

FINTECH REGULATORY SANDBOX GUIDELINES



Bank of Jamaica

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Introduction

- 1.1 Bank of Jamaica (the Bank) will establish a Fintech Regulatory Sandbox (Sandbox) to achieve a number of public policy objectives. The objectives are to provide a platform to encourage innovations in financial services, promote competition and promote financial inclusion. In the initial phase, Regulated Entities and Fintech companies in partnership with Deposit Taking Institutions (DTIs) for delivery of payment services or such other financial services will be allowed to operate in the Sandbox to promote innovation. Regulated Entities are institutions regulated by the Bank under the Banking Services Act (BSA) and the Bank of Jamaica Act, and the Financial Services Commission (FSC) under the Securities Act, (on condition that the FSC grants approval to its licensees to engage in Fintech activities).
- 1.2 The operation of the sandbox will be guided by the Fintech Regulatory Sandbox Guidelines (Sandbox Guidelines).
- 1.3 The Sandbox Guidelines are developed pursuant to Section 28 of the Payment, Clearing and Settlement Act of 2010 (PCSA, 2010). The Bank, in discharging its responsibility for oversight, will apply these Guidelines to ensure consistency of treatment of all entities within the Sandbox.
- 1.4 Participants in the Sandbox will be permitted to test innovative financial products, services and businesses in a live market environment, while ensuring appropriate safeguards are in place to manage risks, including the risk of product failure and the risk of jeopardising the integrity and stability of the financial system.
- 1.5 The Sandbox will provide Participants with a controlled environment for the deployment of financial technology, which allows for the adaptation of regulatory requirements or procedures that may unintentionally inhibit innovation or render the products, services or business models non-viable. It is expected that this Regulatory Sandbox will reduce the time, and potentially the costs incurred by Participants in getting innovative products to market.
- 1.6 The Sandbox will promote the Bank's understanding of Fintech products, services and business models and inform the framing of new regulations or amendment of existing regulations.

1.7 The Bank will support all Participants that are entering the Sandbox by assigning officers to work with the Participants to ensure that appropriate safeguards are included in the product design and service delivery to protect consumers. Effective support within the Sandbox will be provided at any time from across all functional areas in the Bank to ensure adequate guidance and oversight.

1.8 For a Participant, which is a Regulated Entity operating in Jamaica under a licence, the terms and conditions of that licence would continue to apply during the test to all non-Sandbox approved activities. The Sandbox would permit a product, solution or service to be tested by the Bank in accordance with a test plan and without requiring a separate or modified licence or authorisation for the purposes of the test, once the Bank approves the application submitted by the participating Regulated Entity.

1.9 The Sandbox Guidelines were developed based on a jurisdictional review of regulatory sandboxes established in 17 countries. The Bank in developing the Sandbox Guidelines adopted four (4) characteristics used by these countries as follows:

a) **Objectives** – The Sandbox aims to provide a platform to encourage innovation in financial products and services, incentivize digitisation to enhance access to digital financial services, promote sustainable financial inclusion, and promote competition while protecting consumers, mitigating risks associated with digital financial services.

b) **Eligibility Criteria** – Provide the standards for which the Bank will accept applicants for the Sandbox. Applicants should demonstrate that their products and services are: innovative, benefit customer and country, do not fall under any regulatory regime and are ready for immediate testing. Applicants must have the necessary resources to support testing, including resources and expertise to mitigate and control potential risks and losses.

c) **Duration/Timing** – The Bank’s Sandbox provides a maximum duration of 24 months for testing.

d) **Safeguards** – The safeguards for operating within the Sandbox highlight the requirements for:

- financial and client limits;
- consumer protection mechanisms; and
- risk management arrangements.

1.10 For a Fintech Company in partnership with a DTI, to be eligible, it must have obtained all relevant authorisations, licences and permits as may be required under any applicable legislation for the delivery of its services. In such cases, where a Fintech company is regulated by another regulatory agency, the Bank will enter into a Memorandum of Understanding with the relevant regulator.

