

Regulators as catalysts for



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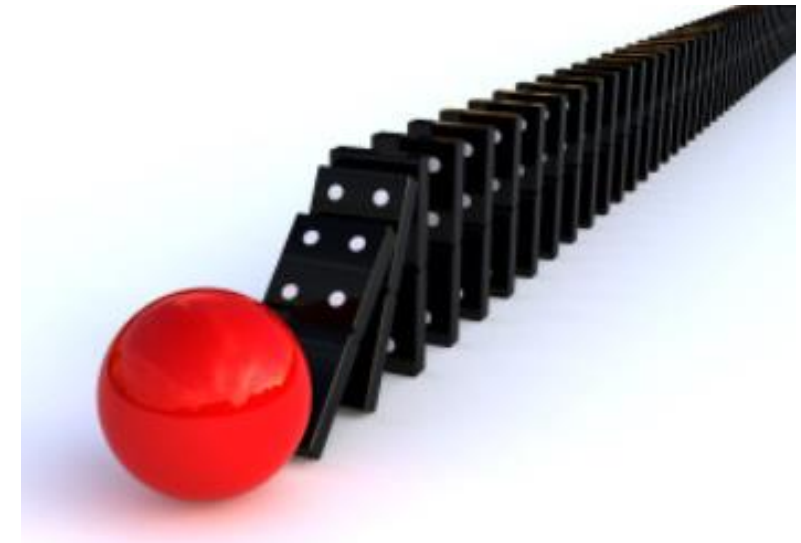
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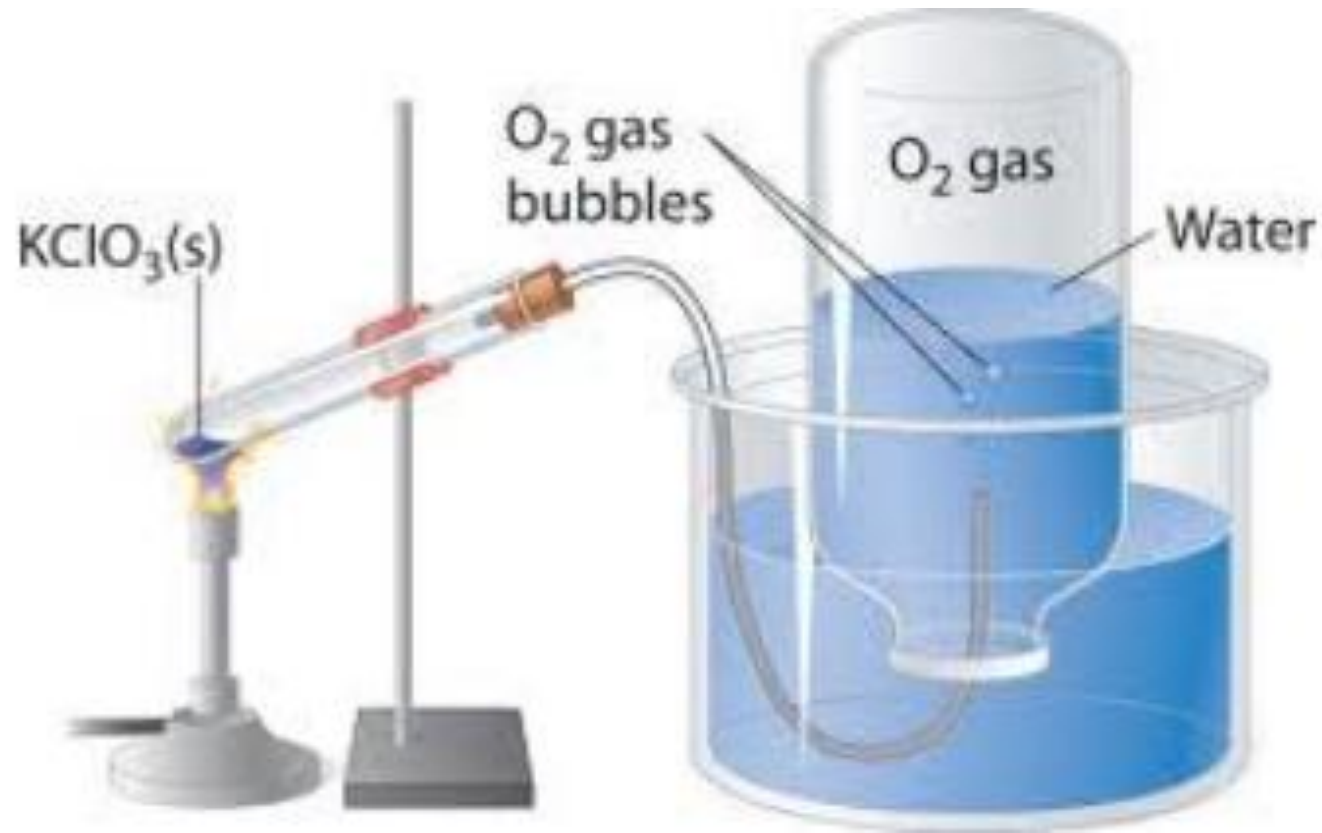
- *kukuvumela ukukwenza - lets make it happen!*





1. THE CASE *FOR* CATALYSTS

Catalysts...



catalyst – noun / cat . a . lyst

- an agent that provokes or speeds significant change or action

Catalyst role not *new*...



