



Regulatory Sandboxes: The Global Perspective

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CGAP focuses on the frontier of financial inclusion

WE ARE: A global partnership of over 30 leading public, private, and philanthropic development and financial institutions and organizations, housed at the World Bank.

OUR VISION: Responsible and inclusive financial ecosystems that enable a green, resilient, and equitable world for all.

OUR MISSION: CGAP works at the frontier of inclusive finance to test solutions, spark innovation, generate evidence, and share insights. Our knowledge enables public and private stakeholders to scale solutions that help financial ecosystems meet the needs of poor, vulnerable, and underserved people and MSEs, including advancing women's economic empowerment.

132 years is too long to close the gender gap. How can we accelerate financial inclusion?

The World Economic Forum's Global Gender Gap Report 2022 reveals that despite progress made towards gender equality in education and health, the gender gap in economic participation and opportunity remains essentially unchanged.

Fintechs face reckoning over customer service

Silicon Valley Bank: the multiple warnings that were missed

Ahead of the first official postmortem on its collapse, bankers, regulators and executives admit that it was a crisis hiding in plain sight

Central-Bank Digital Currencies Are Coming—Whether Countries Are Ready or Not

The game-changing development could have a profound impact on the banking system. But few people still understand it.

Ghana tackles illegal loan apps over fraud, cyber-bullying

India's digital lending market likely to grow \$515 bn by 2030 : Report

Crypto has 'amplified financial risks' in emerging markets, central banks warn

Currency's appeal as a low-cost solution for countries with high inflation is 'illusory', says BIS

CFPB looking at crypto platform hacks

Congratulations, crypto might count as "funds"! Now please report to US consumer-banking regulators

ESG & SUSTAINABILITY

Looking at financial inclusion through a gender lens

Gender-intelligent design for financial services holds the key to unlocking financial inclusion for women. Joy Macknight reports on some innovative approaches showcased at the recent Women's World Banking summit.

CBDCs invite risk of global financial fragmentation

Bank of America to pay \$250mn for overdraft and credit card abuse

Lender 'withheld rewards, double-dipped on fees and opened accounts without consent'

In latest Zelle scam, Wells Fargo customers lose thousands after fraudsters pose as bank employees

Scammers are taking advantage of the platform's instantaneous, irreversible transactions.

Digital financial inclusion is reshaping payments in Côte d'Ivoire

Government strategies and initiatives are guiding the expansion of financial inclusion

India central bank plans to widen use of digital currency

“A regulatory sandbox is a tool for developing evidence about how a new product, technology, or business model (innovation) works and the outcomes it produces. Evidence gathering can help assuage (or confirm) regulatory concerns about the impact of innovations, allowing beneficial innovations to reach the marketplace.”

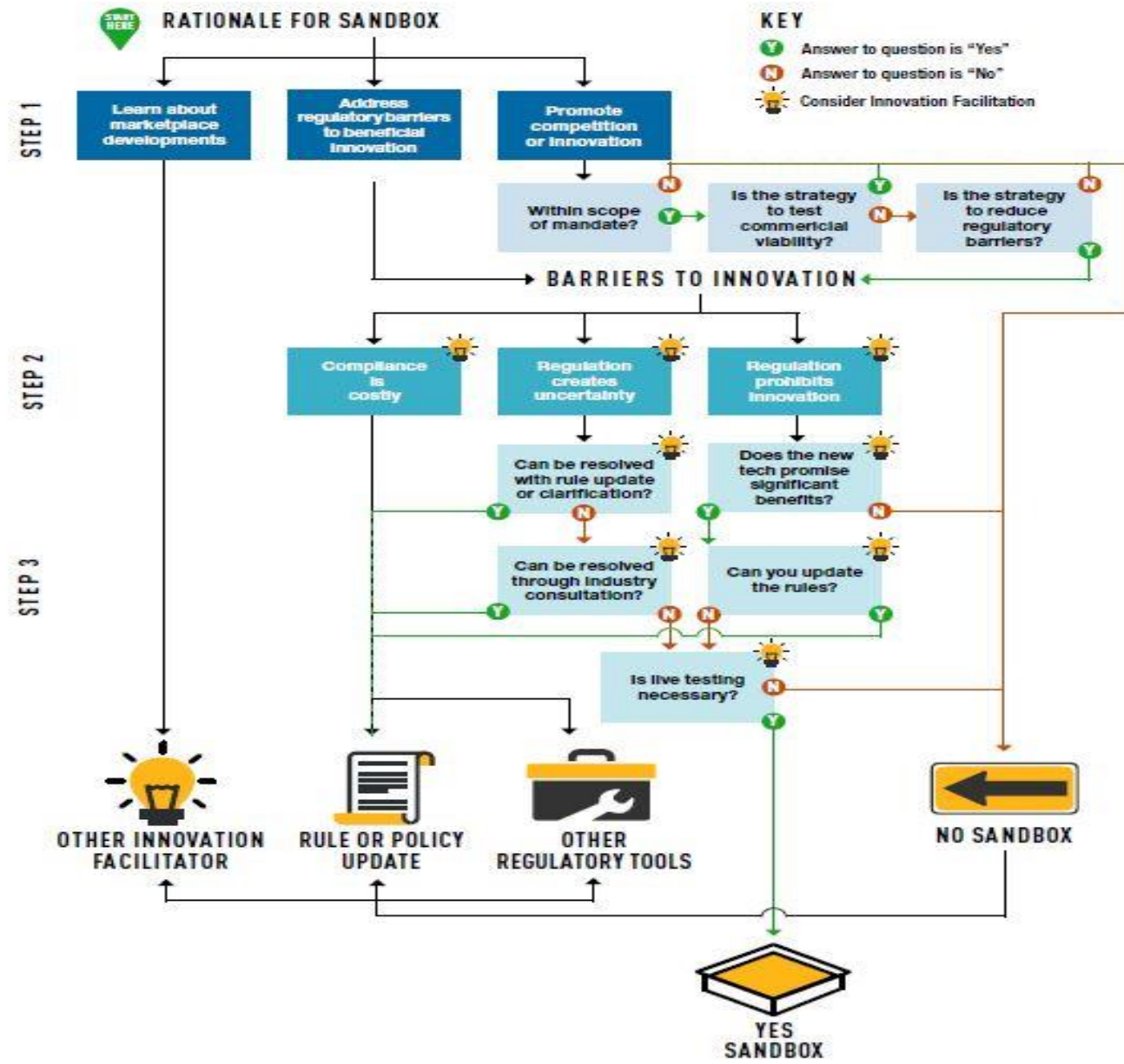
[CGAP Technical Guide: How to Build a Regulatory Sandbox \(2020\)](#)

