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Regulatory Sandbox Framework

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FinTech and Innovation Office
Bank of Ghana

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1.0 Introduction

Digital technology has changed the way the Ghanaian financial service industry offers products and services to consumers. New financial service business models based on digital technologies, popularly referred to as FinTechs, are enabling inclusive access to financial services across diverse product types including savings, payment, credit, advisory services, investment management, insurance and pensions.

With the passage of the Banks and Specialised Deposit-Taking Institutions Act, 2016(Act 930) and the Payment Systems and Services Act, 2019(Act 987), a conducive environment has been created to spur innovative digital financial services without risking the stability of the financial service industry. However, the dynamism in the digital financial service ecosystem requires regular retooling of the regulatory environment for continuous relevance in the promotion of innovation and the mitigation of emerging risks.

To this end, the Bank of Ghana has established a regulatory and innovation sandbox as an important tool for evolving a regulatory framework supportive of responsible innovations and for nurturing new business models. This framework enables small scale, live testing of innovative financial products, services and business models by eligible financial service providers and start-ups (operating under a special exemption, allowance, or other limited, time-bound exception) in a controlled environment under the supervision of the Bank of Ghana. By this arrangement, innovators are permitted to temporarily test new ideas without being subjected to the full set of regulatory requirements applicable outside the sandbox while addressing users' and the regulator's respective concerns.

2.0 Objectives of the Regulatory Sandbox

The Bank of Ghana's Regulatory Sandbox is aimed at:

- (i) permitting the Bank to obtain evidence pertaining to financial innovation with a view to improve regulations, guidelines, and policies for emerging technologies;
- (ii) assisting the Bank to learn about innovations faster;
- (iii) identifying and mitigating risks associated with innovative products, services and business models prior to go-live;
- (iv) allowing innovators to test their innovative solutions in a controlled environment, while ensuring safety for consumers and the protection of the overall payment and financial ecosystem;
- (v) reducing time-to-market for innovative products, services and business models of innovators;
- (vi) reducing the cost of innovation for start-ups and existing entities (payment service providers, Banks, Specialised Deposit-Taking Institutions, Non-Bank Financial institutions);
- (vii) encouraging emerging innovators to formalize their businesses; and
- (viii) bridging the information and expectation gap between Bank of Ghana as a regulator and innovators for effective collaboration towards a robust, resilient and inclusive financial service industry.

3.0 Principles governing the Regulatory Sandbox

Underpinning the Bank of Ghana's Regulatory Sandbox are the following principles to guide the sandbox operations:

1. Transparency

This Regulatory Sandbox Framework shall be publicly communicated to provide emerging innovators and existing entities with a clear understanding and appreciation of the operations of the sandbox.

2. Accountability

The sandbox participants have a duty to provide true and accurate information to the Bank of Ghana and their customers. The sandbox participants further have a responsibility to ensure that services, products, etc. are delivered to their customers with the highest professional standards. Sandbox entities must be ready to accept the consequences of failing to meet the sandbox expectations.

3. Technology Neutrality

The Bank of Ghana shall remain technologically neutral as far as innovative products, services and business models are concerned. At all times, it shall focus solely on the functionality of the products, services and business models in the regulation and supervision of entities that obtain approval to partake in the sandbox.

4. Equality and Fairness

An end-to-end process for sandbox entry and exit shall be adopted and applied to emerging innovators and existing entities in a fair and equitable manner, free from discrimination.

5. Proportionality

The regulatory requirements and supervisory efforts of the Bank of Ghana shall be proportionate to the assessed risk in the operations of a sandbox participant. Depending on the area of innovation to be embarked on by a sandbox participant, different supervisory requirements consistent with their operations shall apply.

6. Co-operation in Supervision

In the event of the adoption of a multi-tenant Regulatory Sandbox, the Bank of Ghana will cooperate with the relevant financial sector regulatory bodies including the Securities and Exchange Commission (SEC), National Pensions Regulatory Authority (NPRO) and the National Insurance Commission (NIC) for the effective oversight and monitoring of cross sectorial innovative services, products or business models.

4.0 Scope of the Regulatory Sandbox

4.1 Scope

The Bank of Ghana's Regulatory Sandbox shall be open to:

1. New digital business models not currently covered explicitly or implicitly under any regulation;
2. New and immature digital financial service technology; and
3. Innovative digital financial products and services that have the potential of addressing a persistent financial inclusion challenge.