Supervisors
& Overseers



Service
Providers

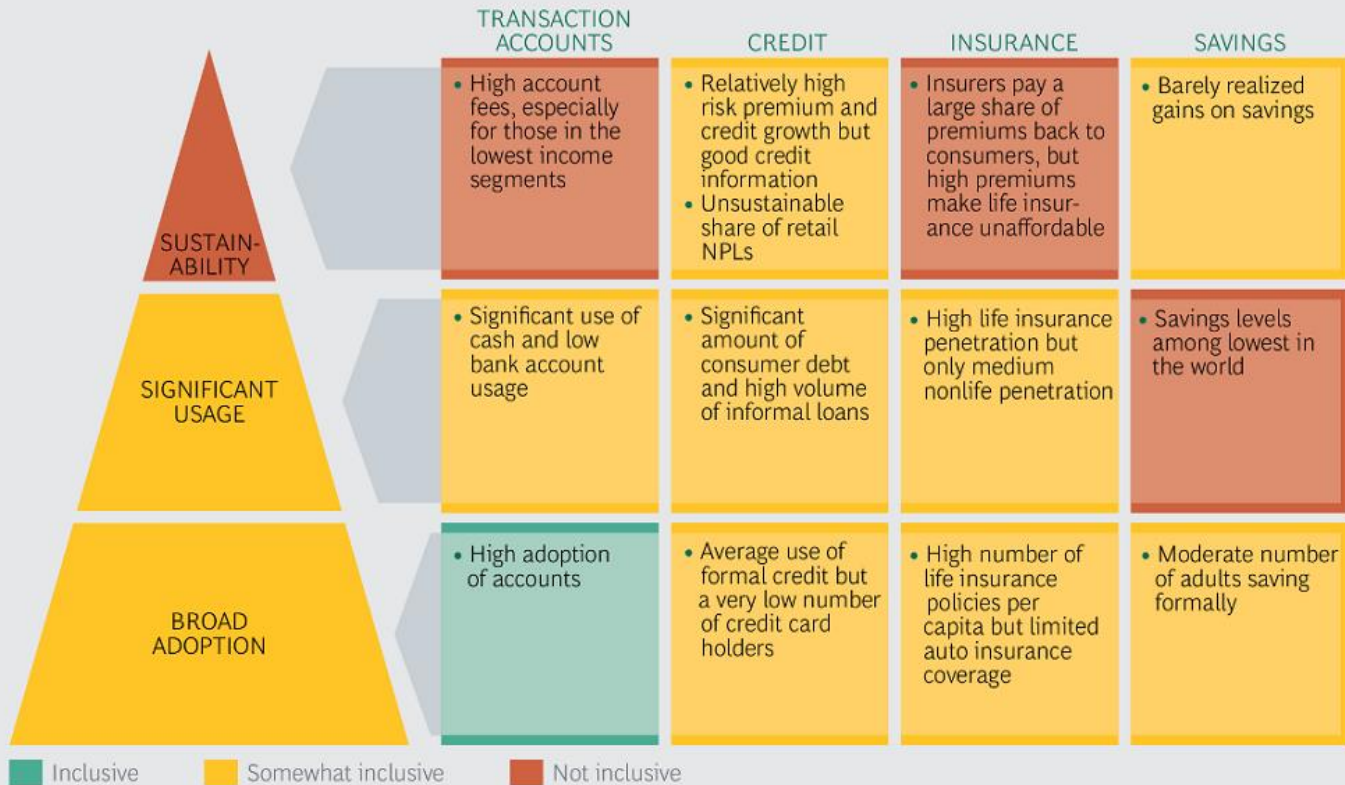


Catalysts

The role of central banks

Catalysts: financial deepening

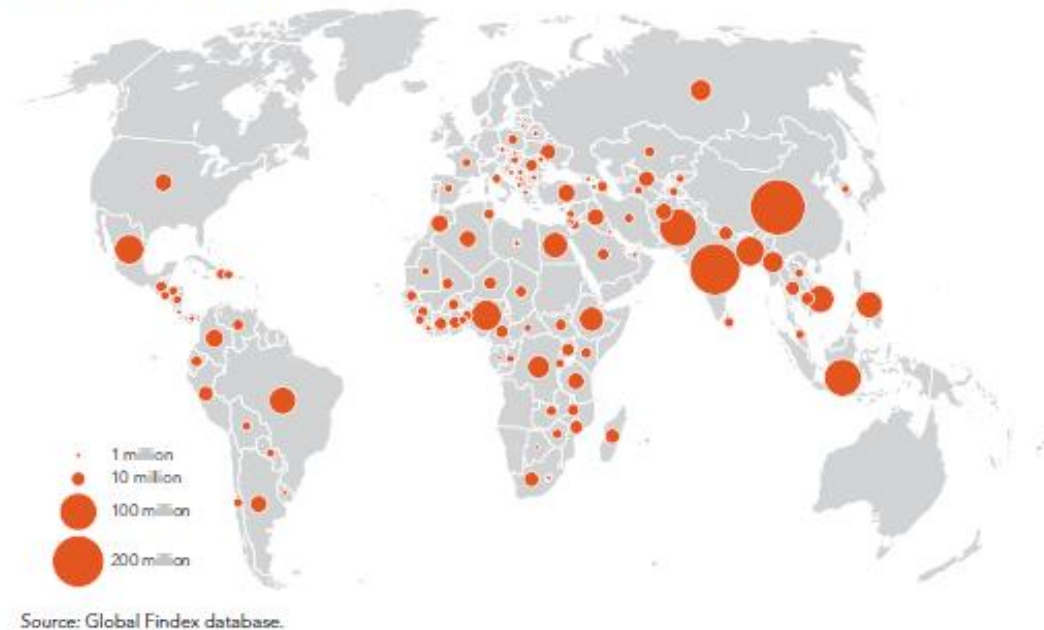
EXHIBIT 1 | An Assessment of South Africa's Sustainable Financial Inclusion



