

# Fostering Financial Innovation

## Sandboxes, Innovation Offices, Incubators and Accelerators

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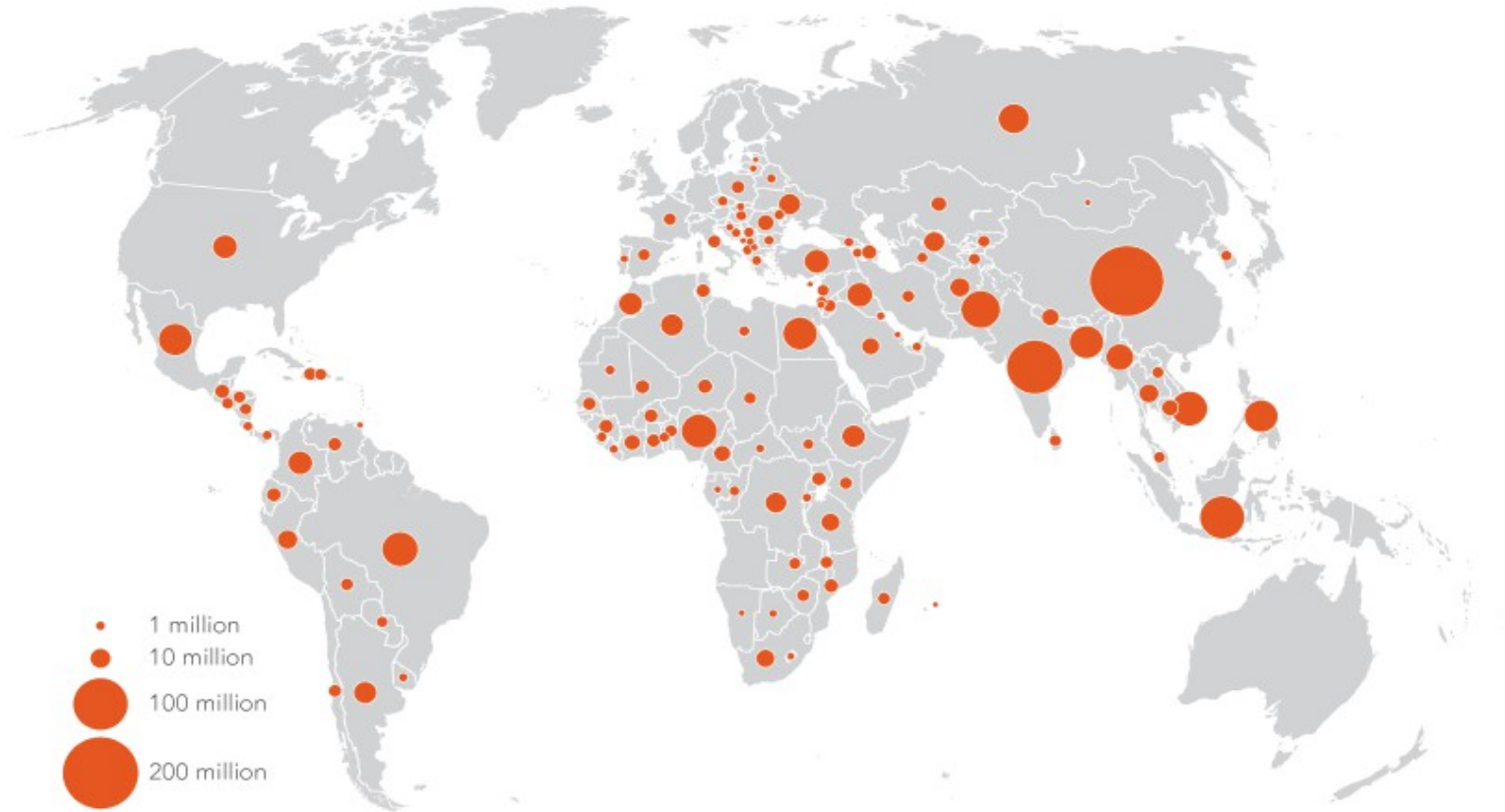
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## Why Foster Innovation



