



INTERGOVERNMENTAL FINTECH WORKING GROUP

Feedback on the Intergovernmental Fintech Working Group's first regulatory sandbox initiative

12 October 2022



Contents

Foreword	2
Launch of South Africa's first financial services regulatory sandbox initiative	4
Approach to the RSB	5
Experience overview of the first regulatory sandbox initiative	8
Overview of the first round of applications.....	8
Reasons why applications were not successful	10
Overview of participants in the sandbox	12
Overview of testing by theme and insights gained	15
Cross-border payments	15
Crypto assets	19
Crowdfunding	21
Index insurance	22
Lending: non-traditional credit data	23
Reflections on the journey thus far and next steps	24
Concluding remarks	26

Foreword

The Intergovernmental Fintech Working Group (IFWG)¹ is pleased to provide feedback on its inaugural regulatory sandbox (RSB) initiative, a framework used by regulators across the world to foster innovation in the financial services sector, while keeping oversight of emerging risks. In this report, we share reflections on our experience operating the RSB, the lessons learnt as well as insights gained from the test cases accepted into the RSB. The IFWG remains committed to promoting responsible innovation and improving on the RSB experience as we embark on the next chapter of the RSB.

The RSB aims to provide innovators seeking to launch financial products and services in South Africa with a framework that allows for testing such new products and services in a controlled and live environment against existing regulation, with input and oversight from the relevant regulators. The objective of the RSB is not to be an ‘innovation theatre’ (i.e. accepting many cases with limited potential for change), but rather to give consideration to those applications that align with the focus areas where emerging innovation is challenging regulation, and where the policymaker and regulators have realised the need for regulatory change.

As we prepared to launch the IFWG Innovation Hub in early 2020, and considered the impact of the looming COVID-19 national lockdown on the continued work of the IFWG, we, along with the rest of the world, realised the importance of digital financial services innovation and being adaptive and agile in emerging crises. Despite the challenges, the RSB was successfully launched and opened to an initial cohort in April 2020.

The nexus between innovators wanting to move at speed and the reality that policy, legislative and regulatory change is a complex and involved process that takes time, remains a challenge. The RSB is a useful tool for regulators and provides benefits to the industry, but it should not be seen as a silver bullet for bringing about immediate change. However, we have taken steps to review our RSB processes to consider how we can serve both those looking to introduce innovative fintech solutions and those

¹ <https://www.ifwg.co.za>

who are looking to enable innovation through the promotion of responsible innovation, an appropriate policy response and relevant regulations.

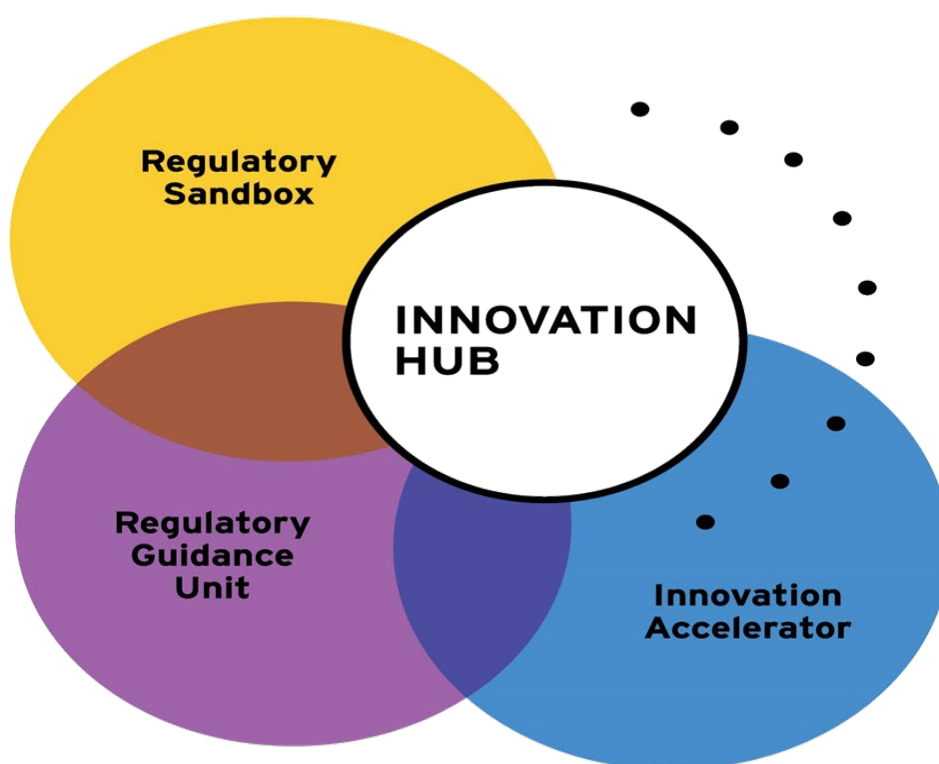
I would like to thank the IFWG members who have recognised the importance of initiatives such as the RSB, and for allowing us to impose additional processes on your respective institutions which added to you sacrificing your valuable time in the implementation of the RSB. We acknowledge that entering the RSB takes commitment from the innovators, and that it took time and money to engage with the regulators. I would encourage you to continue this engagement. It has been an incredibly valuable experience for us, and we trust that, over time and where appropriate, it will result in the necessary change to support financial sector innovation.



