptions (waivers): 1

- **Regulatory sandbox**
  - Conditional licensing or regulation: 0
  - Test and learn: 11
  - No enforcement action letters: 14
  - Regulatory exemptions (waivers): 15

Answered: 18
Skipped: 13
Regulatory sandboxes serve fewer firms than accelerators and innovation hubs

![Bar chart comparing the number of formal applications received and accepted for different innovation facilitators.](chart1)

- **Regulatory sandbox**: Received 522, Accepted 200
- **Accelerator**: Received 1677, Accepted 114
- **Innovation hub**: Received 1889, Accepted 1390
- **Other facilitator**: Received 200, Accepted 0

![Pie chart showing reasons for rejecting applications.](chart2)

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

Answered: 20
Skipped: 11
Are Innovation Facilitators a Regulatory Wild West?
Live tests are safeguarded by various measures, mostly meant to protect consumers and market integrity.

Safeguards:
- Disclosure requirements
- Limits on # of clients
- Complaints handling mechanism
- Fit & proper assessment
- Limits on funds received from clients
- AML-CFT rules
- Limits on # of transactions
- Compensation scheme
- Minimum capital requirements

Answered: 18  Skipped: 13
Successful sandbox tests result in full authorization and/or regulatory change

- Issued firm a license
- Required a firm to change their business model
- Change of regulation
- Required a firm to exit the test early
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