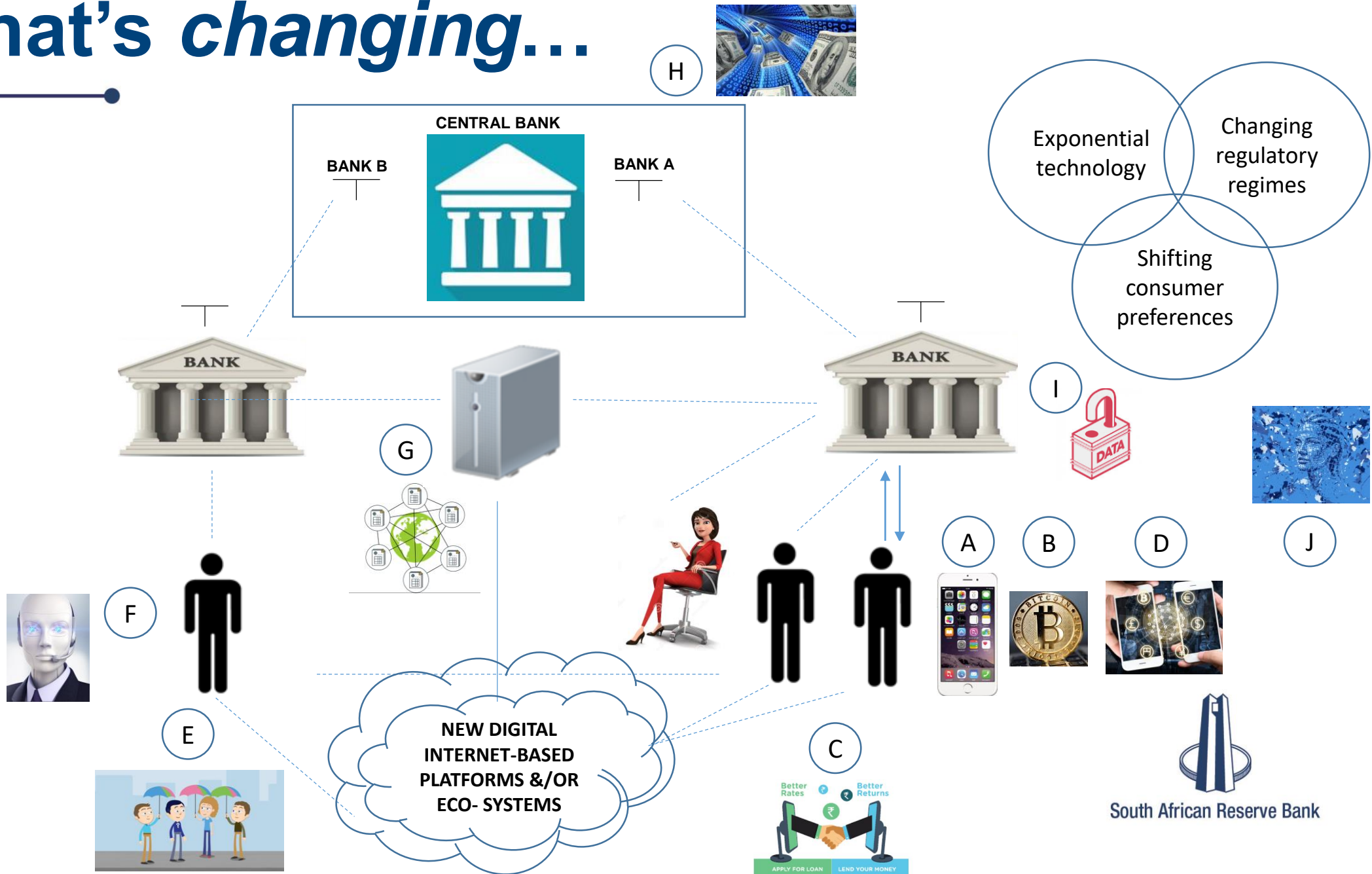
Source: BCG analysis.

Note: NPL = nonperforming loan.

Globally, 1.7 billion adults lack an account
Adults without an account, 2017



What's *changing*...



EVERYTHING IS BEING...

**"The world as we have created it is a process of our thinking.
It cannot be changed without changing our thinking."**

— [Albert Einstein](#)

"When you
change the
way you look
at things,
the things you
look at
change."

-Wayne Dyer



"Silicon Valley is coming. There are hundreds of start-ups with a lot of brains and money working on various alternatives to traditional banking."

— Jamie Dimon

(R)E-iMAGINED!!!!!!