Lyle Horsley
IFWG Chair

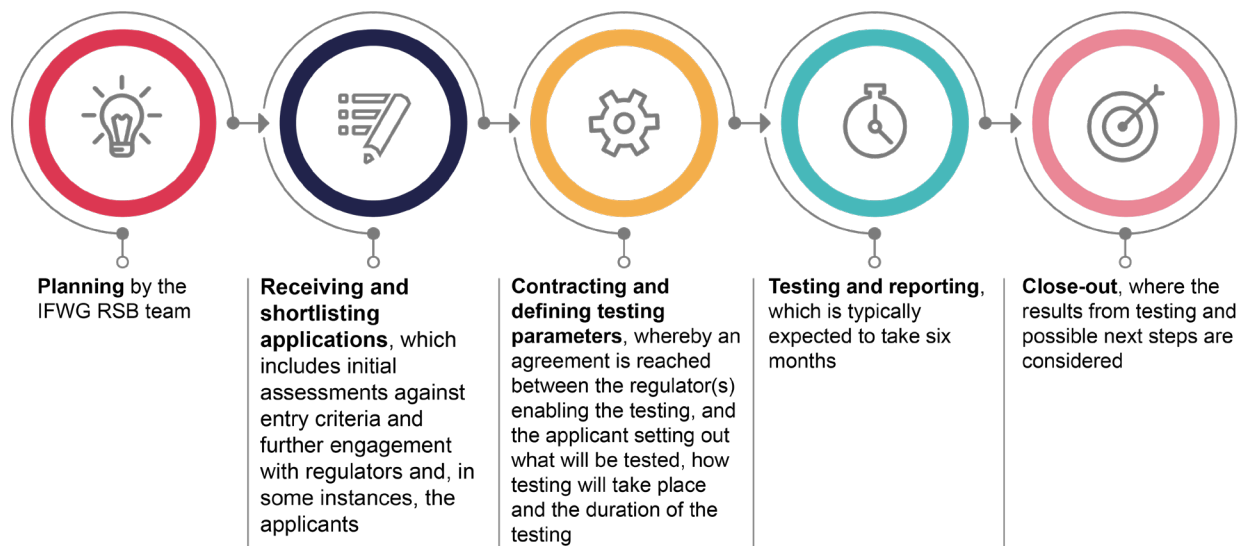
Launch of South Africa's first financial sector regulatory sandbox initiative

The IFWG launched its Innovation Hub in April 2020, with three innovation facilitators, namely an innovation accelerator (IA), a regulatory guidance unit (RGU) and an RSB. The IA exists to provide an avenue to conduct collaborative and exploratory initiatives to learn collectively, including from industry, as the IFWG members seek to make informed policy and regulatory decisions. The RGU serves as a single point of contact where innovators can seek answers to specific questions regarding the policy landscape and regulatory requirements. The RSB is a controlled environment that enables the testing of innovative products and services against existing regulation or legislation, within predefined parameters and timeframes. The IFWG launched a cohort-based application process for its RSB in April 2020.



Approach to the RSB

The response to the launch of a cohort-based approach was overwhelming, particularly within the context of the national COVID-19 lockdown. A cohort-based approach means that regulators receive applications during an open application window, after which no further applications are received until a new window is opened. The approach consists of the following five phases:



To be considered for entrance into the RSB, applicants are measured against the following basic entry criteria:

- The innovation to be tested must be intended for deployment in the South African market.
- The innovation to be tested must not clearly fit within the existing regulatory framework or it must challenge the existing regulatory framework.
- The innovation must be beneficial to consumers or the market at large (e.g. for business-to-consumer (B2C) companies it must mean lower prices, increased competition, improved access/financial inclusion and so forth, while for business-to-business (B2B) companies it should bring lower costs, increased efficiency, improved compliance and so forth).
- The innovation must be significantly different from other offerings in the market.
- The innovation must be ready to be tested (i.e. it must, among other things, be accompanied by fully developed technology, have sufficient funding to cover the full testing period, and have secured partnerships in place, if required for testing).
- The applicant must have a clear and detailed test plan.

However, entrance is not automatic and remains at the discretion of the regulators. In particular, allowing an applicant into the RSB should contribute to the development of a sound financial sector policy and regulatory framework.

Applicants complete an online application form that goes through an assessment process, including an initial review against the entrance criteria and further interrogation by regulatory subject matter experts (SMEs).

Applications that meet the relevant entry criteria and show alignment with regulatory appetite and priorities are then shortlisted. This is followed by a contracting process, which includes agreeing to test plans and obtaining the appropriate regulatory relief, should it be required, to allow a specific test case to be entered into the RSB for testing. The nature of the regulatory relief to enter the RSB is case dependent. For example, an exemption from the current regulatory framework may not be required in all instances, such as where an existing regulatory framework does not exist to regulate the proposed innovation to be tested in the RSB, or where an innovator wants to present evidence that a new product or service meets existing regulatory requirements.

Testing is typically expected to last six months but determining the appropriate testing period forms part of the contracting process.

Although a cohort is typically meant to kick off testing at the same time, due to the sheer volume of applications, the complexity of applications (discussed in more detail below), and the process to obtain the appropriate regulatory relief to enter the RSB, the selection and contracting phases took longer than anticipated. As a result, the IFWG started testing in a staggered approach.

It is important to distinguish the RSB from an innovation incubator. The RSB does not provide business advice or funding and does not test the viability of products or services. The applicant remains responsible for such developments and testing, as the RSB only serves to test a production-ready product or service against regulatory frameworks. Acceptance into the RSB does not serve as explicit or implicit approval of a product or service, nor does it imply the granting of any financial services licences. Applicants remain accountable for compliance with all existing regulatory requirements outside of the RSB.

The relevant IFWG members work with the participants (successful applicants) in the RSB by, among other things, hosting workshops, conducting testing, monitoring performance and considering further developments around the regulatory fit of the innovative product or service. Participants must have an exit strategy, both for successful testing and in case things go wrong during testing. This must include restoring clients' financial position, where this may have been negatively impacted through failed testing or should transactions have to be unwound at the end of testing. Participants must then prepare and share with the regulators a close-out report which is in line with the close-out option confirmed by the lead regulator and with input from the IFWG. The appropriate close-out option will be informed by the testing and existing regulatory frameworks and may involve ceasing all activities related to the test case, proceeding to licensing where such an option is available and considered appropriate by the relevant regulator, or consideration of alternative measures until such time as an appropriate regulatory response may be put in place.