3-step process to decide if you need a sandbox

Step 1: Define objectives

Step 2: Identify barriers

Step 3: Assess solutions

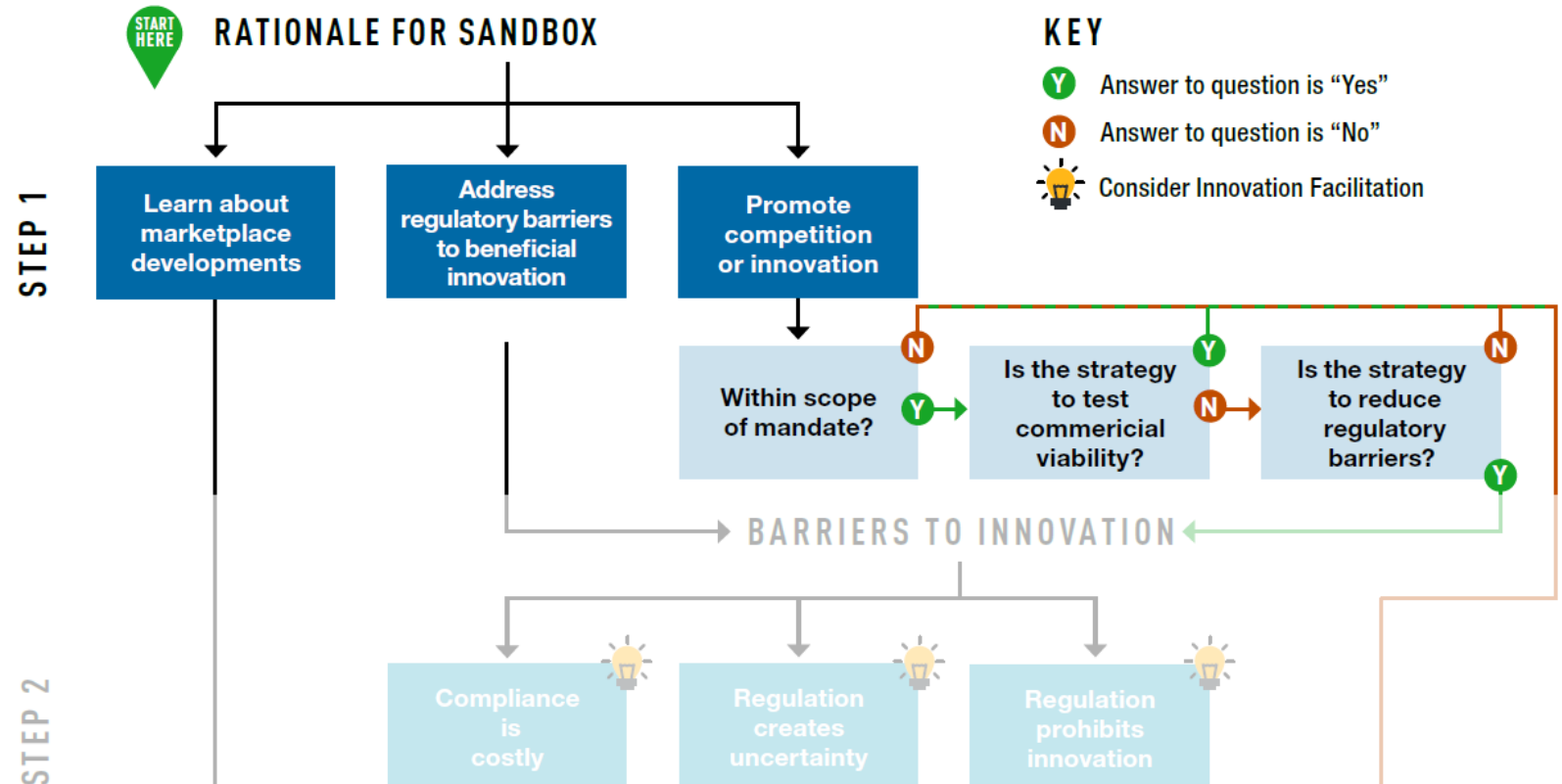


Step 1: Define your objectives

Regulators frequently cite three overarching reasons to use a sandbox:

1. Promote innovation and/or competition
2. Address regulatory barriers to innovation
3. Learn about developments in the marketplace

But is a sandbox really the right tool to achieve all these objectives?