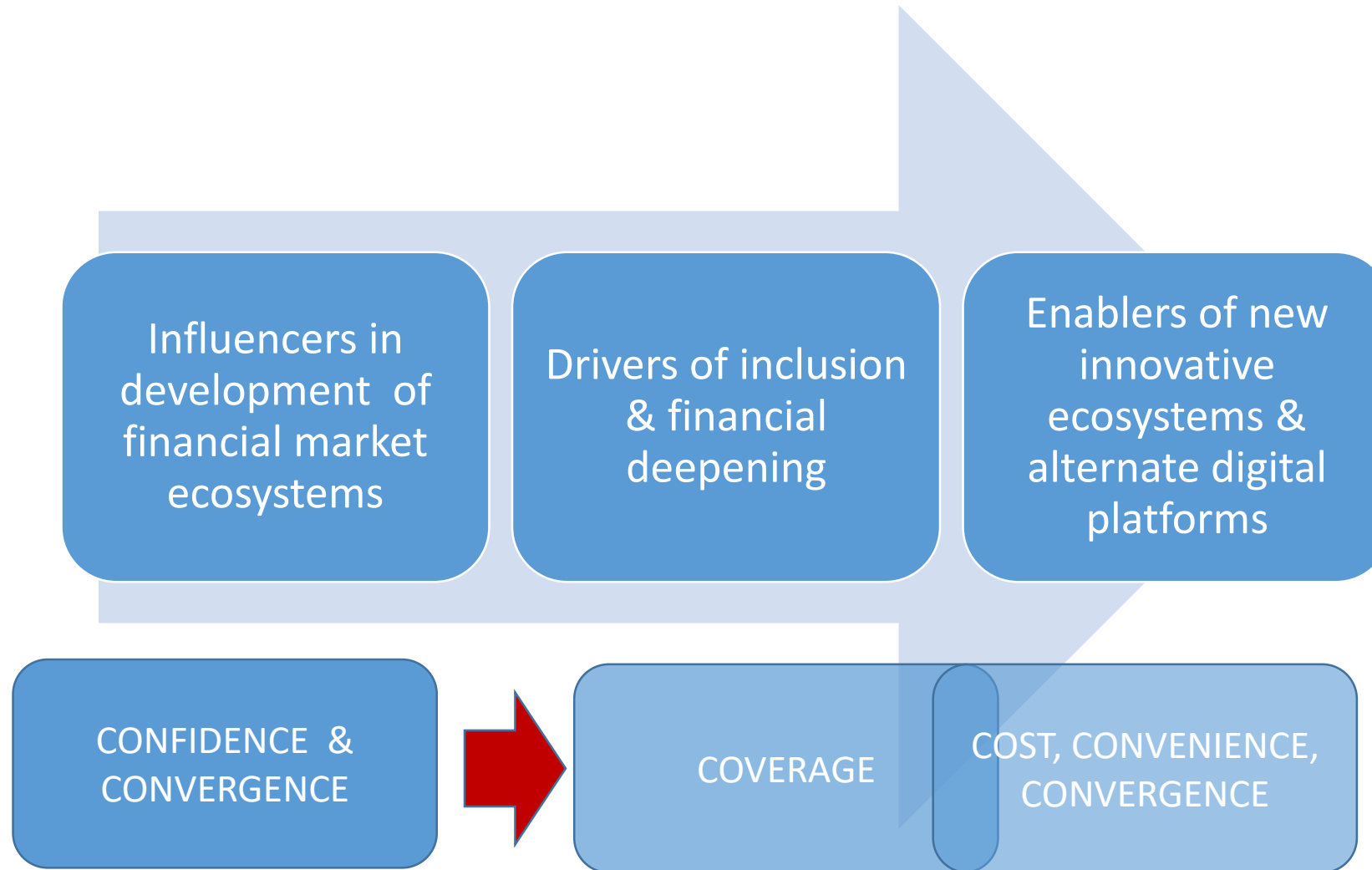
7 reasons *for* being catalysts

1. **Proposition One – “new kids on the block”** - Unlike financial services innovation in the past, which predominantly involved incumbents, financial service innovation is increasingly being produced by new, never-seen-before players (many of whom are start-ups)
2. **Proposition Two – “this time is different”** - These innovators exploit exponential technologies and are questioning and re-imagining every aspect of the financial services value chain. Innovations may challenge existing business models.
3. **Proposition Three - “natural competitive tension”**: Although incumbents establish processes to work with fin-novators, depending on the nature of solutions, there are still natural competitive dynamics that tends to place fin-novators at a competitive disadvantage, where established business models are challenged.
4. **Proposition Four – “Reducing regulatory-clarity burden”** : Regulators are neutral entities, with no commercial interests or biases. They may provide a crucial role in bringing clarity to regulatory requirements (potentially reducing “transactional entry costs”).

7 reasons *for* being catalysts

5. **Proposition Five - “outside the regulatory box”** – Regulatory clarity & certainty may not be straightforward. Numerous new emerging innovations may not neatly fit with current regulations. Regulators have an onus to actively assess new innovations and provide guidance.
6. **Proposition Six – “the yin & yang of fintech”** – Although new innovations may bring significant benefits, they may equally hold micro and macro-level risks.
7. **Proposition Seven - “the bottom line, stepping-up change”** : Regulators who proactively engage and act as catalysts for change, can enable step change. Depending on the stances they take, they can equally stimulate new market structures. Such actions have the potential to affect the composition, concentration and competitiveness of their markets.