4.2 Exclusions

The Regulatory Sandbox shall exclude the following products, services or business models:

1. Solutions that do not provide additional or material value to existing payment and financial service solutions; and
2. Solutions for which regulatory status can be determined without live testing in the market place.

4.3 What the Regulatory Sandbox is not

For the avoidance of doubt, the Regulatory Sandbox is not:

1. a permanent license to operate; or
2. a 'free pass' to operate without oversight or supervision.

Banks and SDIs shall require prior written approval from the Bank of Ghana in compliance with the requirement of section 18(5) of Act 930.

5.0 Types of Applicants

Entities eligible to apply to participate in the Regulatory Sandbox (admission subject to fulfilling eligibility criteria) shall fall into the following two broad categories:

5.1 Regulated Financial Institutions

Entities licensed under the Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930), the Payment Systems and Services Act, 2019 (Act 987), and other Non-Bank Financial Institutions are capable of

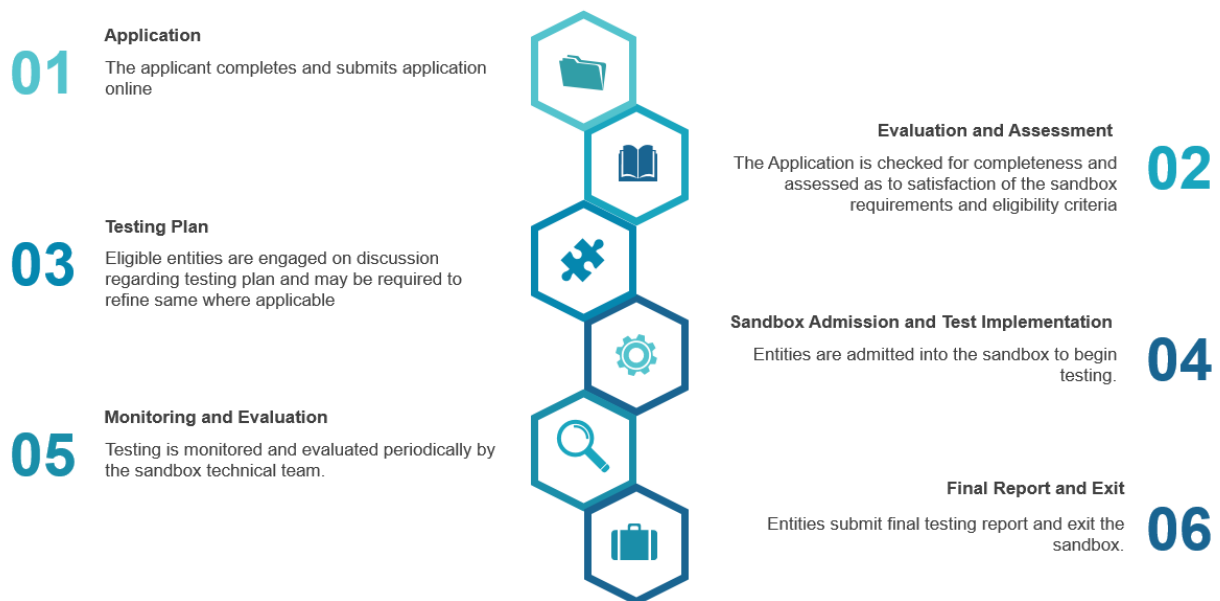
applying to the Bank of Ghana, to enter the Regulatory Sandbox. These entities include,

- Banks;
- Specialized Deposit-Taking Institutions;
- Payment Service Providers;
- Dedicated Electronic Money Issuers;
- Financial Holding companies; and
- other Non-Bank Financial Institutions.

5.2 Non-Licensed Financial Institutions

FinTech start-ups that are unlicensed and seek to enter the Regulatory Sandbox either alone or in partnership with other licensed entities.

6.0 The Regulatory Sandbox Journey



7.0 Application Stage

An applicant must address and provide information to the Bank of Ghana relating to the following areas:

7.1 Nature of the innovative product, service or business model

Evidence demonstrating any one of the following:

- A new digital business model not currently covered explicitly or implicitly under any regulation;
- A new and immature digital financial service technology; and
- Innovative digital financial products and services that have the potential of addressing a persistent financial inclusion challenge.