For more information see [CGAP Technical Guide](#) (p. 10).

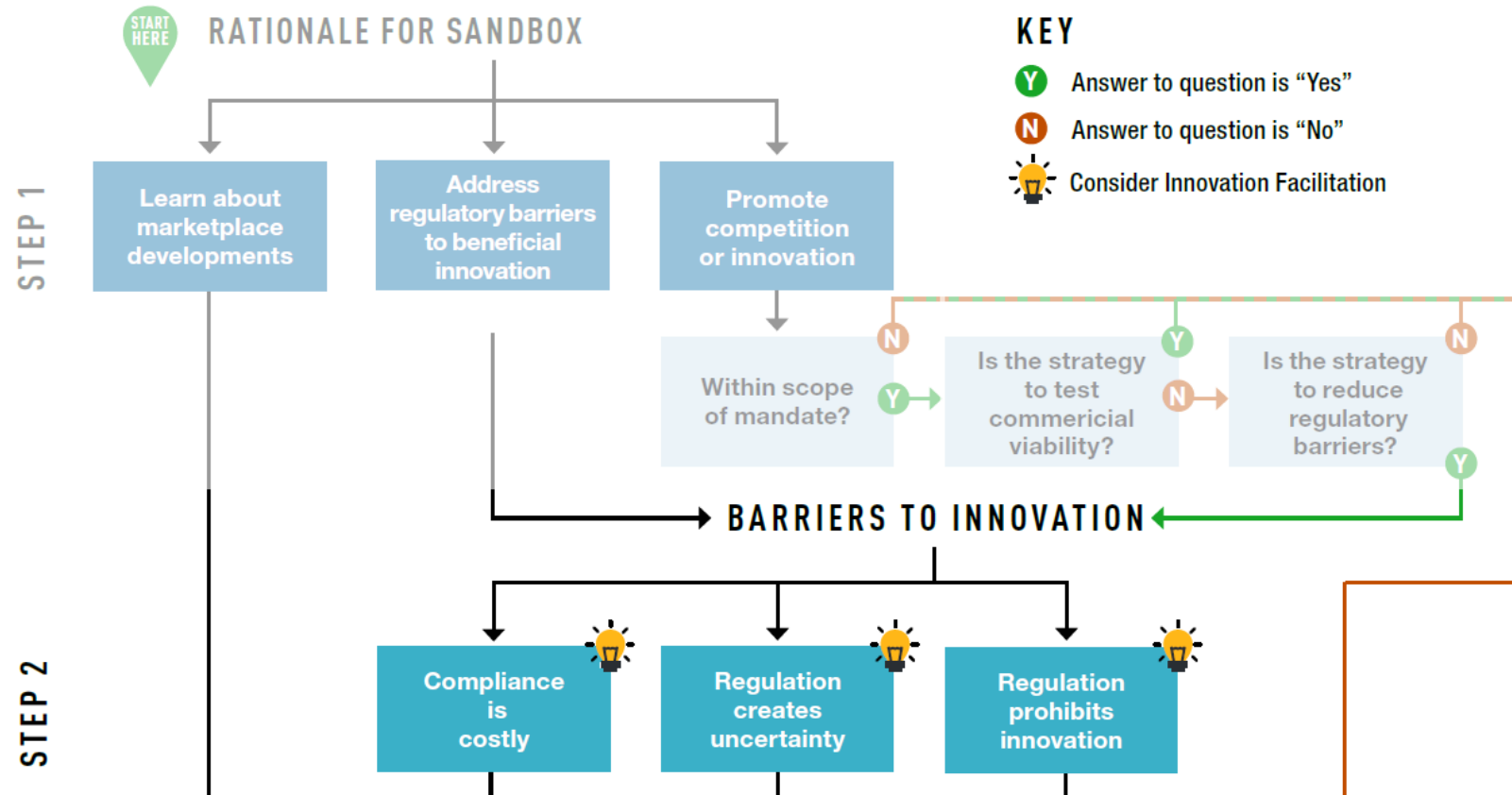
Step 2: Identify the barriers to innovation

A sandbox can address some types of barriers

A sandbox can help address regulatory barriers such as:

1. Costly compliance
2. Regulatory uncertainty
3. Prohibitive regulation

But a sandbox only makes sense when those barriers cannot be addressed without live testing.