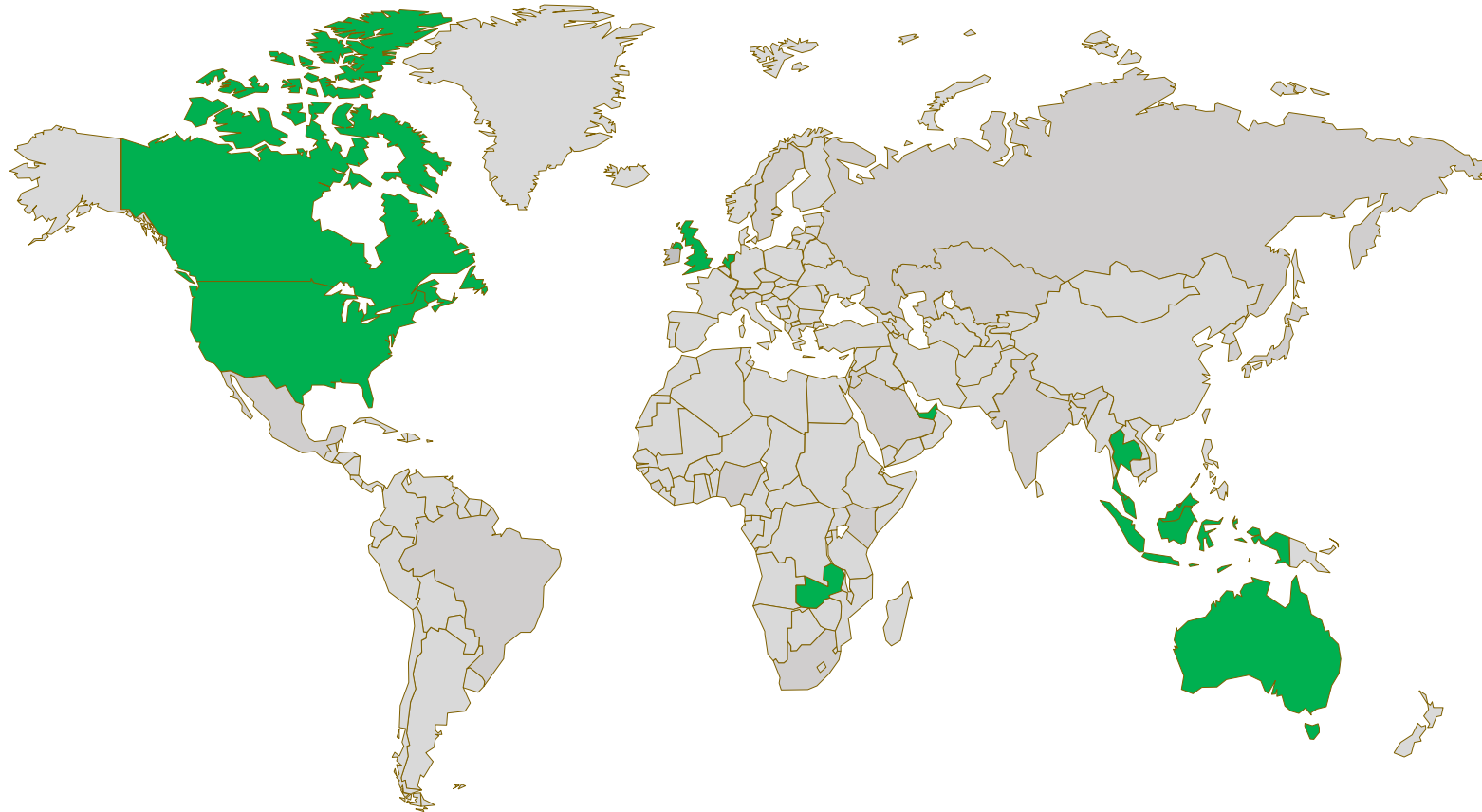
Gradual evolution of catalyst role





2. THE CASE(S) OF CATALYSTS

Sandboxes around the world









■ Countries with regulatory sandbox





Selected Asian Hub	Dedicated FinTech teams	FinTech industry enablers/utilities	FinTech regulations/standards	FinTech regulatory sandbox
Hong Kong	FinTech Contact Point by the Securities and Futures Commission (SFC)	Blockchain proof-of-concept (POC) on digital currency and trade finance	Stored Value Facility (SVF) to allow payment services such as P2P and mobile wallet	FinTech Supervision Sandbox by HKMA
	FinTech Facilitation Office by the Hong Kong Monetary Authority (HKMA)	Faster Payment System for round-the-clock inter-bank real-time payments	Non face-to-face account opening by using digital signature	
	Future Task Force of Insurance Industry by the Insurance Authority (IA)		Guidance for online distribution and advisory platforms	
China (Mainland)	FinTech Committee under the People's Bank of China (PBOC)	PBOC digital currency project	Regulation on P2P lending, including advertisement, client disclosure, interest rate cap, student loans	Investigating the potential of a FinTech regulatory sandbox at both provincial and central levels
		Third-party payments clearing and settlement network	Regulation on third-party payment, including segregation of client money into custodian account, central settlement system	Beijing Fangshan District has announced a regulatory sandbox
		Pilot developing a 'social credit system' with eight alternative credit scoring firms		

Selected Asian Hub	Dedicated FinTech teams	FinTech industry enablers/utilities	FinTech regulations/ standards	FinTech regulatory sandbox
Singapore	FinTech & Innovation Group under Monetary Authority of Singapore (MAS)	National KYC utility as collaboration between Ministry of Finance and GovTech	Consultation Paper on digital advice issued by MAS	FinTech Regulatory Sandbox by MAS
		POC for putting SGD on blockchain for interbank payment	Regulation on P2P lending and equity crowdfunding	
		API Playbook recommend guidelines for financial industry for developing APIs	Consultation Paper on payment roadmap issued by MAS	
		Industry-wide projects such as decentralized record-keeping in trade finance supported by FSTI scheme		
Malaysia	Financial Technology Enabler Group by Bank Negara Malaysia (BNM)	Investigating the potential of centralized digital identity, open APIs, etc.	Regulation on P2P lending and equity crowdfunding	Financial Technology Regulatory Sandbox by BNM
Indonesia	Financial Services Authority/ Otoritas Jasa Keuangan (OJK)		Regulation on P2P lending	Regulatory sandboxes by the OJK and BI respectively
	FinTech Office of Bank Indonesia (BI)			
Thailand	Securities and Exchange Commission (SEC)	Standardization of QR codes between card networks	Regulation on equity crowd funding and P2P lending	Regulatory Sandbox by SEC
			Guidelines on simplified advice to relax fiduciary duties for independent investment advisors	

