Fostering Financial Innovation
Sandrobes, Innovation Offices, Incubators and Accelerators

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1 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?

- New providers from outside the regulated sector
  - E-Wallets
  - Carrier Billing
  - PayGo Solar Leasing
  - Big Data Credit Scoring

- Disaggregated and recomposed value chains
  - E-Commerce Lending
  - Mobile Remittance

- New products and services
  - P2P
  - Cryptocurrency
  - Personal Financial Management
  - Marketplace Finance

- Hybrid businesses that cut across regulators
  - Micro-insurance
  - Cloud-Based Services
  - Robo-Advisors

- Existing Regulatory Framework

- E-Commerce
- Lending
- Big Data
- Credit Scoring
- Marketplace
- Finance
- Carrier Billing
- Solar Leasing
- Cloud-Based
- Services
- Robo-Advisors

World Bank Group
Finance, Competitiveness & Innovation
The regulator’s challenge is the innovator’s hurdle

New providers from outside the regulated sector

What license is required?

Is this provider permitted?

Who supervises a service provider?

Disaggregated and recomposed value chains

Is this product permitted?

How do we demonstrate it’s safe and sound?

New products and services

Who is the regulator for this?

Hybrid businesses that cut across regulators

What

permissions

are

required?
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.
- Provides **intelligence** on developments, trends and emerging risks to the regulator.
- Support **Financial Stability**, **Inclusion** and **Competition** objectives.
- Allows the regulator to **oversee trials** using a customized regulatory environment for each pilot.

**NOT intended to circumvent extant laws and regulations.**
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**

<table>
<thead>
<tr>
<th>Country</th>
<th>Regulator</th>
<th>Type of Applicant</th>
<th>Benefits for Businesses</th>
<th>Safeguards</th>
<th>Source: IMF staff.</th>
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<tbody>
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<td>Unauthorized/Unlicensed/Startups</td>
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- Explicitly mentioned in the regulatory authority's disclosure, staff analysis.
- Either not required or not mentioned in the regulatory authority's disclosure.
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

- Trapped in the box: regulation doesn’t keep pace to with exit timing
- Testing technology against business goals as objectives
- Lack of coordination across regulators
- Intake choices impact competition and market development
- Sandbox operator lacks skills to understand and evaluate innovations
- Lack of resourcing for the core team and subject matter experts
- Lack of governance to ensure coordination and buy-in throughout the regulator system
- Stalled outside the box: supervision doesn’t keep pace post-exit
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
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
  – Domestic financial and non-financial (e.g. Telecom) regulators
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