# Advances in Financial Technology hold the key to achieving the World Bank goal of Universal Financial Access by 2020

**Two-thirds of unbanked adults have a mobile phone**  
Adults without an account owning a mobile phone, 2017

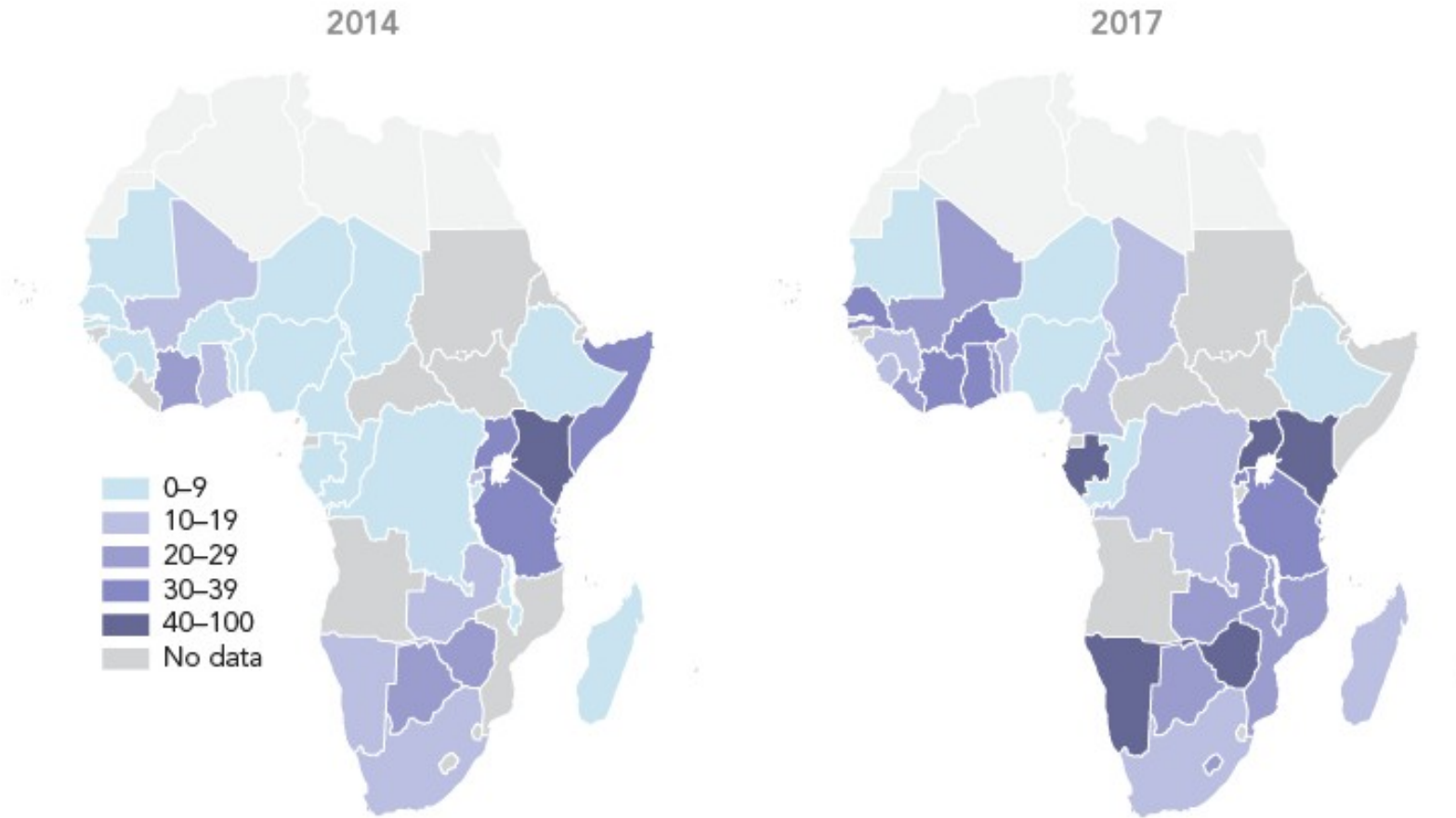


Sources: Global Findex database; Gallup World Poll 2017.

Note: Data are not displayed for economies where the share of adults without an account is 5 percent or less.

# In Africa in particular, access has been driven by mobile money

Adults with a mobile money account (%)



Source: Global Findex database.

Note: Data are displayed only for economies in Sub-Saharan Africa.