It is not an objective of the RSB to provide participants with any advantage over businesses that did not apply to or were not accepted into the RSB. In circumstances where the insights and next steps are applicable to the broader market, such information will be shared in an appropriate manner with the broader market, without disclosing the specifics of any individual test case.



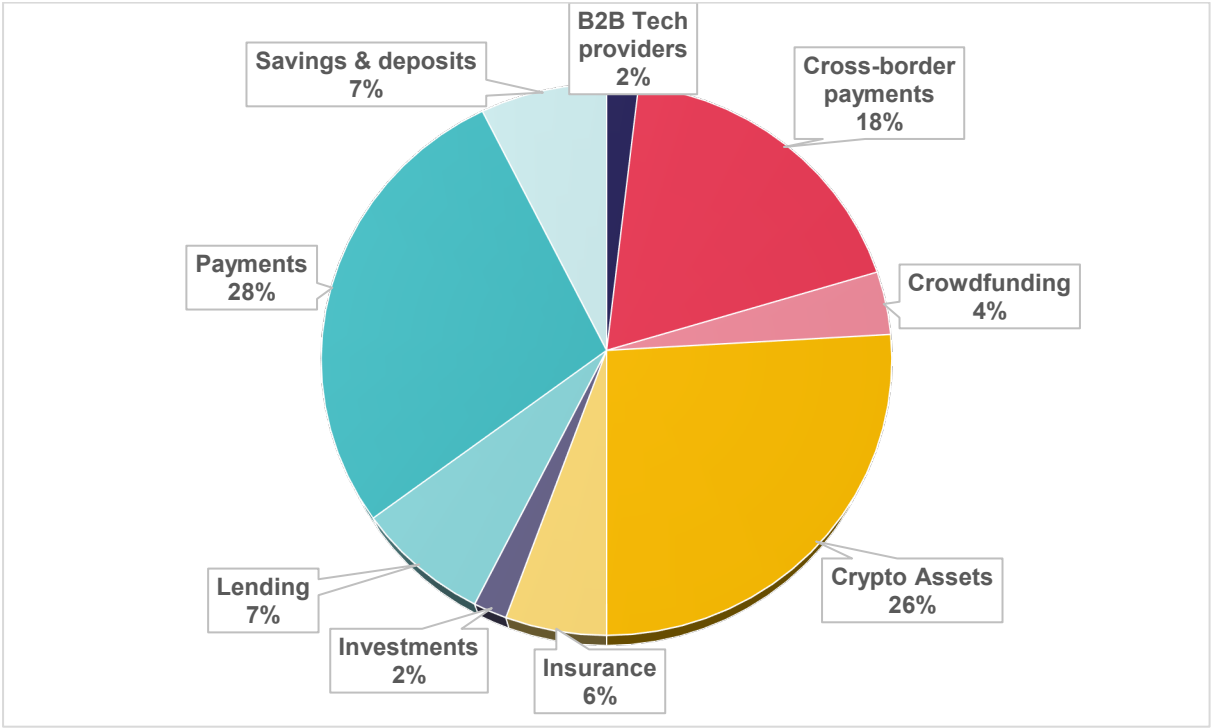
Experience overview of the first regulatory sandbox initiative

Based on an early analysis, the RSB team initially reported that it had received a total of 52 applications. However, one application was submitted twice by different team members of the same applicant, while another application contained four related, but separate, applications by one applicant. The IFWG RSB therefore received a total of 54 unique applications from 49 applicants. The applicants were asked to select both a primary and secondary industry segment from a list that included payments; lending; savings and deposits; insurance; investments; financial planning and advisory services; capital raising; and B2B technology. One of the initial insights from the RSB process is that using this segmentation for initial reporting does pose some challenges, as the applicants reported multiple primary or secondary segments or, in some instances, neglected to select any segments. The case managers subsequently divided the applications received into the following themes: B2B technology providers; cross-border payments; crowdfunding; crypto assets; insurance; investments; lending; payments; and savings and deposits.

Overview of the first round of applications

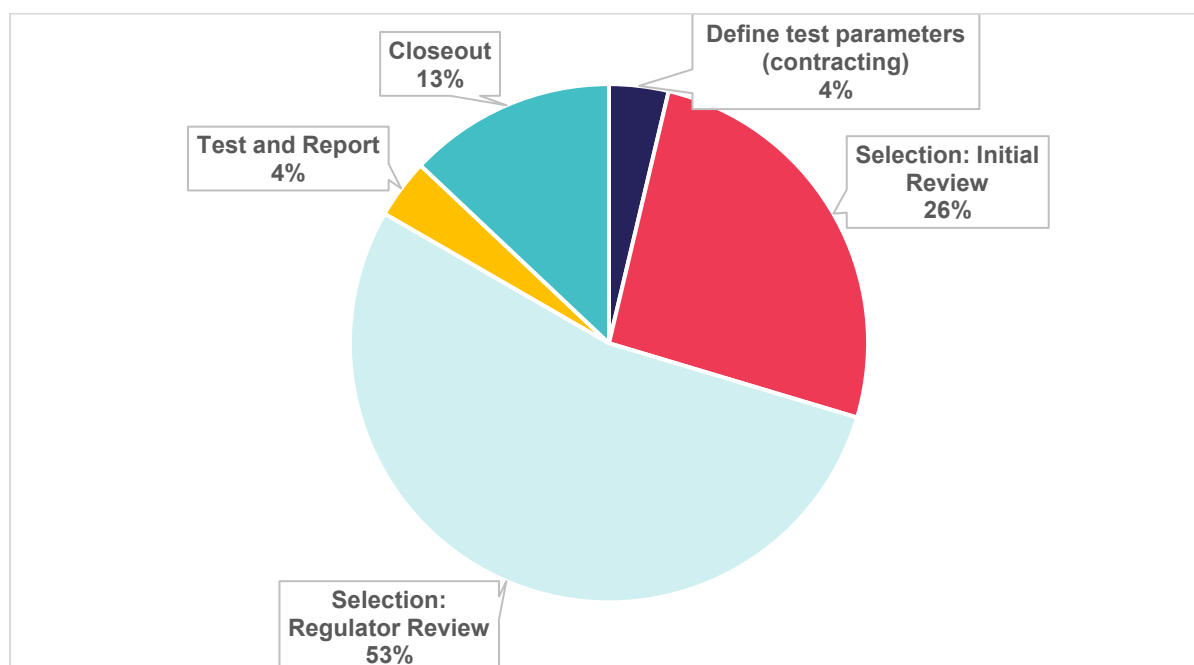
With the COVID-19 national lockdown moving the launch of the Innovation Hub, including the RSB, from an in-person event to a digital launch, there was some consideration as to whether it was appropriate to open the RSB application window. After establishing that digital innovation was more important than ever in light of the pandemic, the IFWG opened the RSB and was pleasantly surprised to have received 54 applications by the end of the application period on 15 May 2020. As depicted in Figure 1, most of the applications received were for (domestic) payments (15); crypto assets (14) – with a focus more on crypto asset service providers (CASPs) and tokenisation; and cross-border payments (10), with most of the applications relating to payments enabled by distributed ledger technology (DLT) and crypto assets. Applicants included both incumbents and fintech firms, with some (as yet) unregulated firms.