Korea	FinTech Center under the Financial Services Commission (FSC)	Open API platform and test beds to provide a common API applicable to banks for FinTech testing applications effectively	Regulation on equity crowdfunding and P2P lending	Robo Advisor Test Bed Center hosted by KOSCOM (mainly owned by Korea Exchange)
Australia	Innovation Hub by Australian Securities and Investments Commission (ASIC)	Plan to identify DLT application in payment, clearing and settlement, led by Reserve Bank of Australia (RBA)	Guidance on digital financial advice that includes robo-advice	Allow new B2C firms for “testing fintech products and services without holding an AFS (Australian financial services) or credit license” (regulatory sandbox)
		New Payments Platform (NPP) infrastructure to allow fast and data rich payments	Guidance on marketplace lending and P2P lending (further revision to relax regulations)	
			Guidelines on evaluating distributed ledger technology (DLT)	
			Plan to develop framework for opening up access of banks’ customer data after investigation from Productivity Council	

		Development	Progress to date
Sep 2016	 Hong Kong SAR of China	The Hong Kong Monetary Authority (HKMA) established Financial Supervisory Sandbox (FSS).	As of Apr 2017, 6 banks have tested over 15 projects in the sandbox and 9 projects have completed. Meanwhile, the Securities and Futures Commission (SFC) set up the “FinTech Contact Point” to provide regulatory advice to financial institutions and fintechs interested to pilot new solutions.
	 South Korea	Developed “Robo Advisor Test Bed Center” which used the sandbox approach to require banks and FinTech to test the fully automated robo-advisor algorithms and platforms in the KOSCOM’s testing environment before public launch.	In the first cohort from Sep 2016 to Apr 2017, 35 algorithms from financial institutions and FinTech have been tested. In the second cohort started from Mar 2017, another 22 algorithms are being tested.
	 Thailand	Published the regulatory sandbox whitepaper and finalized the framework in late 2016.	Investment Advisor/private Fund sandbox and Clearing and settlement sandbox were launched. Insurance Commission is also considering having a similar sandbox scheme.
Oct 2016	 Malaysia	Established Financial Technology Regulatory Sandbox Framework.	In May 2017, Bank Negara Malaysia announced admission of four FinTech companies – covering financial comparison, insurance aggregation, money changing service, and remittance providers (a UK-based company).
Nov 2016	 Singapore	Established FinTech Regulatory Sandbox.	An insurance distribution platform participated in Mar 2017 and the expiry date of the test will end on 31 Aug 2017.
	 Indonesia	Announced plans to develop the Regulatory sandbox under Bank Indonesia (BI) FinTech Office. Financial Services Authority or Otoritas Jasa Keuangan (OJK) also announced similar regulatory sandbox initiatives.	Regulators work closely with the industry and other regulators to develop regulatory policies.

Examples of catalysts

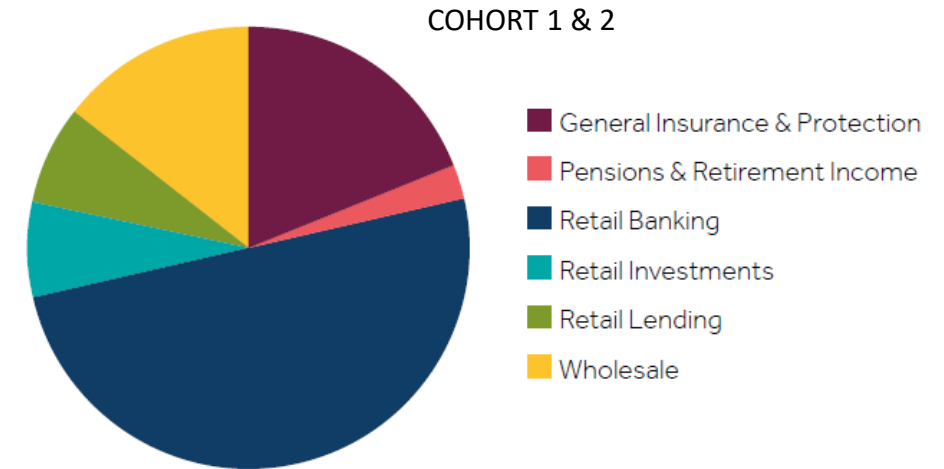
		Development	Progress to date
Dec 2016	 Australia	Announced class waivers to allow eligible FinTech companies to distribute basic financial products and provide simplified investment service without license for one year, with the objectives to improve time to market and effectiveness of product testing.	As of Jul 2017, one share trading application has received the exemption license. Australia government also considers extending the scheme from one year to two years.
Feb 2017	 China	Beijing Government investigated the “regulatory approach” test in Fangshan District to test the application of new FinTech in the demonstrative zone. More planning activities in progress in other provinces and at central level.	As of Jul 2017, the government is investigating different models of regulatory sandboxes, including provincial and nationwide sandboxes.