# FinTech is helping address access and broader inclusion, which remains a challenge even for those with access

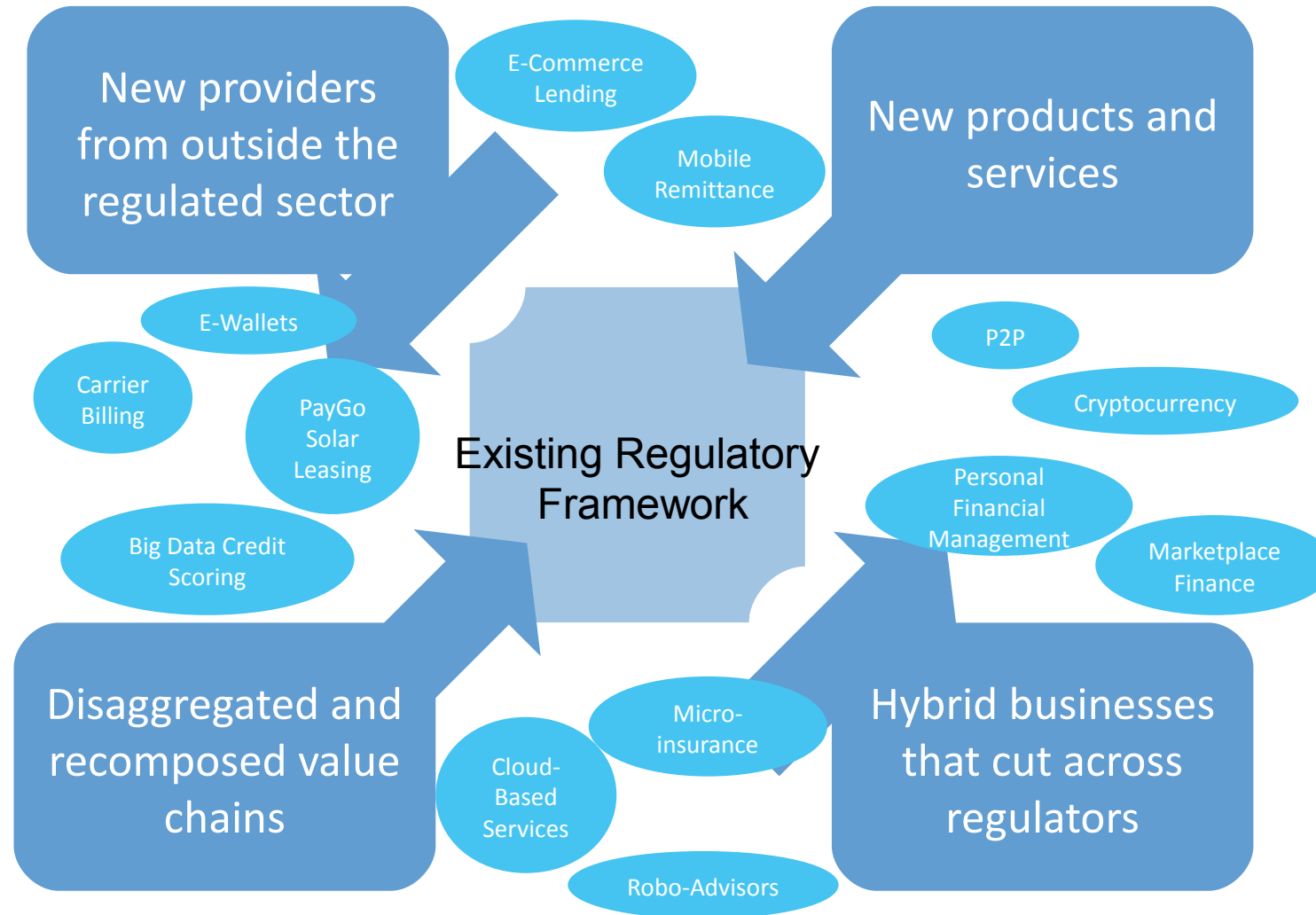
## Inclusion Challenges

1. High cost to serve small borrowers and savers, relative to revenue potential
2. Risk due to lack of credit history and collateral
3. Lack of skills, financial literacy, and bankability