Figure 1: Total applications received by theme, as identified by the case managers



One of the key challenges the IFWG had to face during its first RSB was the amount of time it took to assess a large number of, and in many instances, complex applications, between multiple regulators. Another factor contributing to the time delays was around contracting, including determining the need for, and feasibility of, potential regulatory relief. This resulted in the RSB not strictly following a cohort-based approach, with participants starting in a staggered manner as they were moved through the process towards potentially becoming participants into the RSB for testing. Figure 2 depicts the phase at which applicants and participants exited the RSB, excluding those who were still actively participating in the ‘test and report’ phase at the time of writing this report. Figure 2 gives an indication of how many applicants made it through the various review phases of the RSB, to eventually participate in testing and then successfully exit at the close-out phase.

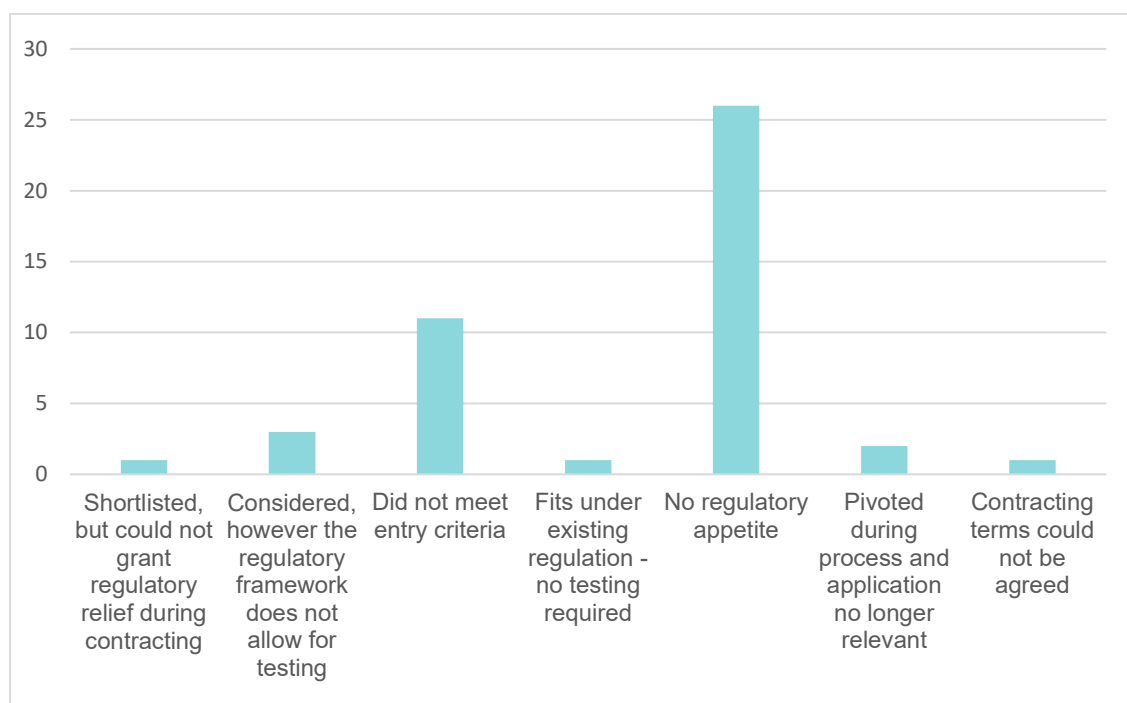
Figure 2: Phases at which innovators exited the RSB



Reasons why applications were not successful

Of the 54 applications, nine reached the RSB for testing. Figure 3 provides reasons for the other 45 applications not making it into the RSB.

Figure 3: Reasons for not getting into the RSB



One of the first steps in the initial phase of receiving and shortlisting applications includes assessing the applications against the relevant entry criteria for possible inclusion on a 'long list', which is submitted for more detailed consideration by the case managers and SMEs. Eleven applications were found to have not met the entry criteria for the RSB. The reasons for not meeting the entry criteria ranged from applications not being significantly different from those already in the market; the proposed test case not falling within the mandates of the IFWG membership; and the testing not being feasible, including due to preparedness and practicality. Another three applications did not make it past the initial case manager review for the reasons set out in further detail below.