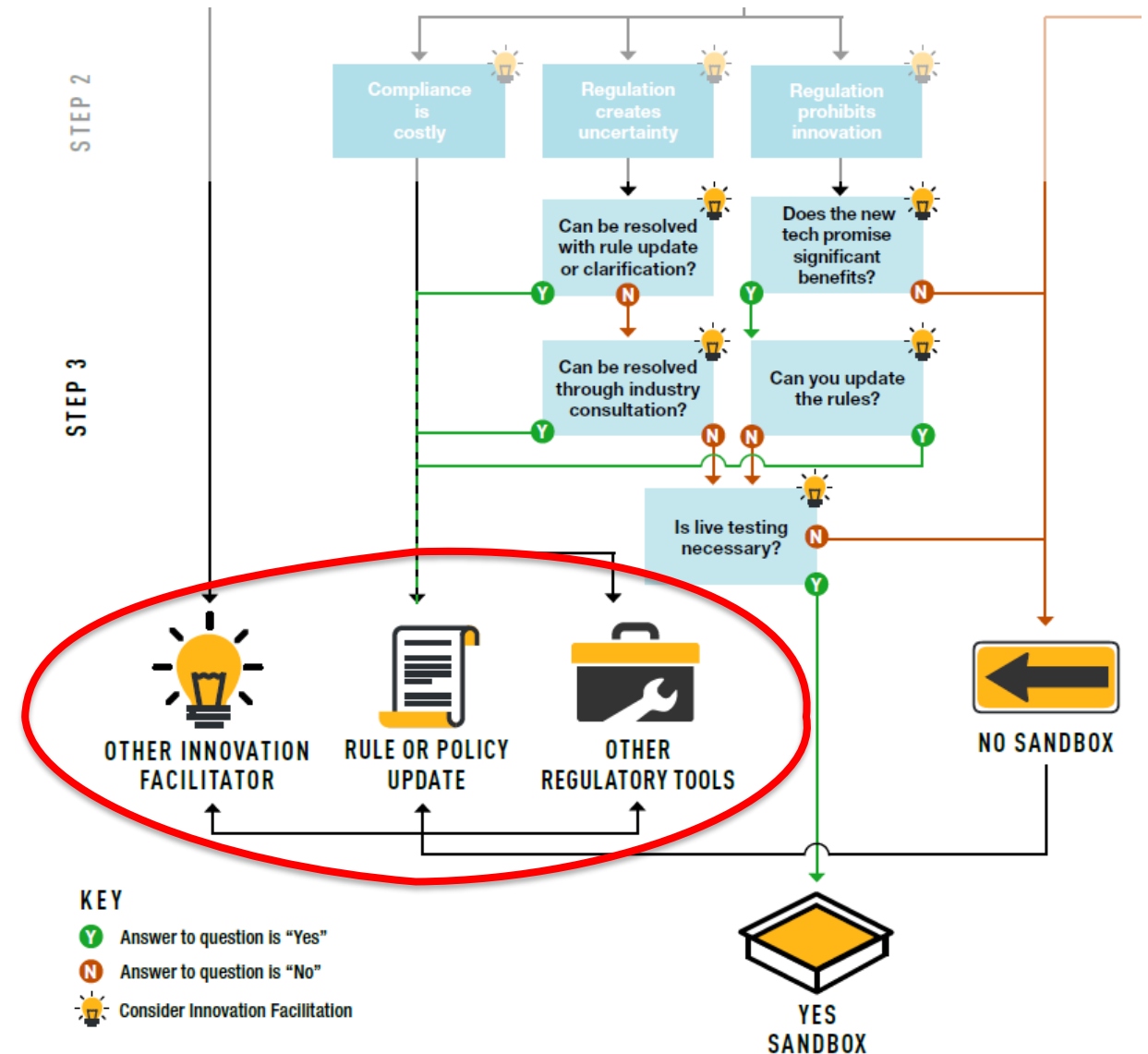
For more information see [CGAP Technical Guide](#) (p. 11).

Step 3: Assess (alternative) solutions






There are several regulatory tools that may be more suitable than a sandbox:

1. Other innovation facilitators (e.g., Innovation Office)
2. Adopting a change of rules
3. Granting exemptions
4. For more options see Section 5

Some of these tools can be used instead of a sandbox, some should be used instead of it, and some along with a sandbox.