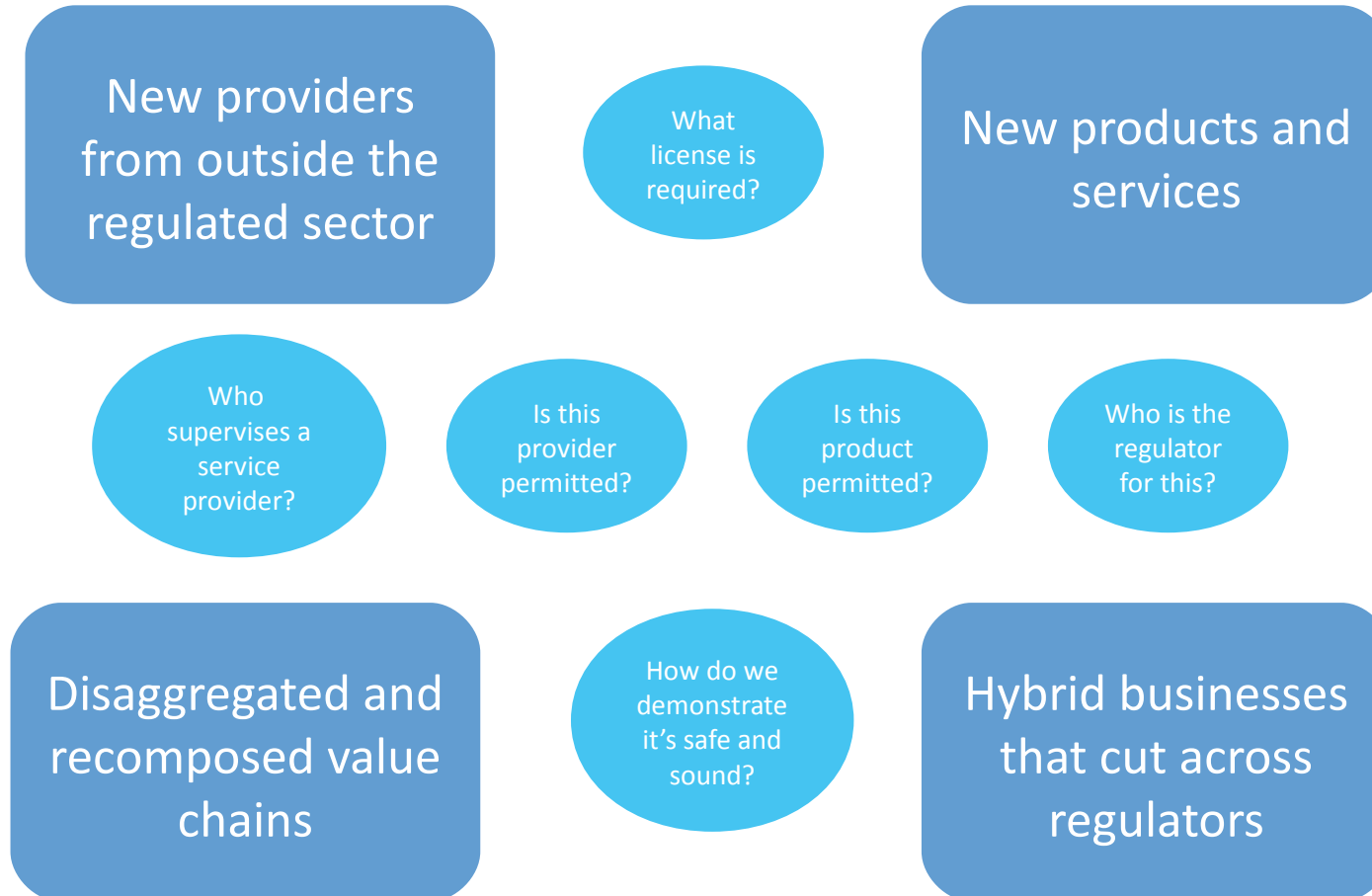


Potential Fintech-enabled Solutions

# Remember the regulator's challenge from yesterday?



# The regulator's challenge is the innovator's hurdle







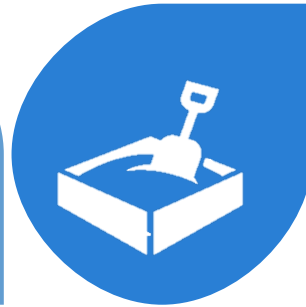
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## Sandboxes and Innovation Offices

# What is a regulatory sandbox?

**Virtual** environment for innovators (existing and start-ups) to **test new ideas** with **real customers** within a **defined timeframe**

Allows regulators to adopt a **proportionate** and **proactive approach** towards regulation



Support **Financial Stability, Inclusion** and **Competition** objectives.

Provides **intelligence** on developments, trends and emerging risks to the regulator.