Most applications (26 of 45) failed to move past the SME review because of a misalignment between what the applicants sought to achieve and the regulatory focus areas (regulatory appetite). In this regard, some of the specific reasons provided were that:

- existing regulatory requirements may apply and the RSB should not serve as an avenue for regulatory arbitrage;
- similarly proposed business models potentially fell within what regulators had already stated to be undesirable or where regulators had already previously decided on a specific regulatory treatment; and
- applicants were being overly ambitious in terms of what was feasible within the RSB as operated by the IFWG.

Other reasons for not reaching the shortlisting phase included applicants pivoting during the application process and challenges with regulatory relief. Two applicants exited during the contracting phase – in one instance, it was determined that it was not possible for the relevant regulator to grant requisite regulatory relief, while in the other instance, several challenges resulted in a decision to abandon contracting, with an option to reconsider at a future date.

It is important that the RSB does not serve as a channel for regulatory arbitrage, but at the same time treats applicants fairly by not allowing testing to proceed in circumstances where it is unlikely that testing will result in regulatory change or clarity, since it may cost the innovator time and money to test. This was also one of the important learnings highlighted during the retrospective process (discussed later in the

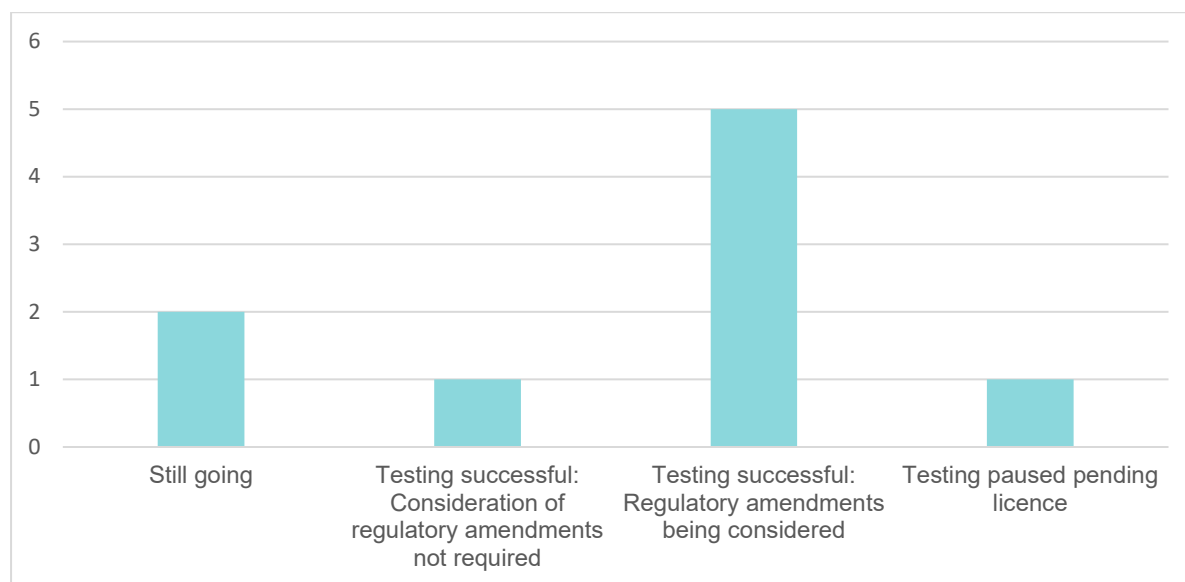
report) to ensure that the RSB serves its primary purpose as a tool to provide regulatory clarity to both regulators and innovators. Further, regulators must, as far as possible, be clear about what they expect to see in the RSB, while still enabling innovators to propose innovative test cases for discussion with, and feedback from, regulators with an eye on RSB testing.



Overview of participants in the sandbox

Eleven applications from 10 applicants were shortlisted for the RSB; however, two applicants dropped out during the contracting phase. As a result, only eight participants (successfully contracted applicants) and nine applications ('sandbox tests') entered the RSB for testing. Figure 4 provides a snapshot on the status of all the sandbox tests, with two participants still testing at the time of writing this report. Testing for one of the participants did not run its full course, but insights were obtained for both the regulator and the participant, which resulted in the participant subsequently obtaining the requisite licence from the relevant regulator to pursue further testing when the RSB opens again. At the time of writing this report, six participants had completed testing successfully.

Figure 4: Status of the sandbox tests



Two of the nine sandbox tests verified the full compliance against existing regulatory requirements in the use of new technologies or innovative business processes. The other seven sandbox tests provided insights to both the participants and regulators, either on the fit with existing frameworks or by providing considerations towards future frameworks. These insights have been documented in this report and will feed into the process of ensuring the necessary and appropriate regulatory frameworks. It should be noted that the development of those frameworks must follow the relevant process

for developing regulatory or legislative frameworks. Successful testing did not result in immediate change or immediate regulatory approval. Table 1 provides a breakdown of the themes and sub-themes of the test cases that made it into the RSB.

Table 1: Themes in the RSB

Themes and sub-themes	Count
Cross-border payments	
Cross-border crypto payments	3
Cross-border payments reporting	1
Crypto assets	
CASP – safe custody service	1
Tokenisation of assets	1
Crowdfunding	
Crowdfunding	1
Insurance	
Index insurance	1
Lending	
Credit data (non-traditional)	1
Total test cases	9

Eight out of the nine RSB participants had agreed to a testing period of six months; however, four of these participants requested – and were granted – extensions to the testing period. The six-month testing window was an indicative testing period used as a guide, particularly with the cohort-based approach in mind. However, an appropriate testing period was considered and agreed upon during the contracting process with each participant, with the option for both longer and shorter testing periods. The primary reasons given for extensions were that either the six months proved inadequate to cover the scope of testing, or the participant had resource constraints and was not able to start testing once it had entered the RSB. One of the participants agreed on a 15-month testing period with the relevant regulator, which was commensurate with the amount of time required for the product to go through its full life cycle to enable testing. The eight participants that made up the nine sandbox tests are a mix of incumbents and fintech firms, with three being incumbents and five fintech firms (noting that there is no standard definition of a fintech firm).