Key design elements of a regulatory sandbox

Design Element	Description	Design Choices (examples)
 <p>Eligibility</p>	<p>Defines who can participate in the sandbox. Eligibility should be articulated clearly to ensure a level playing field across all market participants.</p>	<ul style="list-style-type: none"> • Open to incumbents only • Open to newcomers only • Open to nonfinancial services providers (e.g., technology providers, regtech)
 <p>Governance</p>	<p>Defines the internal operating structure of the sandbox, roles and responsibilities, and key operational processes.</p>	<ul style="list-style-type: none"> • Specialized sandbox unit • Hub-and-spoke: a central point of contact coordinating sandbox inquiries with other units of the regulator
 <p>Timing</p>	<p>Includes:</p> <ul style="list-style-type: none"> • Duration of the admission window • Duration of the test 	<ul style="list-style-type: none"> • Periodic admission (cohort-based) • Permanent admission window (on-tap) • Testing periods range from 3 to 36 months
 <p>Test restrictions</p>	<p>Limits to the scope, scale, and/or conduct of the sandbox test to minimize potential harm.</p>	<ul style="list-style-type: none"> • Number of clients • Number of transactions • Volume of transactions • Geographical limits • Consumer protection safeguards • Minimum AML/CFT requirements
 <p>Exit</p>	<p>Includes:</p> <ul style="list-style-type: none"> • Individual test outcomes (graduation, terminated test, etc.) • Program-level key performance indicators (KPIs) • Incorporation of insights and lessons learned into the broader regulatory agenda 	<ul style="list-style-type: none"> • For test outcomes see Section IV • KPIs in terms of the absolute output (number of graduated firms) • KPIs in terms of a regulatory change promoted

Matching design elements with threshold constraints: Illustration

Demand refers to the demand from innovators for a regulatory sandbox.

Capacity refers to the capacity of the regulator to implement a regulatory sandbox.

	High demand	Low demand
High capacity	<ul style="list-style-type: none">• Cohort-based sandbox• Dedicated sandbox team• Subject matter experts available to assess a diverse type of innovation• Operations and governance integrated into core regulatory and supervision functions	<ul style="list-style-type: none">• Permanent (“on tap”) application• Emphasis on nonsandbox innovation facilitators
Low capacity	<ul style="list-style-type: none">• Cohort-based sandbox• Rigorous preapplication vetting• Narrow eligibility requirements• Short testing windows• Hub-and-spoke governance, with shared staffing of sandbox operation	<ul style="list-style-type: none">• Nonsandbox innovation facilitators

Secret sauce for a successful sandbox

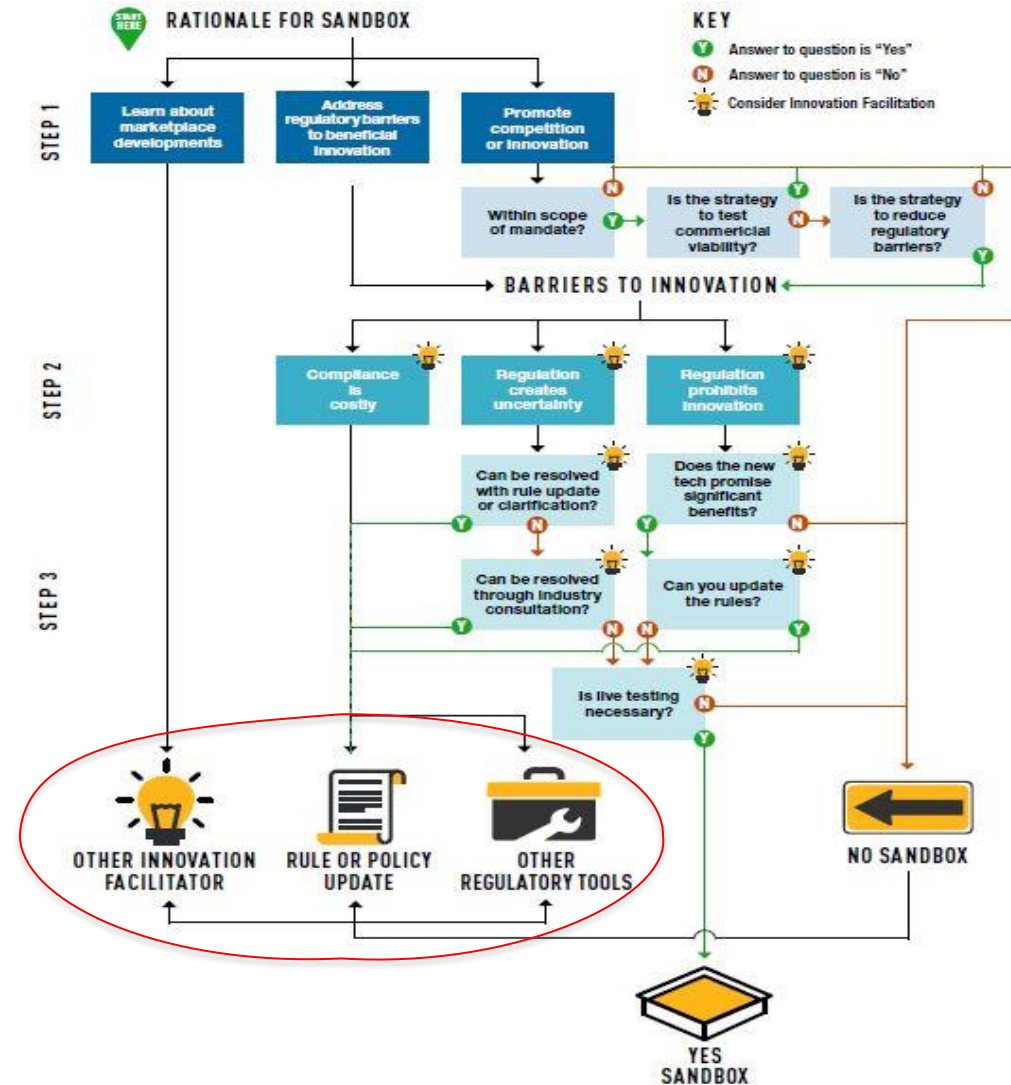
There are four ingredients for success:

1. Appropriate design
2. Well-defined governance and processes
3. Sufficient capacity and resources
4. Strong stakeholder buy-in

A sandbox is not the only option

There are several options that regulators can pursue in response to innovation. For example:

- Other innovation facilitators such as an Innovation Office, Innovation Hub or Accelerator
- A rule or policy update
- Other regulatory tools such as wait-and-see, test-and-learn or exemptions



Taking a step back to think beyond sandbox

- **A clear vision helps direct regulatory efforts and prioritize attention.** When authorities articulate a clear vision of what they want to achieve regarding the financial sector and financial inclusion, they are more successful in identifying and prioritizing regulatory and supervisory responses to innovation. A clear vision also helps promote certainty from which private sector benefits.
- **Tone at the top matters.** A highly positioned champion of innovation that sets the agenda and signals that innovation matters across the authority's work helps to achieve alignment among different departments or regulatory authorities.
- **Innovation culture promotes experimentation and learning.** Such culture often originates in specialized units (e.g., fintech office or regulatory sandbox), often leveraging private sector experience of its members, but in successful authorities eventually spreads across key areas of the organization.
- **Industry engagement provides a critical input into regulatory work.** Authorities that engage in frequent, genuine, and open dialogue with private sector players are more likely to share a common vision with the industry and jointly work towards its achievement. Such engagement must consider and balance the views of both incumbents and newcomers.
- **Market development mandate provides necessary flexibility to deal with innovation.** Discretionary powers that often come with the market development mandate make authorities more agile.

Key points to remember

- Many regulatory objectives concerning innovation can be achieved through other tools
- A regulatory sandbox helps inform a regulatory response where live testing is necessary
- Specific design elements fit specific circumstances (legal, market, capacity)
- Successful implementation requires clearly defined ownership of sandbox and KPIs

More information: www.cgap.org/sandbox

Share your feedback: sandbox@cgap.org

CGAP Members



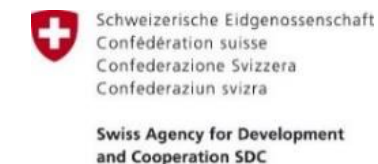
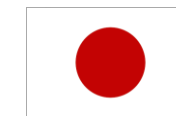
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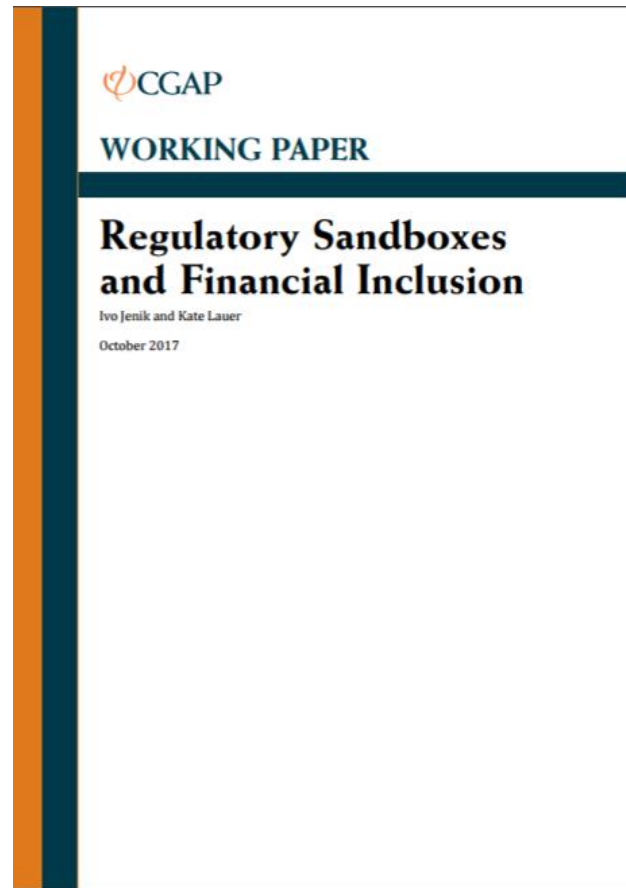
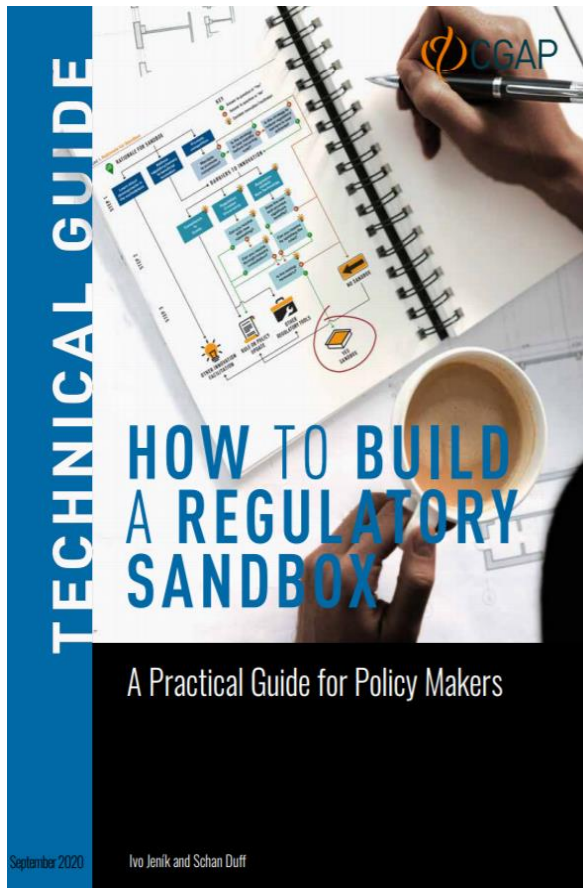
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RESOURCES