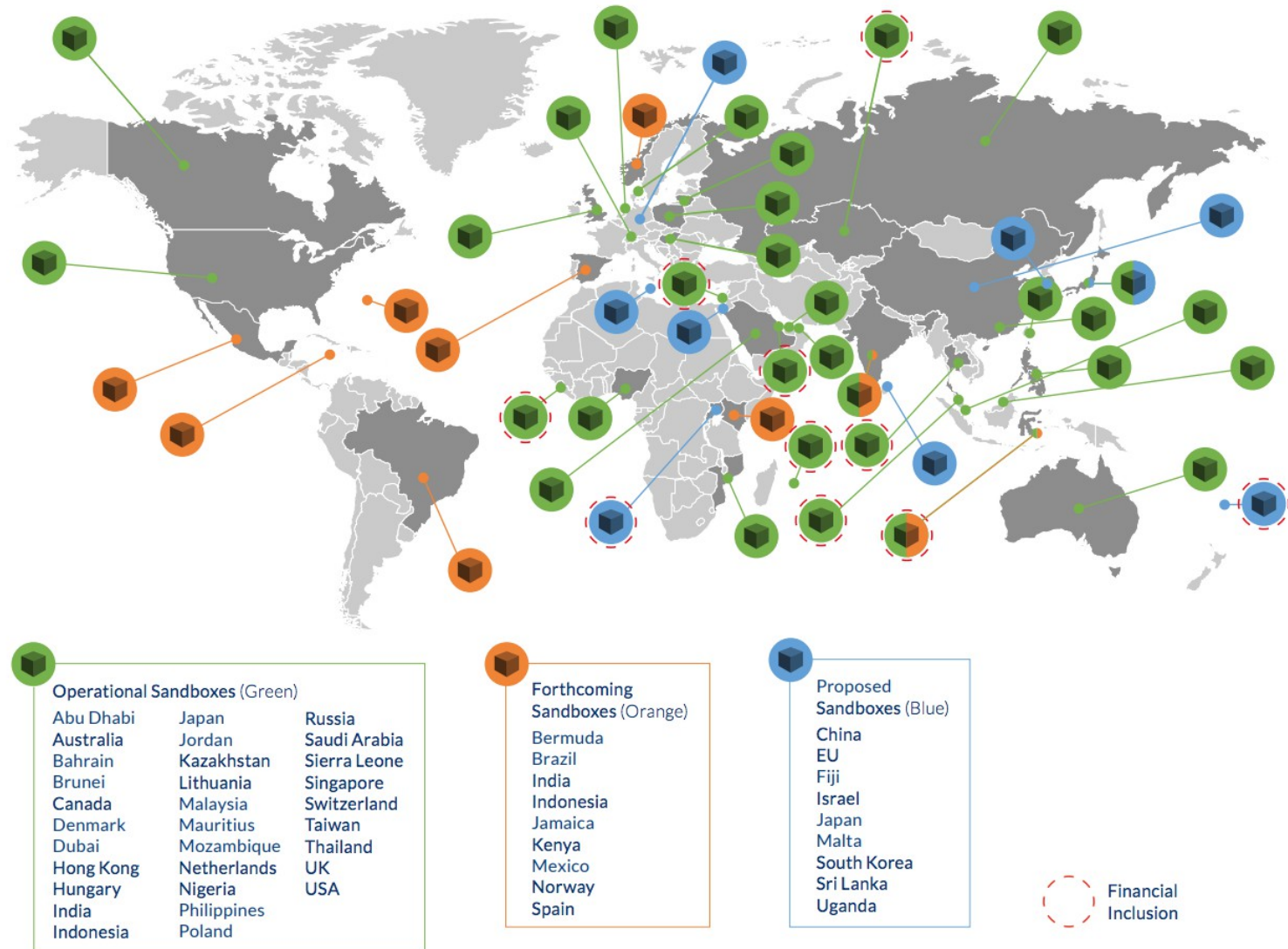
Allows the regulator to **oversee trials** using a customized regulatory environment for each pilot

NOT intended to circumvent extant laws and regulations

# Sandboxes


## Observations


- Product testing more common than policy testing
- Granting waivers or 'sandbox license' may require legislation
- Resource intensive
- Regulatory coordination essential for multi-regulator jurisdictions



# Sandbox approaches in selected countries

General Information		Type of Applicant		Benefits for Businesses			Safeguards			
Country	Regulator	Authorized/ Licensed/ Incumbents	Unauthorized/ Unlicensed/ Startups	Regulations relaxed or waived	Licensing requirements relaxed or waived	Clarifications on regulatory expectations	Limits on customers, value and/or duration	Additional reporting obligations/closer monitoring	Additional consumer protections/risk mitigation	Specified regulations that cannot be waived
Australia	ASIC	✗	✓	✗	✓	✗	✓	✓	✓	✓
Canada	CSA	✓	✓	✓	✗	✓	✗	✗	✓	✗
Hong Kong SAR	HKMA	✓	✗	✓	✗	✗	✓	✓	✓	✗
Malaysia	BNM	✓	✓	✓	✗	✗	✓	✓	✓	✗
Singapore	MAS	✓	✓	✓	✗	✗	✓	✓	✓	✓
Switzerland	FDF	✓	✓	✗	✓	✗	✓	✗	✓	✓
United Arab Emirates	ADGM	✓	✓	✓	✗	✗	✓	✓	✓	✗
United Kingdom	FCA	✓	✓	✓	✓	✓	✓	✓	✓	✓

 Explicitly mentioned in the regulatory authority's disclosure, staff analysis.