7.2 Company Profile

At a minimum, the incorporation documents including the incorporation certificates, company profile, and the company constitution.

7.3 Governance

Details regarding its governance and ownership structure.

7.4 Consumer benefits and safeguards

Sufficient information detailing:

- the identifiable direct or indirect benefit(s) the proposed innovative product, service or business model would have on consumers.
- the type(s) of customers targeted to participate in the Regulatory Sandbox and the intended mode of acquisition of these customers.
- the potential risks to customers that may arise from the testing of the innovative product, service or business model in the Regulatory Sandbox and the consumer protection mechanisms to safeguard identified risks.

7.5 Readiness to test

Demonstrate the readiness to test its product, service or business model in the Regulatory Sandbox and furnish the Bank of Ghana with a testing plan indicating among others:

- a clear methodology of the testing and the controls in place;
- Key Performance indicators;
- Timelines for the execution of identified milestones;
- Risk management mechanisms adopted;

- The legal and regulatory requirements the applicant seeks to be waived, to allow testing in the Regulatory Sandbox (where applicable).

7.6 Exit Plan

An exit plan indicating:

- an ability to commercially deploy its innovative product, service or business model upon the success of testing in the sandbox;
- measures to safeguard its consumers in the event that testing is unsuccessful or is discontinued.

8.0 Evaluation Stage

8.1 Stage 1

The first stage of evaluation entails a preliminary assessment of an application to determine completeness as regards documentation submitted. This stage does not constitute an in-depth review of documentation to determine compliance with the sandbox requirements.

8.2 Stage 2

The innovative product, service or business model will be subjected to a 'Nature of the innovative product, service or business model' test to determine alignment with the scope set out under 4.0. Applicants that do not pass this test will be unable to proceed further and shortlisted applicants will proceed to the next phase for further evaluation.

8.3 Stage 3

Where an applicant satisfies conditions under stages 1 and 2, an in-depth review of the application shall be conducted by the Bank of Ghana vis-à-vis the sandbox requirements. Particular attention shall be paid to an applicant's testing plans and assessments shall be conducted to determine at a minimum, the existence of, among others:

- Market research/due diligence carried out by the applicant on the proposed innovative product, service or business model;
- Objectives of testing, test scenarios, boundaries for testing and expected outcomes of testing;
- Key Performance indicators and Key Milestones with applicable completion timelines;
- A monitoring plan ensuring compliance with testing conditions;
- Clear and transparent customer onboarding process;
- Consumer protection safeguards during testing including
 - clear communication intended to be issued to customers on participating in testing;
 - Mechanism to obtain the prior written consent of customers to participate in testing;
 - Clear communication intended to inform customers of the risks of participating in the Regulatory Sandbox;
 - limits on the number and types of customers to participate;
 - limits on transaction sizes and types;
 - Safeguards to protect customers against losses (e.g. ring-fencing, insurance, guarantees);
 - Details of the potential risks to customers that may arise from the testing of the innovative product, service or business model in the Regulatory Sandbox and the consumer protection mechanisms to safeguard identified risks;
- A risk register detailing the treatment of any emerging risks;
- ICT, Security and technical architectural infrastructure demonstrating transacting monitoring, fraud monitoring and detection etc.;
- AML/CFT Policy;
- Contingency and disaster recovery plans;

8.4 Stage 4

Upon assessment by the Bank of Ghana of an Applicant's testing plans, the Bank of Ghana shall engage the applicant to discuss the testing plans with a view to bringing finality to same where required.

8.5 Admission into the Regulatory Sandbox

Once testing plans are finalized, the Bank of Ghana shall, subject to its reserved rights outlined below, proceed to issue the successful applicant with a Letter of Approval:

- confirming the applicant's entry into the sandbox;
- confirming the duration of time for participation in the sandbox;
- summarizing the innovative product, service or business model permitted to be tested;
- outlining applicable permissions and limitations to these where required;
- referencing any sandbox tools to be deployed (**see 11.0**);
- setting out the customer safeguards to be enforced;
- indicating reports expected to be furnished to the Bank of Ghana and the frequency of same;
- establishing the reservation of the Bank of Ghana of the right to suspend or withdraw the Letter of Approval on:
 - a breach of the conditions therein or on the emergence of information demonstrating consumer detriment, or
 - on the submission of false, misleading or inaccurate information, or
 - the concealment of material facts in the application, or
 - the contravention of any laws of the Republic of Ghana or
 - on the liquidation of the entity
- requiring a successful applicant to, within five working days of receipt of the Letter of Approval, furnish the Bank of Ghana with written consent to operate within the Regulatory Sandbox and to

further comply with the terms and conditions enshrined in the Letter of Approval.

