Reserve Bank of India’s Enabling Framework for Regulatory Sandbox

written by Kulin Dave | May 7, 2019

Vide a press release, the Reserve Bank of India (“RBI”), on April 18, 2019 released the draft of Enabling Framework for Regulatory Sandbox[1]

Principles and Objectives - Enabling Framework for Regulatory Sandbox

A Regulatory Sandbox (“RS”) usually refers to live testing of new products or services in a controlled/test regulatory environment for which regulators may (or may not) permit certain regulatory relaxations for the limited purpose of the testing. The RS allows the regulator, the innovators, the financial service providers (as potential deployers of the technology) and the customers (as final users) to conduct field tests to collect evidence on the benefits and risks of new financial innovations, while carefully monitoring and containing their risks. It can provide a structured avenue for the regulator to engage with the ecosystem and to develop innovation-enabling or innovation-responsive regulations that facilitate delivery of relevant, low-cost financial products. The RS is potentially an important tool which enables more dynamic, evidence-based regulatory environments which learn from, and evolve with, emerging technologies. The RS provides an environment to innovative technology-led entities for limited scale testing of a new product or service that may or may not involve some relaxation in a regulatory requirement before a wider-scale launch. The RS is, at its core, a formal regulatory programme for market participants to test new products, services or business models with customers in a live environment, subject to certain safeguards and oversight.

Benefits of Enabling Framework for Regulatory Sandbox

- The RS fosters ‘learning by doing’ on all sides. Regulators obtain first-hand empirical evidence on the benefits and risks of emerging technologies and their implications, enabling them to take a considered view on the regulatory changes or new regulations that may be needed to support useful innovation, while containing the attendant risks. Incumbent financial service providers, including banks, also improve their understanding of how new financial technologies might work, which helps them to appropriately integrate such new technologies with their business plans. Innovators and FinTech companies can improve their understanding of regulations that govern their offerings and shape their products accordingly. Finally, feedback from customers, as end users, educates both the regulator and the innovator as to what costs and benefits might accrue to customers from these innovations.
- Users of an RS can test the product’s viability without the need for a larger and more expensive roll-out. If the product appears to have the potential to be successful, the product might then be authorized and brought to the broader market more quickly. If any concerns arise, during the sandbox period, appropriate modifications can be made before the product is launched in the broader market.
- FinTechs provide solutions that can further financial inclusion in a significant way.

The RS can go a long way in not only improving the pace of innovation and technology absorption but also in financial inclusion and in improving financial reach. Areas that can potentially get a thrust from the RS include microfinance, innovative small savings and micro-insurance products, remittances, mobile banking and other digital payments.

- By providing a structured and institutionalized environment for evidence based regulatory decision-making, the dependence of the regulator on industry/stakeholder consultations only is correspondingly reduced.
- The RS could lead to better outcomes for consumers through an increased range of products and services, reduced costs and improved access to financial services.

Eligibility Criteria for Participating in the Sandbox:

The target applicants for entry to the RS are FinTech firms which meet the eligibility conditions prescribed for start-ups by the government. The focus of the RS will be to encourage innovations where-

- there is absence of governing regulations;
- there is a need to temporarily ease regulations for enabling the proposed innovation;
- the proposed innovation shows promise of easing/effecting delivery of financial services in a significant way

The Sandbox Process and its Stages in a Regulatory Sandbox:

1. End-to-End Sandbox Process - A detailed end-to-end sandbox process, including the testing of the products/innovations by FinTech entities, shall be overseen by the FinTech Unit (FTU) at the RBI.
2. The Sandbox Process: Stages and Timelines - Each cohort of the RS shall have the following five stages and timeline:
3. Preliminary Screening (4 weeks) - The FTU shall ensure that the applicant clearly understands the objective and principles of the sandbox and conforms to it. This phase shall last for 4 weeks from the launch of the sandbox, where the applications shall be received by the FTU and evaluated to shortlist applicants meeting the eligibility criteria.
4. Test Design (3 weeks) - This phase may last for 3 weeks. The FTU shall finalize the test design through an iterative engagement with the applicants and identify outcome metrics for evaluating evidence of benefits and risks.
5. Application Assessment (3 weeks) - This phase may last for 3 weeks. The FTU shall vet the test design and propose regulatory modifications, if any.

6. Testing (12 weeks) -
   This phase may last for a maximum of 12 weeks. The FTU shall generate empirical evidence to assess the tests by close monitoring.
   Evaluation (4 weeks) - This phase may last for 4 weeks. The final outcome of the testing of products/services/technology as per the expected parameters including viability/acceptability under the RS shall be confirmed by the RBI. The FTU shall assess the outcome reports on the test and decide on whether the product/service is viable and acceptable under the RS.
   Contributed by - Kulin Dave

[1]https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/EFRARESADC108A0A98E146479C6D39D36EA5A76A.PDF

King Stubb & Kasiva,
Advocates & Attorneys
Click Here to Get in Touch
New Delhi | Mumbai | Bangalore | Chennai | Hyderabad | Kochi
Tel: +91 11 41032969 | Email: info@ksandk.com