 Either not required or not mentioned in the regulatory authority's disclosure.

Source: IMF staff.

# Sandbox benefits

## ➤ For Regulator

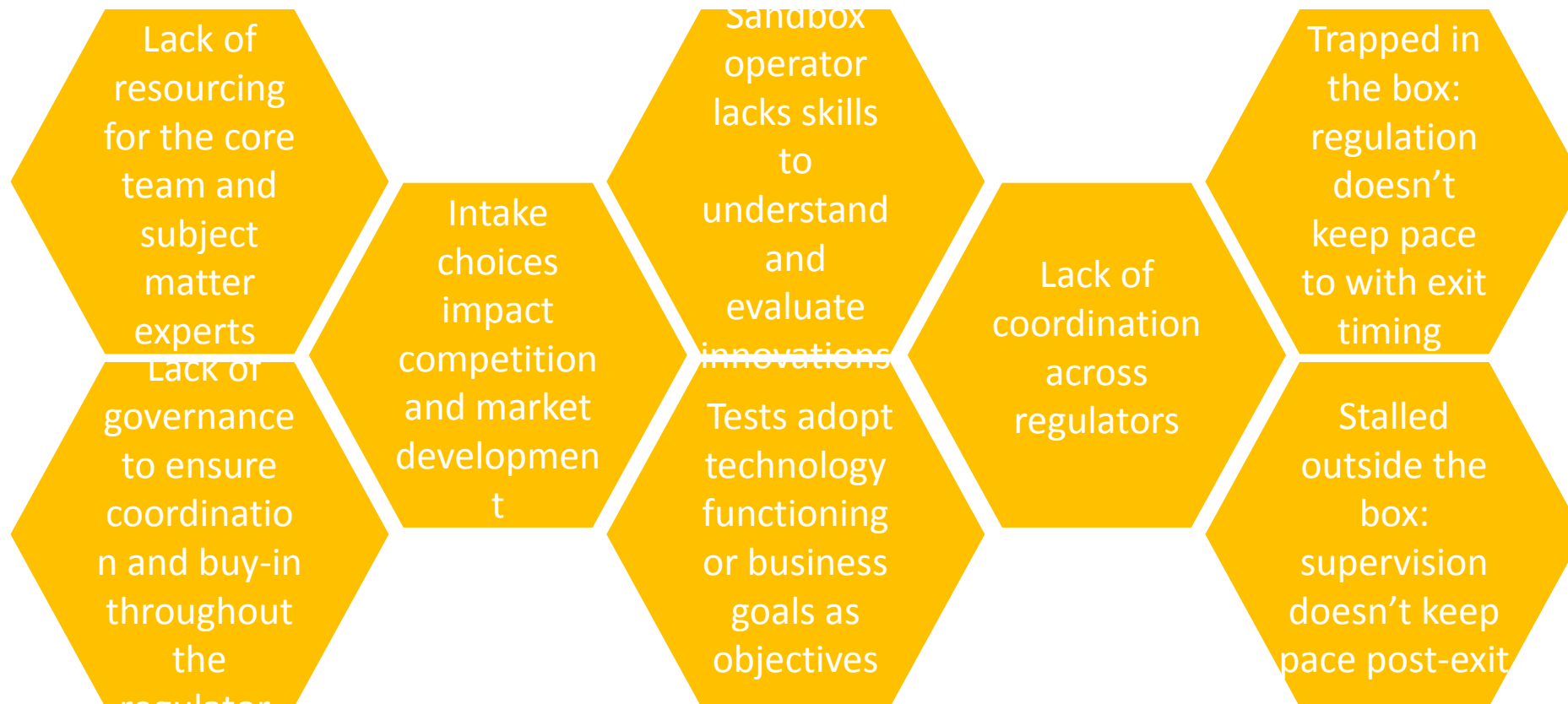
- Develop an ecosystem conducive to innovation
- Foster entry for competition and inclusion
- Understand new technologies
- Test how innovations are covered by current regulation
- Accelerate efforts to develop guidelines for new technologies and business models
- Identify appropriate consumer protection safeguards to require of new products and services