- requiring a successful applicant to integrate with relevant Regulatory Reporting APIs within five (5) working days of consenting to operate within the Regulatory Sandbox. The Regulatory Reporting APIs are critical to the functioning of the regulatory sandbox as they will drive real-time reporting of all transactional data required to be provided by the innovator.

It must however, be noted that the Bank of Ghana reserves the right to determine the number of applicants that can be admitted into the sandbox at every point in time, upon satisfaction of the sandbox requirements, to ensure maximum effective oversight and supervision.

9.0 Testing Stage

A successful applicant, upon furnishing the Bank with written consent to operate within the Regulatory Sandbox and abide by the terms and conditions contained in the Letter of Approval, shall begin testing in accordance with the testing plan agreed on with the Bank of Ghana.

The testing stage is characterized by in-depth and continuous monitoring and reporting requirements enabled by specific Regulatory Reporting APIs. Participants are expected to satisfy the following criteria as relates to testing:

- Integration of relevant regulatory reporting APIs with the innovative solution for sandbox reporting
- Real-time reporting of all transactional data via the regulatory APIs.
- maintenance of proper records of performance, risks identified and addressed etc., to facilitate assessment.

- submission all periodic and interim reports required by the Bank of Ghana including, but not limited to, reports on testing parameters, customer satisfaction reports, monitoring reports etc.
- submission of final reports containing information requested by the Bank of Ghana at the end of the testing period granted.

A participant may request for extension of the testing period for a duration no more than three months and the Bank of Ghana may grant such a request.

10.0 Exit Stage

Upon completion of the testing and fulfilment of all corresponding requirements, a participant will be required to exit the Regulatory Sandbox. At this stage, all legal and regulatory requirements relaxed or waived to allow participation shall expire and the participant will be required to comply fully with all applicable legal and regulatory requirements.

The exit stage envisages the following two possible outcomes for an exiting participant:

- the commercial scalability of the participant's innovative product, service or business model to the wider public upon the achievement of the intended test outcomes to the satisfaction of the Bank of Ghana. A special dispensation may be granted to facilitate such commercial scalability;
- a discontinuance of sandbox testing on the following grounds;
 - where the Bank of Ghana determines that testing outcomes were not met;
 - Substantial risks identified regarding the innovative product, service or business model that significantly outweigh the benefits;

- occurrence of any of the grounds for withdrawal contained in the Letter of Approval;
- discontinuance at the instance of the participant;

A sandbox participant must ensure to comply with exit obligations towards its customers.

11.0 Regulatory Sandbox Tools

The following sandbox regulatory tools may be available in the Regulatory Sandbox to facilitate testing:

- **Restricted authorization:** The Bank of Ghana may issue restricted authorization exclusively to a sandbox entity to test in the Regulatory Sandbox.
- **Waivers:** The Bank of Ghana may waive or modify an unduly difficult rule for the purpose of testing except for national or international law.
- **Issuance of 'no enforcement action letter':** The Bank of Ghana may issue a 'no enforcement action letter' where there is uncertainty as to which regulatory requirements could be breached during the testing. The objective is to give assurance to a sandbox participant that no disciplinary action will be taken in the event that certain regulatory breaches occur within the approved testing parameters.

12.0 Sandbox Model

The Regulatory Sandbox of the Bank of Ghana shall be operated in a hybrid model thereby fusing the cohort model and the rolling model.

12.1 Cohort Model

The cohort model allows prospective applicants to submit applications during a specific application window. The Bank of Ghana determines the subject matter areas for publication, for which innovative products,

services and business models will be admitted into the Regulatory Sandbox subject to the meeting of all applicable requirements.

12.2 Rolling Model

The Rolling model allows entities seeking to test innovative products, services and businesses outside the subject areas published for a cohort, to apply at any time. The Rolling model shall be exercised at the discretion of the Bank of Ghana.

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