Overview of testing by theme and insights gained

This section of the report provides an overview of the testing conducted, its status and the insights gained, and how those may impact on the work of the IFWG going forward.

Cross-border payments

Cross-border crypto asset payments

Table 2: Cross-border payments test cases

Participant	Participant's core business	What was in the sandbox	Testing status
Centbee - Minit Money	Innovating digital payments	Centbee tested the regulatory treatment of crypto assets – specifically Bitcoin (BTC) and Bitcoin Satoshi Vision (BSV) – for low-value cross-border remittances between South Africa and Ghana and vice versa.	Testing was successfully completed during August 2021.
Mercury FX (Mercury)	International payments	Mercury tested the regulatory treatment as well as the associated regulatory reporting implications and obligations, of crypto assets (specifically XRP) being used for effecting low-value cross-border remittances between South Africa and the United Kingdom and vice versa, subject to certain limits prescribed by the relevant authorities. Testing was, in the main, done in terms of the South African Exchange Control Regulations 1961 (Exchange Control Regulations), promulgated in terms of section 9 of the Currency and Exchanges Act 9 of 1933 (Currency and Exchanges Act).	Testing was successfully completed during August 2021.

Xago Technologies (Xago)	Cross-border remittances	Xago tested the regulatory treatment of crypto assets – specifically Ripple (XRP) – in terms of the Exchange Control Regulations, promulgated in terms of section 9 of the Currency and Exchanges Act, used for effecting cross-border transactions between South Africa and the United Kingdom, and vice versa, subject to certain limits prescribed by the relevant authorities, and reporting on such transactions to the relevant authorities.	Testing was completed during April 2022.
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Insights gained during RSB

The crypto asset RSB test cases involved different models of crypto asset usage in facilitating cross-border payments and/or remittances². Testing focused on compliance with South Africa's Exchange Control Regulations 1961 (Exchange Control Regulations) as administered by the South African Reserve Bank's (SARB) Financial Surveillance Department (FinSurv), as well as compliance with some of the existing and potential future requirements of the Financial Intelligence Centre Act 38 of 2001 (FIC Act) in consultation with the Financial Intelligence Centre (FIC). Discussions during the RSB testing included:

- consideration of the most appropriate legal treatment of crypto assets in South Africa in terms of various existing and future financial sector laws;
- the potential treatment of service providers under the Authorised Dealers in foreign exchange with limited authority (ADLA) framework, however, it was subsequently decided to draft a separate framework for CASPs;
- exploration of ensuring compliance with the requirements of the FinSurv Reporting System, both under the existing exchange control framework and the envisaged future framework;

² It was interesting to note that there was a difference in how FinSurv and the participants define remittances. The participants, in general, saw remittances as any outgoing payment, regardless of value, whereas FinSurv views remittances specifically as a relatively low-value payment, for example remittances used for expatriate workers sending money earned in South Africa abroad to support family in the home country are deemed remittances when under R 5,000 per transaction per day within a limit of R 25,000 per applicant per calendar month.

- tracing and monitoring crypto asset transactions using crypto transaction analysis software;
- possible compliance with Recommendation 16 of the Financial Action Task Force (FATF) (the 'travel rule' requirement for CASPs);
- considerations around the pooling of incoming and outgoing crypto asset and fiat payment values;
- compliance with the limits and reporting of the utilisation of the single discretionary allowance (SDA) and foreign capital allowance (FCA) by South African resident individuals using crypto assets;
- the incompatibility of the existing South African exchange control framework to appropriately cater for crypto assets without amendments being made to the Exchange Control Regulations; and
- the IFWG benefitting from both regulated, and (as yet) unregulated firms' participation in the RSB.

Next steps

Regulators, including the FIC, Financial Sector Conduct Authority (FSCA) and FinSurv, are furthering their work to implement the recommendations made in the Crypto Assets Regulatory Working Group's (CAR WG) position on crypto assets. This includes further engagement with the industry on the implementation of the travel rule and the point at which crypto assets should be deemed as externalisation of value in terms of the Exchange Control Regulations. The RSB has been valuable in creating a better understanding of what such compliance may look like, particularly from an exchange control and anti-money laundering/countering the financing of terrorism (AML/CFT) compliance perspective.

A challenge with testing products which may already be live in the market where an existing and full regulatory framework does not yet apply, is that it may complicate the close-out process, whether it means potentially banning a product/service or developing and publishing the requisite framework. The IFWG appreciates the time and effort that all participants have committed towards enabling testing to contribute towards appropriate policy and regulatory responses, also bearing in mind that the development of such positions and frameworks takes time. It should be noted that the completion of RSB testing does not imply approval by the IFWG, nor any of its

members, of either the participants or any of their business models, and that participants must still comply with all existing regulatory frameworks outside of the RSB, where applicable and appropriate.

Cross-border payments reporting

Table 3: Cross-border payments reporting test cases

Participant	Participant's core business	What was in the sandbox	Testing status
The Standard Bank of South Africa Limited (Standard Bank)	Standard Bank is a financial institution that offers banking and financial services to individuals, businesses, institutions and corporations in Africa and abroad.	Standard Bank tested the reporting of cross-border foreign exchange transactions submitted to the SARB's FinSurv, utilising the Standard Bank Aroko blockchain platform and verifying that the reporting is timely and in compliance with all relevant reporting rules, as prescribed in the FinSurv's Business and Technical Specifications. The reporting testing happened in parallel with the existing reporting process and clients were not impacted.	Testing was successfully completed during September 2022.