Sandbox exemplars

Allows firms to test innovative products, services and business models in a live market environment, while ensuring that appropriate safeguards are in place

Objectives:

- Reduce the time &, potentially, the cost of getting innovative ideas to market
- Enable greater access to finance for innovators, by reducing regulatory uncertainty
- Enable more products to be tested & thus, potentially introduced to the market
- Enable FCA to work with innovators to ensure that appropriate consumer protection safeguards are built into new products and services

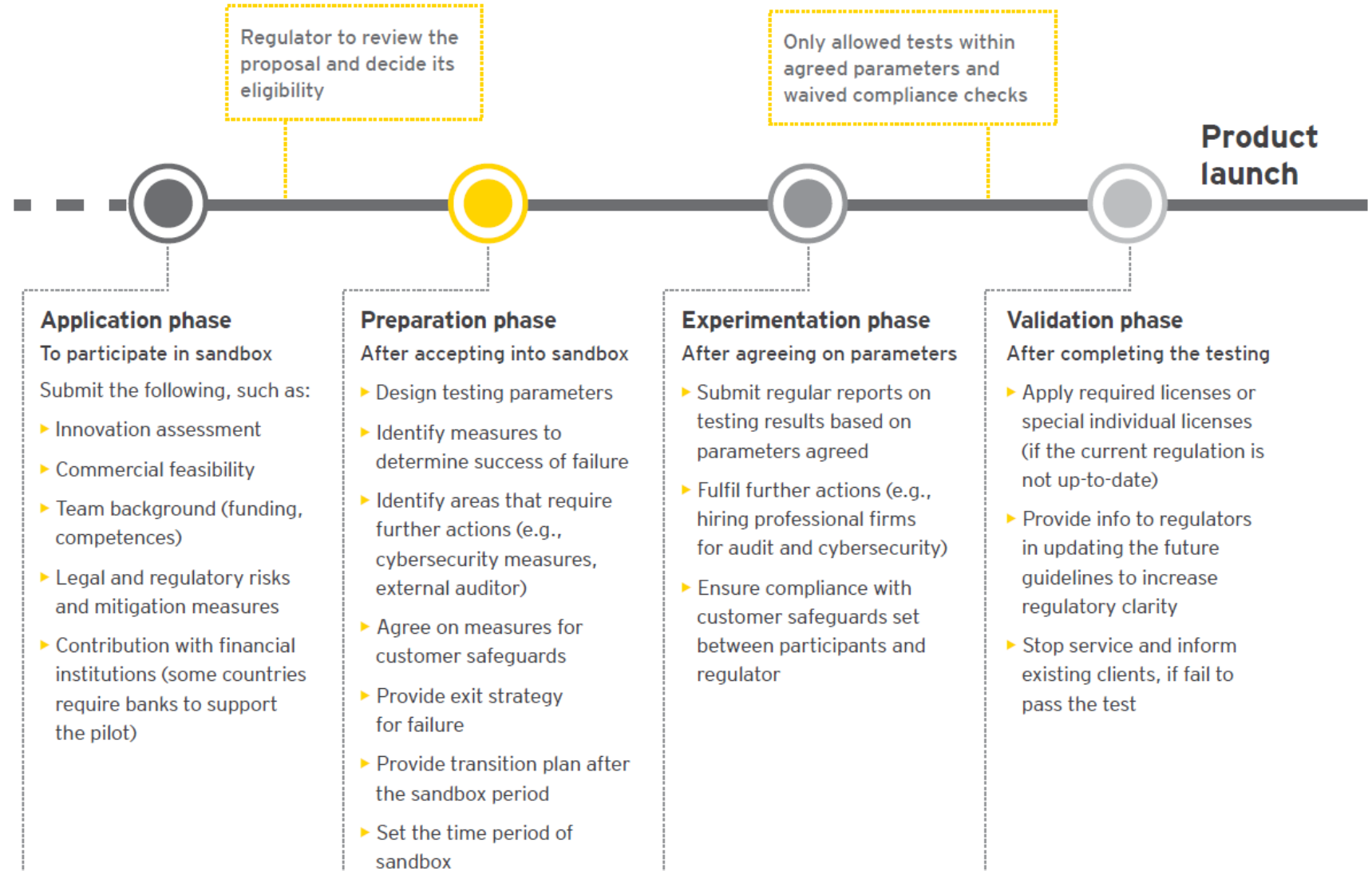


Sandbox operates on a cohort basis with two six-month test periods per year

COHORTS	# of APPLICATIONS	# of FIRMS ACCEPTED & SUPPORTED
COHORT 1 (08Jul16)	69	24 (18 tested)
COHORT 2 (19Jan17)	77	31 (24 tested)
COHORT 3	61	18 (tested)
COHORT 4	69	29

Inside the box

Most sandboxes have a similar operation model:



