



ESRC-ICSSR

**UK- India Trade in
Fintech & Fintech-
Enabled Services**



REGULATORY SANDBOX: UK AND INDIA



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of Essex

Introduction

- Regulatory Sandboxes (RS) allow for firms/innovators to test their regulated financial product with real consumers for a short period of time.
- The testing occurs under the supervision of the regulator.
- The aim of the regulatory sandboxes are to enable faster development and deployment of regulated financial products into the market while ensuring that the interests of consumers are protected.

Objectives

- Identify consumer protection safeguards to be built into new products
- Enable viability test to identify the impact of business model in the market and make changes if necessary.
- Enable a cheaper option to test and bring the product to market
- Enable faster rollouts

Regulatory Sandbox vs Licensing/Complete Authorisation

- Regulatory Sandbox is designed for the testing of “innovative products” in the market that may require certain regulations to be waived or certain regulations to be introduced for consumer benefit.
- Sandboxes allow the firms to live test the products in the market under “restricted authorisation”. These tests have well defined parameters that allow for any unforeseen failures to be contained to a small section of the market. For example, the number of customers that the firm can sell to maybe restricted during the test period.
- Sandboxes allow firms to test and tweak their innovative and untested products in the market while allowing regulators to monitor their implications for the consumers and consider regulatory changes for the benefit of the consumers.

Sandboxes in India and UK

	United Kingdom	India
Regulatory Authority	Financial Conduct Authority (FCA) https://www.fca.org.uk/	Reserve Bank of India (RBI) https://www.rbi.org.in/
Year of Conception	July 2016	November 2019
Application Process	Online Portal	Email
Application Window	Open throughout year from August 2021 as recommended by Khalifa review ¹ (Cohort based till then). 1: https://www.gov.uk/government/publications/the-kalifa-review-of-uk-fintech	Cohorts (mostly sector/theme based).

Who can apply?

	United Kingdom	India
Target Participants	Authorised firms, Unauthorised firms that require authorisation, or Technology businesses which are looking to deliver innovation in the UK financial services market to UK consumers or firms.	FinTech companies including start-ups, banks, financial institutions, any other company, Limited Liability Partnerships, or partnership firms that are partnering with or providing support to financial service businesses that provide financial services, subject to the eligibility criteria.
Applicants fit and proper criteria	If firms are not authorised to carry out the regulated activity in the test, they must meet the Threshold conditions ² to be authorised to conduct the test. The innovation proposed should not be in violation of any national or international law as no laws can be waived as part of the regulatory sandbox.	<p>All criteria must be satisfied:</p> <ul style="list-style-type: none"> • The applicants must be registered in India, licensed to operate as a bank in India, or should be constituted under a statute in India. • Minimum net worth of ₹1,000,000 (~£10,000). • Not be rejected from the Regulatory Sandbox application process in the last six months (six months cooling off period after rejection before the applicant can reapply). • All promoter(s)/ directors(s)/ partners(s) of the entity satisfy the fit and proper criteria³ • Credit history and bank accounts of all promoters/ directors/ partners of the entity should be satisfactory as deemed by the RBI

2: <https://www.handbook.fca.org.uk/handbook/COND.pdf>

3: https://rbidocs.rbi.org.in/rdocs/content/pdfs/Enabling11102021_A1.pdf

Who will be accepted? Eligibility

	United Kingdom	India
<p>Eligibility Criteria:</p> <p>To participate in the regulatory sandbox the firms need to satisfy the mentioned criteria</p>	<p>Regulatory Sandbox is for innovations to be used in UK Market in areas under the regulatory purview of FCA(in scope) where there are:</p> <ul style="list-style-type: none"> • Need for support: Regulatory sandbox is the best and only means for the firm to engage with the FCA. i.e Innovation may not easily fit into the existing regulatory framework, testing in a live environment will be beneficial, and/or a short authorisation process will be more viable over a full authorisation process. • Innovation: The innovation proposed by firms is genuine and is significantly different from the existing models in the market. • Consumer benefit: The innovation proposed will bring benefits to customers through one or more ways or will help the customers enter the market and comply with FCA rules in an easier manner. • Readiness: The firm has considered the scope of regulatory oversight in the innovation and the firm is ready to test the innovation in the real market with real customers in all aspects. The firm should have adequate resources or partners with adequate resources to test the innovation in the market and should have considered the possible avenues of risk innovation possess towards customers. The should propose methods to address such risks. 	<p>Regulatory Sandbox is for innovations to be used in the Indian Market in areas where:</p> <ul style="list-style-type: none"> • There is an absence of governing regulations, and/or there is a need to temporarily ease regulations. • The proposed innovation should not be similar to the ones already in the market. The applicant should show that either a different technology is being applied or the same technology is being applied in a more efficient and effective way. • The proposed innovation should show promise of acting beneficially in the delivery of financial services. These should be specified in the application form. • Readiness: The applicants should have test scenarios and expected outcomes clearly defined and shall be required to share the results of proof of concept/ testing of use cases before getting admission into RS for testing. The applicants are also required to assess and prepare mitigation plans for any risks that could arise from the proposed FinTech solution. The application must define appropriate “Boundary Conditions” which would help contain the consequences of failure.