Insights gained during RSB

The cross-border transactions occurred along existing channels and the team performed balance of payments reporting, both via the existing FinSurv Reporting System and the blockchain-based solution. As a useful initial exploration for the team in the RSB, the testing demonstrated that it was possible to perform the reporting of cross-border transactions in a compliant, accurate, timely and cost-efficient manner using the blockchain-based platform without any intermediary reporting systems.

Next steps

Data was reported into a FinSurv test environment in parallel with existing testing. At the end of the testing period, the RSB test was concluded without any impact on production systems or clients. Outcomes from the RSB test confirmed the ability of the blockchain platform to report in compliance with existing FinSurv reporting requirements and did not suggest the need to change any of the existing reporting

rules. The participant may consider building on this test case in future iterations of the RSB.

Crypto assets

CASP – safe custody service

Table 4: CASP – safe custody service test cases

Participant	Participant's core business	What is in the sandbox	Testing status
Investec Bank Limited (Investec)	Investec provides specialist banking as well as wealth and investment services to individuals, businesses and intermediaries.	Investec tested a safe custody service for crypto assets through its innovative Digital Asset Vault (DAV) offering. The DAV is intended to be a secure mechanism for Investec clients to store and transfer crypto assets, reducing reliance on cold storage (i.e. complex hardware wallets and/or crypto asset exchanges). The objective of testing the DAV in the sandbox was primarily to test Investec's regulatory compliance, regulatory reporting processes, and related risk management frameworks in collaboration with the IFWG.	Testing was successfully completed during March 2022.

Insights gained during RSB

Testing provided useful insights on transaction screening, the application of Client Identification and Verification (CIV) and AML in compliance with the FIC Act and the FATF travel rule. Consideration was further given to compliance with FinSurv's reporting framework. Of particular interest in this use case was how an incumbent bank could potentially navigate an uncertain regulatory environment, especially since the existing South African exchange control framework does not appropriately cater for crypto assets.

The path to production for a regulated entity looking to introduce a product/service in an unregulated space may prove to be more challenging, as it must navigate the fit of such a product/service against existing regulation. However, it should be noted that the counter point is that the risk of an unregulated entity issuing an innovative

product/service into an unregulated space is that it may eventually run afoul of future regulation.

Next steps

The insights gained are contributing to the further engagement on, and development of, the crypto asset regulatory framework in South Africa, including in respect of the implementation of the travel rule. In addition, the Prudential Authority (PA) has issued a guidance note to the banking industry on compliance with AML/CFT and proliferation financing (PF) as it relates to crypto assets and CASPs.

Tokenisation of assets

Table 5: Tokenisation test cases

Participant	Participant's core business	What is in the sandbox	Testing status
Standard Bank	Standard Bank is a financial institution that offers banking and financial services to individuals, businesses, institutions and corporations in Africa and abroad.	The sandbox test will explore the tokenisation of an existing Standard Bank 1invest exchange-traded fund (ETF) on the bank's Aroko blockchain platform. The solution should enable clients to transact on a single platform in a safe and efficient manner. The objective of testing is to explore the impact of tokenising a financial instrument on existing legislation and regulation.	Testing was still ongoing at the time of writing this report.

Insights gained during RSB

Testing was still ongoing at the time of writing the report. This is an interesting RSB test case to help consider the implications of tokenising an existing security on both the Financial Markets Act 19 of 2012 as well as, potentially, the future crypto asset regulatory framework in South Africa.

Next steps

Once testing has been completed, the participant will prepare a close-out report for consideration by the case manager and regulatory SMEs. The lead regulator, along

with the case manager, will prepare a letter to the IFWG, motivating the appropriate close-out option for this sandbox test. The outcomes will be covered in future RSB reporting.

Crowdfunding

Table 6: Crowdfunding test cases

Participant	Participant's core business	What is in the sandbox	Testing status
The People's Fund	The People's Fund is a crowd-investing platform that facilitates raising capital for micro, small and medium-sized enterprises with consumers willing to invest. The investments are used to fund these organisations' purchase orders, products or assets.	The sandbox sought to clarify the treatment and appropriate framework for the intermediation of crowd-investing platforms.	Testing was successfully completed during July 2021.

Insights gained during RSB

The RSB test focused on a rewards-based model (funding is provided for a return), with working capital provided to micro, small and medium-sized enterprises (MSMEs) through purchase orders (POs) to supply goods to either government or corporates, with funding obtained from retail investors (the crowd). The type of crowdfunding and business model may impact on the relevant regulation. Crowdfunding platforms play an intermediary role between those in need of capital and those looking to provide it for a return. Some of the key considerations during the RSB test included:

- whether the funds provided by the lenders/investors could be considered as deposit-taking, potentially making a crowdfunding platform subject to deposit taking (as defined in the Banks Act 94 of 1990) and subject to regulation by the PA;
- crowdfunding platforms must consider whether it meets the three requirements of a credit transaction specified in the National Credit Act 34 of 2005 (NCA), namely, whether (i) it advances money to MSMEs; (ii) defers the repayment of the advanced money; and (iii) charges interest/a fee for the deferment;
- in the absence of a bespoke regulatory framework, the above licensing requirements may be individually relevant, dependent on the business model; and

- crowdfunding, or lending, platforms could be considered under the Conduct of Financial Institutions (COFI) Bill as the facilitation of intermediation services of lenders and borrowers and under the NCA for the facilitation and issuance of a credit product.

Next steps

Regulators have taken note of the development of crowdfunding and are considering its implications; however, bespoke regulation has not been developed yet. Crowdfunding does hold the potential to address part of the funding gap, particularly for MSMEs, and the policymaker and regulators will continue to monitor its development.

Index insurance

Table 7: Index insurance test cases

Participant	Participant's core business	What is in the sandbox	Testing status
Santam	Santam offers general insurance products and services in Southern Africa and internationally.	Sandbox testing sought to clarify the treatment and appropriate regulatory framework for index insurance as an insurance product. This will be done by conducting tests on Santam's Soil Moisture Index product offering.	Product treatment testing has been completed and close-out procedures initiated.

