

Regulatory sandboxes: A good space for fintechs and Sarb to play nicely

One of the objectives of South African Reserve Bank's (Sarb) recently announced fintech programme, aimed at reviewing the regulatory implications of emerging fintech innovations, is deciding on the applicability of regulatory sandboxes.



Sarb to weigh up fintech and its impact on regulation

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This would be an excellent way for South Africa to innovate and safely take fintech to market, providing consumers with confidence in the new offerings, says Matthew Barnard, BBD executive.



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“A regulatory sandbox allows for live testing of innovations such as new products and services in a controlled environment, under a regulator’s supervision (Sarb), to ensure regulation is adhered to and that the regulator has the time to adapt legislation as needed.”

He emphasises how this collaborative approach can be a very effective way to safely take fintech to market, in a manner that promotes consumer confidence in the new offering. “The first regulatory sandbox was introduced by the UK’s Financial Conduct Authority (FCA) in 2015, ensuring consumer protection and market competition. Since the launch, 60 organisations have tested their innovations with real customers in a live market, under controlled conditions. 90% of the organisations that tested progressed towards a wider market launch and 40% of firms that completed testing received investment during or following their sandbox test.”

In South Africa, the outcomes could truly change lives, given how financial inclusion is still not mainstream. Barnard believes regulatory clarity is key for the mass adoption of fintech, as operating costs can be lowered and societal benefits enhanced, by boosting financial inclusion and delivering more convenient financial services.

Responding to real demand

As long as the adoption of the emerging technologies doesn't weaken a country's financial system or erode consumer protection, a regulatory sandbox can open the space for positive change through innovation. "It should respond to real demand and not just be about solutions that are looking for a problem. They should be deemed an important compliment to a policy maker's existing approaches to dealing with innovation."

An example of how the promotion of innovation to improve financial inclusion has addressed the needs of the excluded or underserved is M-Pesa, launched in 2007 in Kenya. The mobile money service changed the African payments landscape, with 30-million customers in 10 countries now being serviced, processing six-billion transactions.

"Imagine if similar revolutionary solutioning could be tested in a South African regulatory sandbox. "Distribution channels could be created to address the needs of marginalised customers in remote and rural areas. Much needed financial sector growth could be facilitated."

Other countries running regulatory sandboxes include the US, Canada, Russia, Singapore, Australia, Malaysia and Hong Kong to name a few.

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