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CGAP Regulatory Collection Page

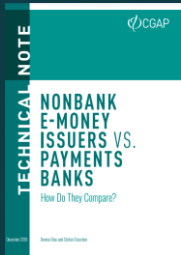
www.cgap.org/sandbox

- [Technical Guide: How to Build a Regulatory Sandbox](#)
- [WP: Regulatory Sandboxes and Financial Inclusion](#)
- [Interactive map of sandbox firms](#)
- [Global repository of sandbox policy documents](#)
- [Blog post series](#)



Basic regulatory Enablers for Digital Financial Services

www.cgap.org/research/publication/basic-regulatory-enablers-for-digital-financial-services



Nonbank E-Money Issuers vs. Payments Banks

www.cgap.org/research/publication/nonbank-e-money-issuers-vs-payments-banks-how-do-they-compare



The Use of Agents by Digital Financial Services Providers

www.cgap.org/research/publication/use-of-agents-digital-financial-services-providers



Making Consumer Protection Regulation More Customer-Centric

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Regulatory Approaches to the Interest Earned on E-Money Float Accounts

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Safeguarding Rules for Customer Funds Held by EMIs

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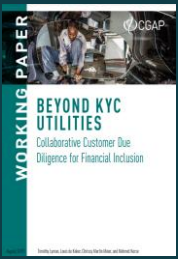
Risk-Based Customer Due Diligence

www.cgap.org/research/publication/risk-based-customer-due-diligence-regulatory-approaches

Elevating the Collective Consumer Voice in Financial Regulation

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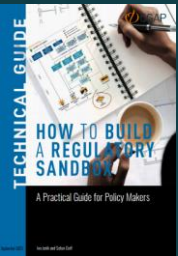
Beyond KYC Utilities: Collaborative Customer Due Diligence

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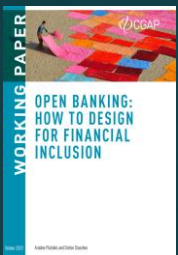
Digital Financial Services for Financial Inclusion: Tools for Supervisors

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How to Build a Regulatory Sandbox: A Practical Guide for Policy Makers

www.cgap.org/sandbox



Open banking: How to Design for Financial Inclusion

www.cgap.org/research/publication/open-banking-how-to-design-for-financial-inclusion

Digital Banks: How Can They Be Regulated to Deepen Financial Inclusion?

www.cgap.org/sites/default/files/publications/slidedeck/2021_12_Slide_Deck_Digital_Banks_Regulation_for_Financial_Inclusion.pdf



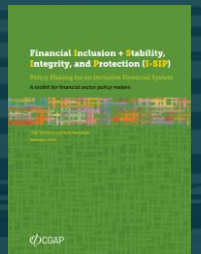
Market Monitoring for Financial Consumer Protection

www.cgap.org/topics/collections/market-monitoring



Financial Inclusion + Stability, Integrity, and Protection (I-SIP)

www.cgap.org/research/publication/i-sip-toolkit-policy-making-for-inclusive-financial-system