Insights gained during RSB

This test case provided valuable insight into a topic that had received focus from both industry and regulators over time. The testing period was agreed to be 15 months and the close-out procedures initiated at the time of writing this report. Some of the topics reflected on during testing included the target market's understanding of the product and the implications from a reinsurance perspective.

Next steps

Santam has provided a close-out report reflecting on its experience in the RSB and insights gained, which is under consideration by the case manager and regulatory

SMEs. The PA as lead regulator, along with the case manager, will prepare a letter to the IFWG motivating the appropriate close-out option for this sandbox test. The PA will have to consider the implications of the successful completion of testing and how this may impact on the insurance regulatory framework. The outcomes will be covered in future RSB reporting.

Lending: non-traditional credit data

Table 8: Credit data test cases

Participant	Participant's core business	What is in the sandbox	Testing status
Notto	Credit bureau business	Notto sought to demonstrate that financial services providers will be willing and able to provide credit based on consumers' Notto credit scores.	Testing paused pending license.

Insights gained during RSB

Increasing the availability of non-traditional consumer credit data within an appropriate framework could prove to be beneficial in granting the financially excluded access to credit. Such a framework should cater for the realities and challenges within the context of a specific country and continent. The National Credit Regulator (NCR) required Notto to obtain a credit bureau licence as part of the RSB process. Notto was not able to meet the licensing requirements as prescribed in the NCA during the testing period, resulting in testing in the RSB being paused, with the intention that Notto may resume testing once it has obtained the necessary license.

Outcome

Notto addressed the concerns raised during the RSB testing period and obtained a credit bureau license. The NCR requested that Notto resume testing once the RSB opens again, particularly to test the predictive value of rental data for credit assessment.

Reflections on the journey thus far and next steps

Owing to the staggered approach followed and the time it is taking to complete the first cohort of testing, the IFWG conducted a retrospective process prior to the completion of the first cohort to determine the performance of the RSB in achieving its objectives. The retrospective process included a detailed analysis of (i) what went well; (ii) what did not go well; and (iii) what could be done to improve the RSB processes and approach. Overall, the RSB was effective in sourcing a number of RSB tests in areas where industry innovation intersected with regulatory focus areas, allowing the RSB test cases to explore how best to obtain regulatory clarity during the RSB tests. However, the first cohort was not efficient in adhering to the timelines as originally communicated.

The RSB team started obtaining feedback from industry even during the application window and will obtain further inputs from participants once the cohort is officially completed. The retrospective process took those industry inputs as well as sourcing input from the RSB core team, the RSB case managers and the regulatory SMEs into consideration. Some of the salient insights from the retrospective process included the following:

- The large number of applications proved challenging and took some time to process with the group of regulatory SMEs.
- The process of determining the need for and feasibility of regulatory relief proved to be challenging, particularly with an approach to consider a wide range of applications.
- The importance of clear roles and responsibilities is critical. For example, although the initial process was very collaborative, the decision to grant entry to, and contract for, the RSB falls on the regulator who is primarily responsible for the activity the RSB test is focused on.
- Although there is a need to be agile and work at speed, there is also a need to be realistic in terms of timelines and allowing applicants and regulators sufficient time to engage on an application.

Recommendations to improve the overall functioning of the RSB included:

- being clearer and stating the regulatory focus areas upfront;
- engaging early with potential applicants to determine whether a use case is suitable for the RSB; and
- working more closely with the various regulators on an end-to-end approach in the RSB process.

After deliberation and reflection on the initial RSB process, the IFWG has voted to move to an adjusted rolling-based approach. In other words, the RSB will generally remain open for applications and allow relevant regulators to provide an indication of their areas of focus, regulatory appetite, and capacity and resource constraints in assessing applications throughout the RSB period. In this regard, the IFWG must, on the one hand, be deliberate in striking an appropriate balance between being agile and responsive to innovation, and on the other hand, be mindful of the resource and capacity constraints within the relevant regulatory agencies that administer the regulatory framework against which new products or services will be assessed. The IFWG and RSB teams will continue to monitor the adequacy and effectiveness of their processes, including the new adjusted rolling-based approach to determine whether it is best suited to the objectives set for the RSB.

Moving to an adjusted rolling-based approach allows for a more agile process in receiving and considering applications and initiating testing. This means that applicants will be able to apply for access to the RSB at any time, as long as the application is in accordance with the guidance provided by the regulators on the RSB webpage, including whether the product or service earmarked for testing is focused on a particular theme, and whether they have capacity at a particular point in time. Although applicants would have to submit an application to enter the RSB, the decision to apply may also be based on engagement with the RGU or upon recommendation by a regulator(s).

The phases that an application would go through with the rolling-based approach does not change materially aside from them running concurrently. However, the regulators would need to clearly articulate their regulatory or policy priorities for which there is appetite to gain further insights through the RSB process. Feedback to applicants will happen earlier – particularly if what is being proposed does not meet the entry criteria,

is not feasible, or an application does not align with regulatory objectives and is unlikely to result in regulatory clarity and/or change.

Concluding remarks

The IFWG's first move into the world of RSBs by opening the cohort in April 2020, has provided useful insights to both participants and regulators. These insights would likely feed into decision-making around policy positions and appropriate regulatory interventions. Although policymaking and regulatory processes proceed at a deliberate pace, the RSB process serves as a useful mechanism for engagement and partnership between the public and private sector on addressing complex issues. The RSB is not a silver bullet, but it serves as a useful enabler within the broader policymaking and regulatory toolset; enabling deeper insights into innovation in South Africa through engagement and collaboration between multiple stakeholders.

We look forward to the next phase of the RSB with its updated approach and encourage the fintech community to continue to monitor the IFWG website for more frequent updates on the RSB.

