Regulatory sandboxes & other innovation facilitators

Lessons from Europe

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Innovation facilitators (IFs)

**INNOVATION HUB**
a dedicated point of contact for firms to raise enquiries with regulators on FinTech-related issues and to seek non-binding guidance on the conformity of innovative financial products, financial services or business models with licensing or registration requirements and regulatory and supervisory expectations

**REGULATORY SANDBOX**
a scheme to enable firms to test, under a specific testing plan agreed and monitored by a regulator, innovative financial products. It may imply the use of legally provided discretions by the relevant supervisor (depending on the relevant applicable EU and national law), but they do not entail the disapplication of regulatory requirements that must be applied under EU law

**Alternative forms of innovation facilitation or new activities by IFs:**
- Digital sandboxes
- Hackathons / TechSprints
- Thematic cohorts
- Industry roundtables & workshops
- Helpdesk, contact point, innovation office, forum
- Cross – jurisdictional coordination
- EU cross – border testing framework
EU mechanism of coordination between hubs & sandboxes

About the EFIF

- Run jointly by ESMA, the EBA and EIOPA (the 3 called the ESAs); the Chair role rotates amongst the ESAs annually; in cooperation with the European Commission
- The September 2020 Digital Finance Strategy for the EU calls to strengthen the EFIF & cooperation between private and public stakeholders
- EFIF Members: All 27 EU Member States (securities, banking, insurance sectors) + 3 EEA
- Adoption of the Taxonomy of Financial Innovation
- Meetings 3-4 times/year
  - sharing experiences from engagement with firms through sandboxes and hubs
  - exchange of technological expertise and reaching common approaches to the regulatory treatment of innovative products & services
  - case studies (e.g. RegTech, AI, BigTechs)
  - cross-border testing

January 2019
Joint ESAs Report “FinTech: Regulatory sandboxes & innovation hubs”

April 2019
The EC and the ESAs launched the EFIF to support cooperation between innovation facilitators & help scaling up EU FinTech in the EU

December 2023
Publication of the updated joint ESAs Report on innovation facilitators
Overview of IFs across the EEA

- **30 countries established 41 innovation hubs** by October 2023
  - Vs. 24 EU hubs in 2019

- **12 countries established 14 regulatory sandboxes** by October 2023
  - Vs. 3 sandboxes in 2019

Source: 2023 ESAs Report on innovation facilitators
# Innovation hubs in the EEA

<table>
<thead>
<tr>
<th>Country</th>
<th>Name of the innovation facilitator</th>
<th>Hyperlinks</th>
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</thead>
<tbody>
<tr>
<td>AT</td>
<td>Sandbox &amp; Fintech Contact Point</td>
<td>Link</td>
</tr>
<tr>
<td>BE</td>
<td>Fintech portal</td>
<td>Link</td>
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<tr>
<td>BG</td>
<td>Innovation hub</td>
<td>Link</td>
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<tr>
<td>CY</td>
<td>CBC Innovation Hub</td>
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<tr>
<td>CY</td>
<td>CYSEC Innovation Hub</td>
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<tr>
<td>CZ</td>
<td>FinTech contact point</td>
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<td>DE</td>
<td>FinTech Innovation Hub</td>
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<tr>
<td>DK</td>
<td>FinTech Team</td>
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<tr>
<td>EE</td>
<td>Innovation Hub</td>
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<td>GR</td>
<td>BoG FinTech Innovation Hub</td>
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<tr>
<td>GR</td>
<td>HCMC Innovation Hub</td>
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<tr>
<td>ES</td>
<td>Queries on technological innovation</td>
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<tr>
<td>ES</td>
<td>Portal Fintech</td>
<td>Link</td>
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<tr>
<td>FI</td>
<td>Innovation Help Desk</td>
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<td>FR</td>
<td>Pôle Fintech et Innovation</td>
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<tr>
<td>FR</td>
<td>Innovation &amp; Digital Finance Hub</td>
<td>Link</td>
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<tr>
<td>HR</td>
<td>CNB Innovation Hub</td>
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<tr>
<td>HR</td>
<td>Hanfa Innovation Hub</td>
<td>Link</td>
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<tr>
<td>HU</td>
<td>MNB Innovation Hub or InnoHub</td>
<td>Link</td>
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<tr>
<td>IS</td>
<td>FME FinTech Helpdesk</td>
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<tr>
<td>IE</td>
<td>Central Bank of Ireland Innovation Hub</td>
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<tr>
<td>IT</td>
<td>Milano Hub – Innovation Center of Bank of Italy</td>
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<td>IT</td>
<td>Canale Insurtech</td>
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<td>IT</td>
<td>Canale Fintech</td>
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<td>IT</td>
<td>LIFTECH</td>
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<tr>
<td>LV</td>
<td>Innovation hub Inovāciju centrs</td>
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<tr>
<td>LI</td>
<td>Regulatory Laboratory / Financial Innovation</td>
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<tr>
<td>LT</td>
<td>LB Newcomer Programme</td>
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<td>LU</td>
<td>Innovation Hub</td>
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<tr>
<td>MT</td>
<td>Innovation Office</td>
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<tr>
<td>NL</td>
<td>AFM, DNB, ACM InnovationHub</td>
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<tr>
<td>NO</td>
<td>Finanstilsynet Guide to fintech businesses</td>
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<td>PL</td>
<td>The KNF Innovation Hub Program</td>
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<td>PT</td>
<td>CMVM Innovation Hub</td>
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<td>PT</td>
<td>Portugal FinLab - Where regulation meets innovation</td>
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<td>PT</td>
<td>FinTech+</td>
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<td>RO</td>
<td>ASF FinTech Innovation Hub</td>
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<tr>
<td>RO</td>
<td>FinTech Innovation Hub</td>
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<tr>
<td>SK</td>
<td>Inovačný hub (innovation hub)</td>
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<tr>
<td>SL</td>
<td>Banka Slovenije's Fintech Innovation Hub</td>
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<tr>
<td>SE</td>
<td>Innovation Center</td>
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Source: 2023 ESAs Report on innovation facilitators
# Regulatory sandboxes in the EEA