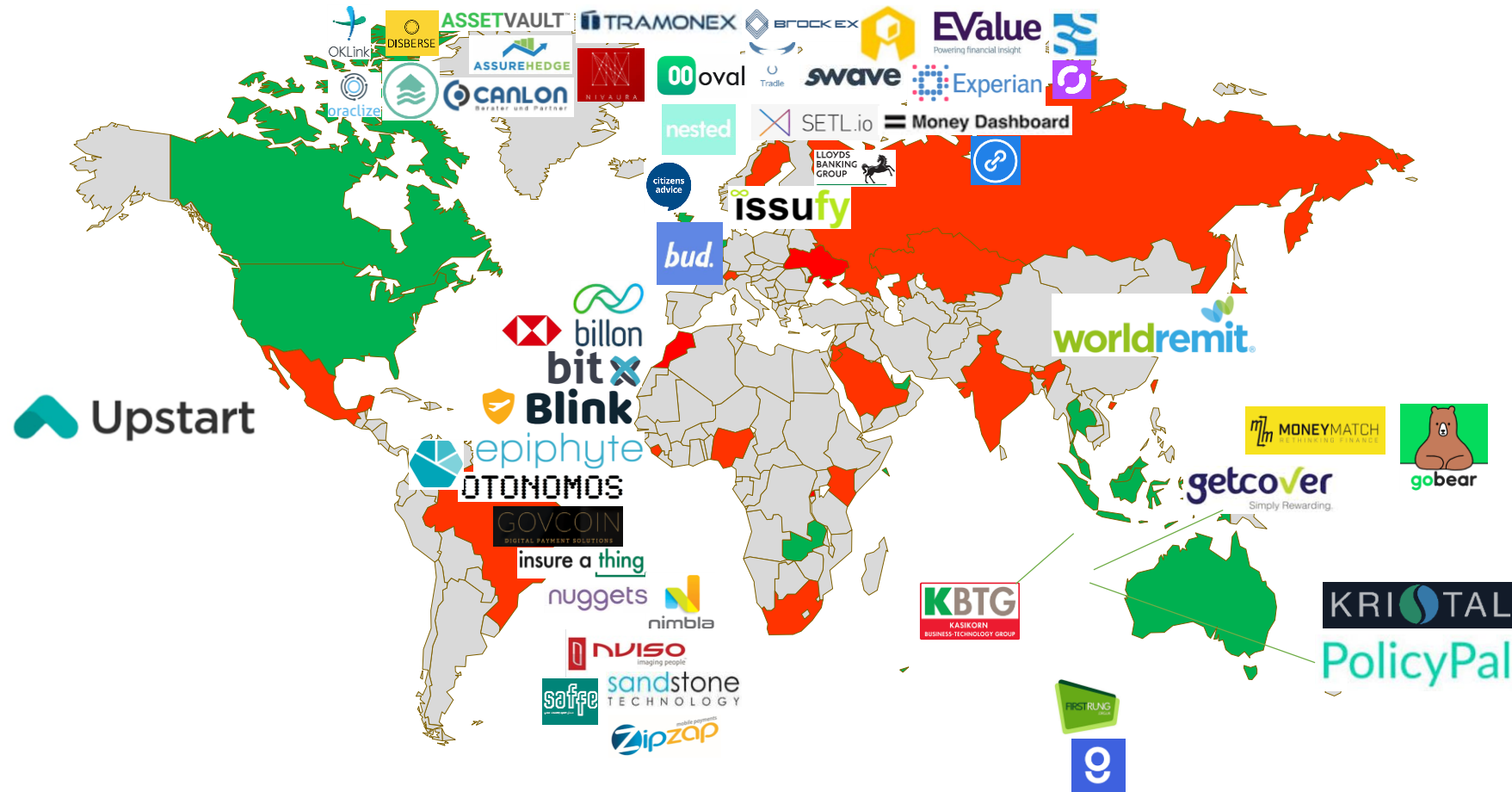
Outside the box...# future trends

- 1. The emergence of multiple regulatory sandboxes with differing time horizons & testing parameters within a single jurisdiction.**
- 2. The emergence of regulatory sandboxes that are not limited to just one jurisdiction.**
- 3. The emergence of individual industry sandboxes & associated industry certifications.**



3. THE CASES *WITHIN* CATALYSTS SANDBOXES

Cases within sandboxes



Inside the box

Community First Credit Union

Initiative to facilitate creation of an identity token that supports customers who lack traditional forms of ID, in order to assist them in accessing bank account services in the UK

Etherisc

Service that uses smart contracts on a blockchain to provide fully automated, decentralised flight delay insurance

Pluto

Chatbot on Facebook Messenger that allows customers to buy and manage travel insurance. Policies are written in plain English and customers can 'ask' the chatbot what they are covered for. Group discounts and automated claims handling will also be available.

Capexmove

Platform that uses DLT to allow small companies to raise capital in a more efficient and streamlined way

Fineqia

Blockchain-based digital platform that enables companies to issue and administer debt and equity securities, including bonds backed by cryptoassets

CreditSCRIPT

Investment platform that gives professional and institutional investors access to a wide range of online lending markets through a single access point. Investors will be able to gain exposure to consumer, SME and real estate loans via CreditSCRIPT.

Inside the box

World Reserve Trust

Service that facilitates cheaper and faster global trade payments and settlement using the Sīlùbì, an asset-linked smart token that utilises a permissioned DLT network.

Sherpa Management Services

Insurance solution that offers members one account to set-up and manage multiple insurance risks. Sherpa offer dynamic products which provide the ability to increase and decrease the sum assured as needs change

Spherical Defence Labs

Application Programming Interface (API) security system that detects advanced hacks and breaches in banks powered by deep learning and computational linguistics.

Barclays

RegTech proposition which tracks updates to regulations within the FCA Handbook and aligns their implementation to Barclays' internal policies.

Barkat Ventures

International money transfer platform that enables customers to send healthcare services along with their remittances.

Curl

New consumer payment network designed around open banking APIs, which works via @usernames and direct bank transfers.

Square Book

New auction method of book-building for initial public offerings/private placements that aims to be fairer and more transparent than existing methodologies.



4. OUR CASE: SOUTH AFRICA

SA: Our case



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Engagement Workstream

Next Steps

- Workshops
- Innovation Hubs
- Eligibility criteria
- Innovation hub activities
- Sandbox
- Fintech Hackathon
- Protocol for lobbying intergovernmental agencies
- Engagement with other regulators in other jurisdictions



Importance of leadership & collaboration



“We are tacitly taught (in business schools) to compete, not collaborate. Collaboration requires a different set of complex social skills. At its heart, It’s a human matter” - *anonymous*

THANK YOU
