

# REGULATORY SANDBOXES AND CONSUMER PROTECTION

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# OUTLINE

1. Regulatory sandboxes vs industry sandboxes
2. Regulatory sandbox models
3. Key consumer protection issues in a regulatory sandbox
4. Layers of consumer protection in a regulatory sandbox



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# REGULATORY SANDBOXES VS INDUSTRY SANDBOXES

- A regulatory sandbox
  - Creates a ‘safe space’ for businesses
  - Developed by the regulator for the industry
  - ‘On-market’ - businesses interact with consumers/clients
- An industry sandbox
  - Creates a ‘safe space’ for businesses
  - Developed by the industry for the industry
  - ‘Off-market’ - businesses do not interact with consumers/clients

# REGULATORY SANDBOX MODELS

- Sandbox umbrella
- New regulated activity
- ‘Pseudo-sandbox’



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# SANDBOX UMBRELLA

- Benefits
  - Eliminates the need for individual firms to obtain authorisation
  - Can be set up by the industry
  - Faster implementation compared to legislative change
- Challenges
  - Could be complex to set up
  - May have limited scope
  - Reduced regulatory oversight over individual firm innovations
  - May obscure deficiencies of tested solutions

# NEW REGULATED ACTIVITY

- Benefits
  - Flexibility (regulators can design their own approaches)
  - Regulator's approval of a sandbox application can attract investors
  - Absence of fixed restrictions would be attractive for firms
- Challenges
  - Firms require individual authorisation/waivers/relief
  - Regulator's flexibility may be limited by legislation/international rules
  - Changes to regulations can take time to enter into force
  - Activities outside the scope of a regulator's mandate are not eligible

# ‘PSEUDO-SANDBOX’

- Benefits
  - Does not require a special ‘sandbox’ regime
  - Requires fewer resources
  - Class waivers do not require regulators to assess the level of innovation of each project
- Challenges
  - Class waivers can be very limited in scope
  - Class waivers are less interactive (no knowledge exchange)
  - Usefulness of individual relief depends on regulator’s efficiency/experience

# AUSTRALIA'S SANDBOX

- Existing exemptions from licensing requirements
- Fintech licensing exemptions
  - Notification to ASIC (no approval required)
  - Up to 12 months
  - Up to 100 retail clients (with individual exposure limits)
  - Total client exposure no more than \$5 million
  - Limited scope - only advice and dealing
- Individual exemptions by ASIC



# SANDBOXES AND CONSUMER EMPOWERMENT

- Assisting consumers with financial difficulties
- Increasing transparency of financial services
- Easier money transfer
- Automated processes

# SANDBOXES AND CONSUMER EMPOWERMENT

- Alternative savings methods
- Risk reduction
- Managing multiple services/assets simultaneously
- Simplifying investment decisions by consumers

# ENCOURAGING COMPETITION VS CONSUMER PROTECTION

- Key consumer concerns
  - Access - broad range of affordable financial services
  - Suitability - appropriateness of certain risky products
- Key issues
  - Product complexity
  - Unknown quality/obscure risks
  - Opaque pricing
  - Complex disclosures
  - Financial illiteracy

# ENCOURAGING COMPETITION VS CONSUMER PROTECTION

- Flawed consent model
- Financial system stability
- Dispute resolution and consumer redress
- Cybersecurity
- Genuine innovation or more effective sales methods?
- “Light touch” regulation = light touch consumer protection?

# CONSUMER PROTECTION VS PSEUDO-SANDBOX

- Entry test
  - no prior assessment (notification to regulator)
- Eligibility criteria
  - no test of innovation
- Regulator's intervention
  - options are reactive and may be limited (eg court process)

# CONSUMER PROTECTIONS IN AUSTRALIA'S SANDBOX

- General disclosure
- Special disclosures for financial services and credit products
- Adequate compensation requirements
- Dispute resolution system

# DIFFERENT LAYERS OF CONSUMER PROTECTION IN A REGULATORY SANDBOX

- Application stage
- Disclosure to clients
- Ongoing performance

# DIFFERENT LAYERS OF CONSUMER PROTECTION IN A REGULATORY SANDBOX

- Complaint handling
- Handling client money
- Handling client data



# DIFFERENT LAYERS OF CONSUMER PROTECTION IN A REGULATORY SANDBOX

- Exit strategy
- Compensation for client losses
- Termination

# CONSUMER PROTECTION ISSUES IN SANDBOX REGULATIONS - UK (FCA)

Customer protections decided on a case by case basis, but within existing standards

- Retail consumers
- Sophisticated customers
- Additional safeguards

# UK (FCA) SANDBOX: CONSUMER POV

		Positive	Negative
Consumer benefit	Does the innovation offer a good prospect of identifiable benefit to consumers (either directly or via heightened competition)?	<p>The innovation is likely to lead to a better deal for consumer directly or indirectly.</p> <p>You have <b>identified any possible consumer risks</b> and proposed mitigation.</p>	<p>Likely <b>detrimental impact on consumers</b>, markets or the financial system.</p> <p>It looks designed to circumvent regulations.</p>
Ready for testing	Are you ready to test the innovation in the real market with real consumers?	<p>You have sufficient <b>safeguards in place to protect consumers</b> and is able to provide appropriate redress if required.</p>	<p>The proposed <b>customer safeguards are inadequate</b> and/or appropriate redress cannot be provided.</p>

# CONSUMER PROTECTION ISSUES IN SANDBOX REGULATIONS - SINGAPORE (MAS)

- MoneySENSE - national financial education programme
- Consumer guidance on sandboxes
  - Need to check whether the company is listed on MAS website
  - Need to understand the risks
  - Need to know what would happen after the exit from sandbox



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