- Improve communication between regulators and innovators

## ➤ For Innovators

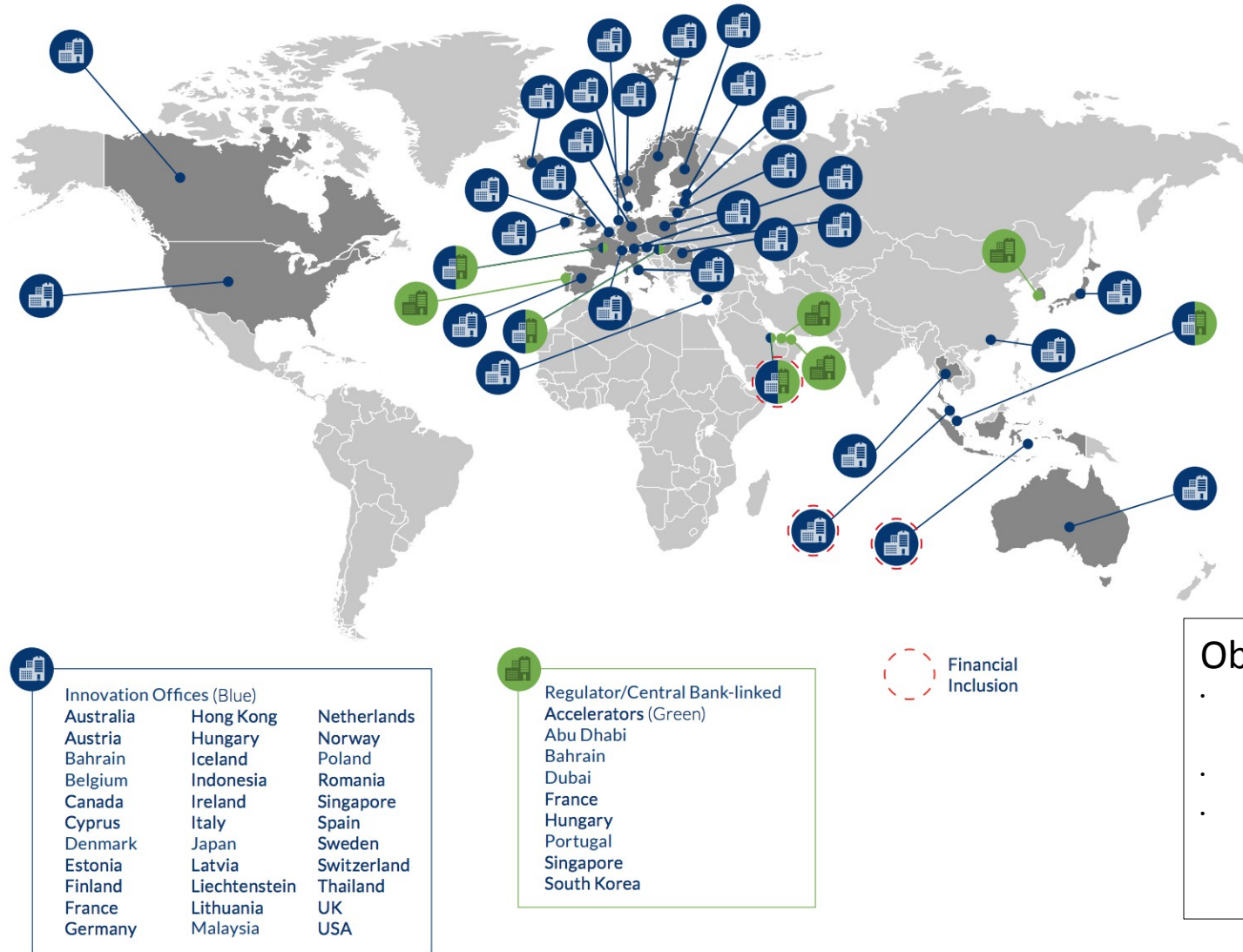
- Opportunity to test innovative products and services
- Reduce regulatory uncertainty for innovators
- Reducing the time and cost of getting innovative ideas to market
- Consumer comfort and assurance
- Better access to finance as product's viability and regulatory comfort are confirmed
- Identify appropriate consumer protection safeguards to build into new products and services

# Sandbox risks





# Innovation Offices



## Observations

- Good option for capacity constrained regulators
- Requires no changes in legislation
- Can address many of the issues startups face, but may not provide as much education for regulators