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<td>CY</td>
<td>Sandbox</td>
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<td>DK</td>
<td>FT Labb</td>
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<tr>
<td>4</td>
<td>EE</td>
<td>Sandbox</td>
<td>Link</td>
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<tr>
<td>5</td>
<td>ES</td>
<td>Espacio controlado de pruebas (Controlled testing space)</td>
<td>Link</td>
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<tr>
<td>6</td>
<td>GR</td>
<td>Bank of Greece Regulatory Sandbox</td>
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<tr>
<td>7</td>
<td>HU</td>
<td>MNB Innovation Hub - Regulatory Sandbox</td>
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<tr>
<td>8</td>
<td>IT</td>
<td>IVASS Sandbox Regolamentare</td>
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<td>9</td>
<td>IT</td>
<td>Banca d’Italia Regulatory sandbox</td>
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<tr>
<td>10</td>
<td>IT</td>
<td>Banca d'Italia, CONSOB and IVASS Regulatory Sandbox</td>
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<td>11</td>
<td>LV</td>
<td>Bank of Latvia Regulatory Sandbox</td>
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<td>12</td>
<td>LT</td>
<td>Regulatory Sandbox</td>
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<td>MFSA FinTech Regulatory Sandbox</td>
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<td>Plan to establish</td>
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<td>15</td>
<td>NO</td>
<td>Finanstilsynet's regulatory sandbox</td>
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<tr>
<td>16</td>
<td>SK</td>
<td>Regulačný sandbox</td>
<td>Link</td>
</tr>
</tbody>
</table>

Source: 2023 [ESAs Report](#) on innovation facilitators
Objectives & benefits of IFs

✓ Both regulators and innovators recognise the benefits of IFs (see ESMA TRV report No.2 2022)

➢ spurring innovation while staying alert to emerging risks
➢ reduced asymmetric information
➢ reduced regulatory costs or uncertainty

Objectives of hubs

97% Enhance firms’ understanding of the regulation and supervisory expectations
81% Provide guidance on the conformity of applicant’s proposed business models with regulatory requirements
77% Get insights on potential need to adjust regulatory framework
74% Establishing a network between authorities and market operators to foster innovation
61% To emphasise jurisdiction’s openness to innovation
45% Provide guidance on the proportionate application of regulatory and supervisory requirements
35% Provide guidance on the technology applied (e.g. AI/ML, blockchain, etc)
26% Reducing costs and time for market entry for beneficial innovative products/services/business models
23% To attract new market participants

Objectives of sandboxes

100% Increase knowledge of the authorities about financial innovations, risks posed and opportunities provided
92% Foster innovation uptake in the financial market
92% Get insights on potential need to adjust regulatory framework
85% Enhance firms understanding of the applicability of the existing regulatory framework
77% Enhance legal certainty within the market
54% Inform authorities about their approach to the regulation and supervision of financial innovations via direct testing
38% Establishing a network between authorities and market operators to foster innovation
38% Prepare firms for supervision/regulation
Reducing costs and time for market entry for beneficial innovative products/services/business models
Inquiries & applications received