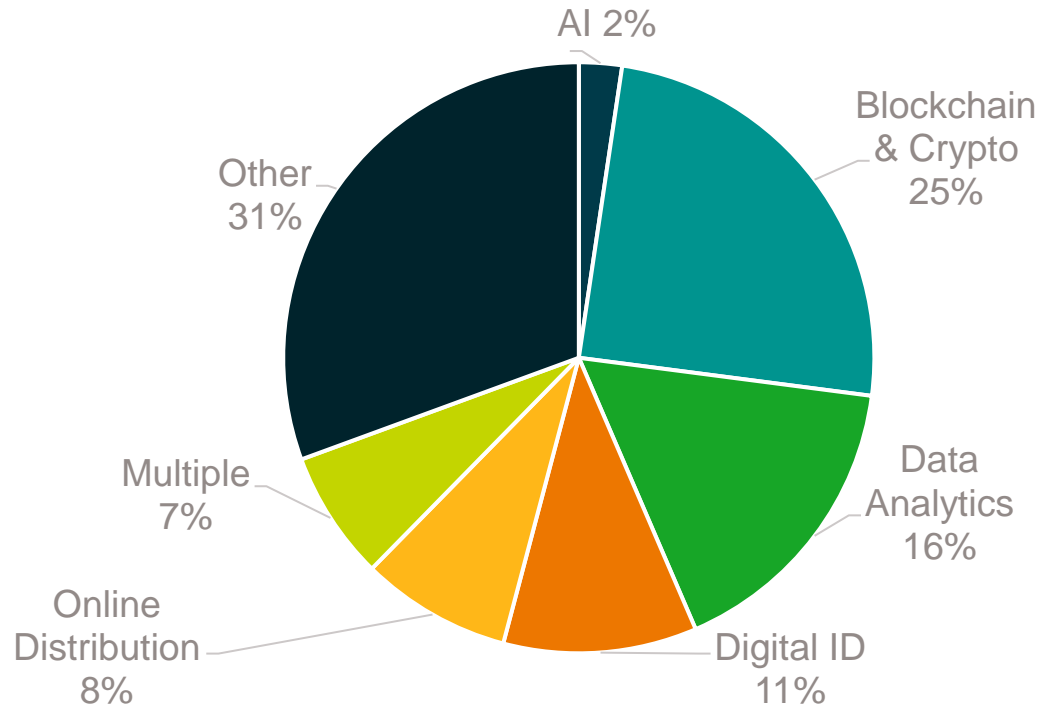
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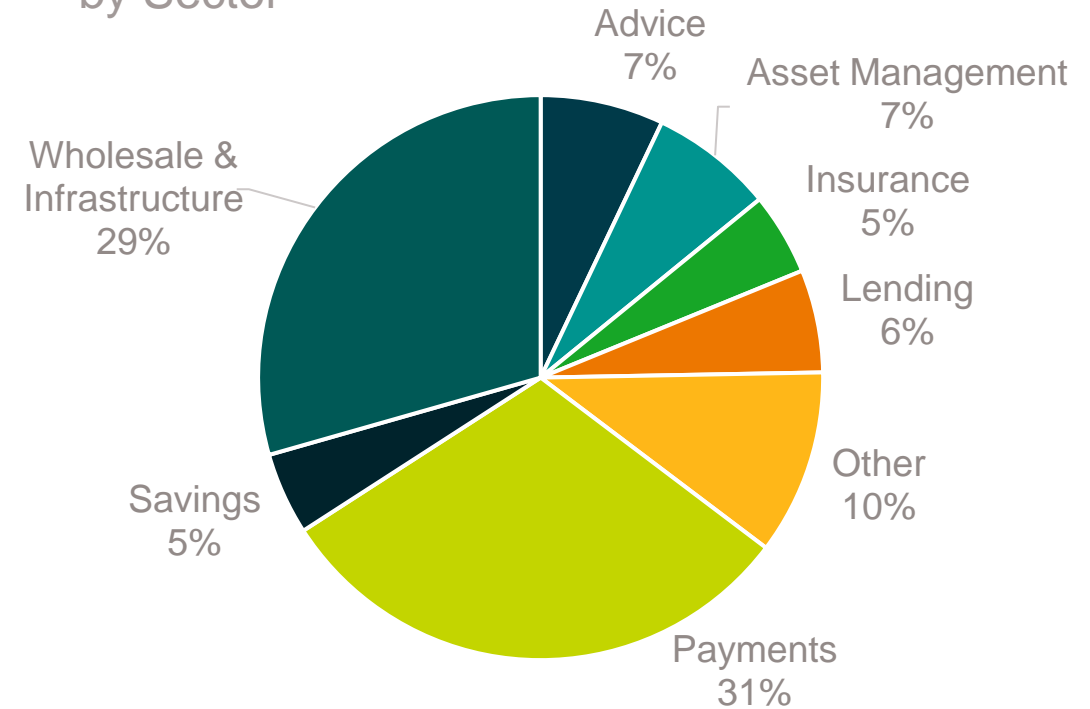


How are Regulatory Sandboxes Used?

Technology Tested



Participants by Sector



EXAMPLES

- Equity crowdfunding
- Blockchain-based payments
- Robo advisors
- Alternative credit scoring
- Automated savings
- Personal finance management