Sources: UNSGSA FinTech Working Group and CCAF (2019), and European Supervisory Authorities (2019)

## Sample functions of an Innovation Office

- Point of contact for innovators
  - Explain regulations
  - Direct innovators to the appropriate regulator/department
- Interface with innovation ecosystem
  - Conferences/Workshops with academic organizations, industry groups, accelerators and incubators
  - Work with industry groups on approaches to deploying new technologies and developing norms and self-regulatory standards
- Liaise with other regulators



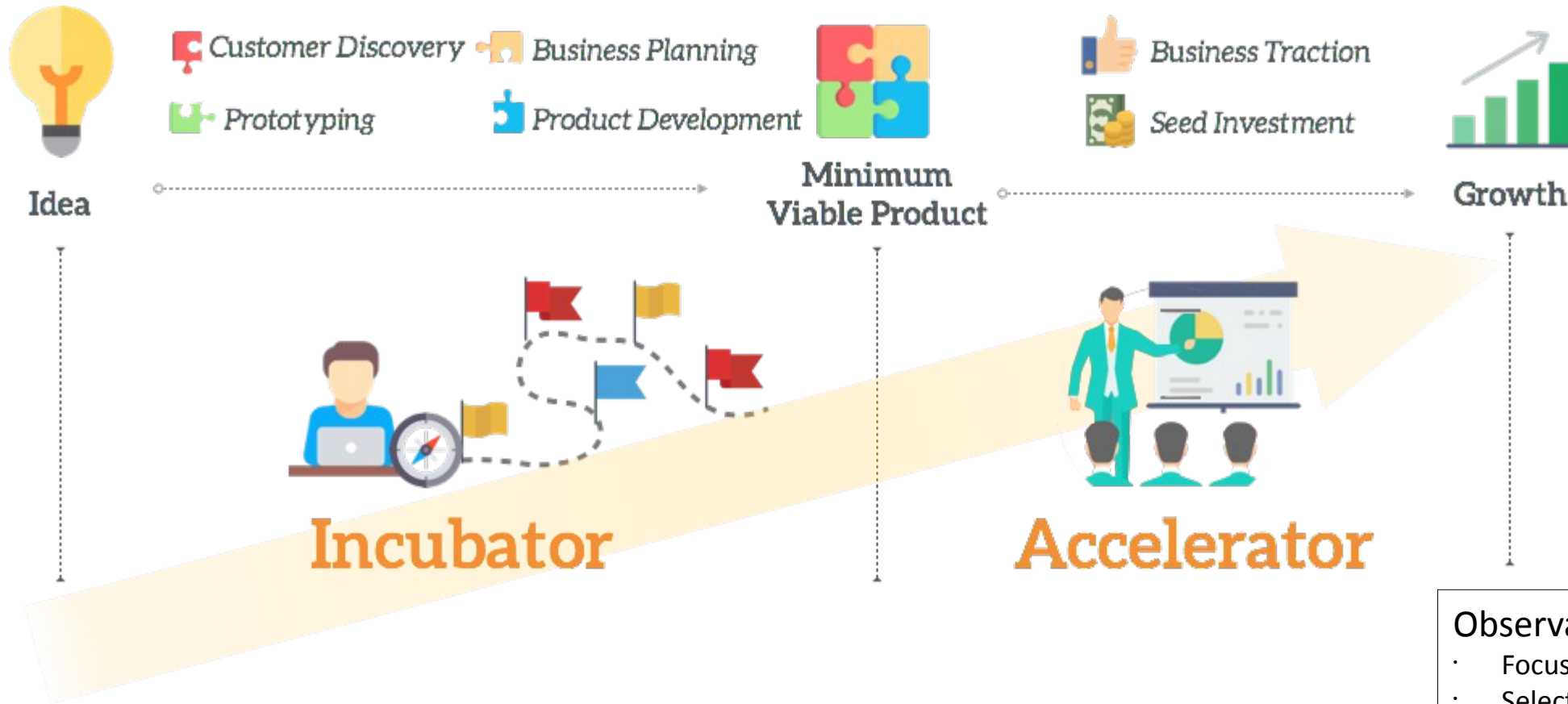




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Incubators and Accelerators

# Incubators and Accelerators



## Observations

- Focused on building businesses
- Selection, funding, mentoring and other services require strong VC and business development skills

Source: <https://medium.com/bridgeforbillions/incubators-vs-accelerators-what-the-heck-is-the-difference-aa052c23fb25>