Average number of inquiries received by innovation hubs (average per hub, per year)

Applications to regulatory sandboxes received and accepted

Source: 2023 ESAs Report on innovation facilitators
How an innovation hub operates

Submission of enquiries (contact points via telephone &/or electronic interfaces, online meetings and/or websites)

Assigning queries to the relevant points of contact in the competent authorities

Providing responses to the firms

Interaction between domestic authorities; 3rd countries

Record keeping and transparency
Setting up & operating a hub

Pre-establishment principles

- conduct solid analysis of
  - local market conditions
  - required appropriate expertise, powers & processes
  - resources available to the competent authority

Operating principles

- to be made suitably visible to market participants
- clearly defined points of contact for firms
- defined & made public objectives, functions & tools
- the scope of entities eligible for/served by the hub should be clearly defined & made public
- key information required from inquirers should be defined clearly
- providing a response within a reasonable timeframe
- learnings from innovation facilitators disseminated internally & to the market
- operational functioning & resourcing should be reviewed

Potential challenges

- Expectations of inquirers do not correspond to the scope & mandate of the hub
- Inquirers expecting to get a “stamp of approval”
- No always meet the expectations of inquirers (prompt & precise responses)
- Domestic & cross-border coordination
- Assessing performance
How a regulatory sandbox operates

Application
- Firm submits an application.
- Application judged against publicly available criteria.
- Decision on participation made by the competent authority.

Preparation
- Testing parameters determined by the competent authority.
- Where the activity will involve the carrying out of a regulated activity and the appropriate licence is not held already, the firm must apply for the appropriate licence.
- Limitations or restrictions imposed as appropriate pursuant to the testing plan.

Testing
- Testing window where firm is able to test its proposition.
- Competent authority monitors the testing process.

Evaluation
- Results of test reviewed and evaluated.
- Decision taken on the most appropriate approach to exiting the sandbox.
- As appropriate, removal of limitations or restrictions imposed for the purposes of the testing phase, or discontinuation of licence (through withdrawal).
Setting up & operating a sandbox

Pre-establishment principles

- conduct solid analysis of
  - local market conditions
  - required appropriate expertise, powers & processes
  - resources available to the competent authority

Operating principles

- sandbox to be made suitably visible to market participants
- clearly defined points of contact for firms
- defined & made public objectives, functions & tools
- defined & made public scope of entities eligible for testing
  - clear entry conditions/criteria
  - information to support applications for participation
  - participation in sandboxes should be acknowledged
  - testing parameters imposed to mitigate any risks
  - participating firms should disclose to any consumers the fact the services are being provided in the sandbox, and the implications for the consumer
  - exit plans (both continuation or not tested proposals)
- maintaining records relating to the operation of a sandbox
- learnings from innovation facilitators disseminated internally & to the market
- operational functioning & resourcing should be reviewed

Potential challenges

- Keeping pace with industry
- Domestic coordination
- Cross-border cooperation
- Level playing field
- Perception as endorsement of tested innovations by CAs
- 2 tiers between the firms in a sandbox & outside it
EU Framework for Cross-Border Testing

- **Framework** adopted in 2021 (EFIF initiative linked to the EU Digital Finance Platform)

- Aims to facilitate communication and cooperation among the participating national authorities regarding sandbox testing

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
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<tbody>
<tr>
<td>1. Multi-sandbox testing</td>
<td>Testing in two or more regulatory sandboxes in different Member States, facilitating visibility over the tests among national authorities involved in testing, and possibly also for additional observing national authorities.</td>
</tr>
<tr>
<td>2. Observing sandbox testing</td>
<td>Testing in a regulatory sandbox in one Member State, facilitating early visibility over the test for observing national authorities in another/other Member State(s).</td>
</tr>
<tr>
<td>3. Sharing of test findings</td>
<td>Testing in a regulatory sandbox in one Member State, and making findings from this test available to national authorities in another/other Member State(s).</td>
</tr>
</tbody>
</table>

A firm fills in and uploads a standardised common form, picking one of three options:

- Relevant national authorities consider the request and notify the firm of the decision on admission.
- Additional national authorities can indicate interest in getting involved, either as an observer or by receiving test findings, subject to the firm’s approval.
- Individual national authorities prepare and run the testing process according to the respective national requirements.
- At the end of the testing period, national authorities evaluate the results (unless testing is ended prematurely and the firm exits the sandbox).
- High-level information about testing and lessons learned is shared with the European Forum for Innovation Facilitators.

National supervisors can share information and discuss relevant issues via the Platform.
Any questions?