Available Tools

	United Kingdom	India
Tools	<ul style="list-style-type: none"> • Restricted authorisation: Activities that require authorisation shall be granted restricted authorisation for the period of testing. • Signposting: For the proposed business models and products, FCA can help in identifying relevant existing rules and guidance. However, this guidance is not individually catered. • Informal Steer: Non-binding guidance on potential regulatory implications of the product or business model. • Individual Guidance: Guidance on how to interpret a specific FCA requirement in the context of the firm's specific test. • Waivers or modifications to FCA rules: FCA may waive or modify an overtly difficult rule for just the purpose of the test. International or national laws cannot be waived. • No enforcement action letters: In cases where individual guidance or waivers can't be issued, no enforcement action letters to FCA disciplinary actions can be issued for the duration of the test. Firms shall remain liable to consumers. 	<ul style="list-style-type: none"> • Regulatory support: RBI may consider relaxing some of the regulatory requirements for a particular applicant for the duration of the test. The following requirements are mandatory and shall be complied by all applicants: <ul style="list-style-type: none"> ○ Customer Privacy and Data Protection ○ Secure storage of access to payment data of stakeholders ○ Local Data storage ○ Security of transactions ○ KYC/AML/CFT requirements. ○ Statutory restrictions • FinTech Division of RBI in iterative engagement with the applicant to finalise test design and identify outcome metrics for evaluating evidence of benefits and risks • FinTech Division of RBI evaluates the viability of the product/services/technology under the RS.

Timeline and Cost

	United Kingdom	India
Time Scales	<ul style="list-style-type: none">• Application assessment: 2-3 weeks.• Panel review: 8-12 weeks.• Issue Sandbox Tool: 6-12 months if restricted authorisation is required.• Testing: maximum 6 months.• Total: maximum 41 weeks if no restricted authorisation is required and maximum 93 weeks if restricted authorisation is required.	<ul style="list-style-type: none">• Preliminary Screening: 4 weeks from the closing of application window.• Test design: 4 weeks• Application assessment: 3 weeks.• Testing: 16 weeks.• Evaluation 4 weeks.• Total: 31 weeks
Fees	No Fees. Authorisation Fees if authorisation required. Fees for restricted authorisation is same as that of for full authorisation.	Information not available. No fees mentioned in application form or in reports.

Sandboxes till now

	United Kingdom	India
No of Cohorts as of now	7 till August 2021. The process is no longer cohort based and is open throughout the year	3rd ongoing. 4 th announced.
Total no of firms applied	Cohort 1: 69 Cohort 2: 77 Cohort 3: 61 Cohort 4: 69 Cohort 5: 99 Cohort 6: 68 Cohort 7: 58 Open: Yet to be updated Total: 501	Cohort 1: 32 Cohort 2: 26 Cohort 3: 22 Total: 80
Total no of firms accepted	Cohort 1: 24 Cohort 2: 31 Cohort 3: 18 Cohort 4: 26 Cohort 5: 29 Cohort 6: 22 Cohort 7: 13 Open: Yet to be updated Total: 163	Cohort 1: 6 Cohort 2: 8 Cohort 3: 8 Total: 22
Total no of firms tested	Cohort 1: 18 Cohort 2: 24 Cohort 3: 18 Cohort 4: 26 + 3 from previous cohorts that were accepted but not tested. Cohort 5: 29 (stated as accepted to Test, final status unknown) Cohort 6: 22 (stated as accepted to Test, final status unknown) Cohort 7: 13 (stated as accepted to Test, final status unknown) Open: Yet to be updated Total: 153	Cohort 1: 6 Cohort 2: 8 Cohort 3: 8 Total: 22

RS: UK vs India

Ignoring the differences in the tone in communications and reports between FCA and RBI, there are a few major differences between the Regulatory Sandboxes in India and UK:

1. The sandboxes in UK are currently open throughout the year. But even when it was cohort based, the sandboxes were still open to diverse set of themes and sectors. RS cohorts in India are conducted mostly theme/sector based.
2. There is a minimum capital requirement for participating in the sandbox in India. While it has been stated in the RBI's Enabling Framework for Regulatory Sandbox⁴ that this may be waived, it has also been stated that this would be considered as an important and necessary condition when a large number of firms apply to participate in RS during a particular cohort.
3. FCA also mentions features like Signposting, Informal Steer, and Individual guidance being available to firms. RBI's Enabling Framework for Regulatory Sandbox doesn't mention any such tools being available for applicants.

⁴:<https://rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1187>