1.11 This document is designed in four sections and will flow in order of the main features of the Sandbox Guidelines.

- Part I – provides general information on the sandbox such as definitions, effective date and confidentiality.
- Part II – provides the detailed requirements for operating within the Sandbox.
- Part III – provides information on the reporting requirements, interim and final reports, and the approval process.
- Part IV - entails the application process for participating in the Sandbox.

Part I: General Information

I. Definitions and Interpretations

1.1 For the purpose of this Framework the following definitions are provided:

- i. “Applicant” – Means the party interested in being a Participant in the Sandbox as indicated through the submission of an application form. The applicant could be an authorized and regulated financial institution either on its own or in collaboration with a potential Fintech company.
- ii. “DTI” means deposit taking institution as defined in the Banking Services Act.
- iii. “Fintech” – Means technological innovation to be utilised in the provision of financial products and services.
- iv. “Fintech Company” – A company other than a regulated financial institution that utilises or plans to utilise Fintech to provide financial services.
- v. “Participant” or “Participating institution” – Any institution authorized by the Bank and the Financial Services Commission to participate in the Sandbox. The term “Participants” shall be construed accordingly.
- vi. “Regulated Entity” – Means a licensed or registered Financial Institution which is subject to regulation and supervision by the Bank of Jamaica or the Financial Services Commission pursuant to the Bank of Jamaica Act, the Banking Services Act and the Securities Act. The term “Regulated Entities” shall be construed accordingly.
- vii. “Regulatory Sandbox” or “Sandbox” – A contained environment in which participating institutions may test their products, services or solutions subject to the requirements under this Framework.

II. Effective Date

2.1 These Sandbox Guidelines come into effect on **16 March 2020**.

III. Confidentiality

3.1 The Bank shall treat all non-public information received from an Applicant and/or Participant(s) and tests conducted within the Sandbox as confidential. The Bank shall not disclose such information to third parties unless required to do so by law or authorised in writing by the Applicant and/or Participant(s).

3.2 The Bank may report anonymized data, lessons learnt and regulatory insights gained from the Sandbox. This to provide stakeholders with information pertaining to emerging issues and the application of laws and regulations to new financial technologies and business models.

3.3 Subject to 3.1, the Bank reserves the right to publicly identify Participants in the Sandbox, where required by law in keeping with its disclosure and reporting requirements.

Part II: Fintech Regulatory Sandbox Requirements

IV. Objectives

4.1 The Sandbox Guidelines is designed to provide support for the following public policy objectives:

- i. Encourage innovation in financial services sector;
- ii. Incentivize the digitisation of financial services by encouraging solutions which effectively:
 - Reduce the time required for formal approval of products and services by the Bank, thereby potentially reducing costs incurred or associated with launching products in the market,
 - Increase effectiveness and efficiency in digital financial services,
 - Increase the range of financial products available to financial services, consumers, so that they can choose products which are suitable to their needs,
 - Manage and mitigate risks associated with digital financial services,
 - Encourage innovation in saving products, credit facilities and services, electronic retail payments and money transfer services,
 - Mitigate risks associated with financial fraud,
 - Build digital financial identity and credit history for financial service consumers,
 - Innovative digital identification for consumers,
 - E-commerce solutions for micro, small and medium-sized enterprises (MSMEs),
 - Provide consumer protection services, including data protection, handling, tracing and resolving complaints;
- iii. Promote competition in price and product offerings for financial service consumers; and
- iv. Enhance access to digital financial services to achieve sustainable financial inclusion.

V. Eligibility Criteria

5.1 The Sandbox is designed to foster the exploration and testing phases of innovative products.

As such, this framework is aimed at:

- i. Regulated Entities:

- a. DTIs;
 - b. Cambios
 - c. Remittance Service Providers;
 - d. Securities Dealers which have been authorised by the FSC to participate in the Sandbox; and
- ii. Fintech Companies in partnership with a DTI.

5.2 In considering an application to participate in the Sandbox the Bank will take into account, among other factors, the following:

- i. The potential benefits of the proposed product, service or solution to consumers;
- ii. The potential risks and mitigating measures;
- iii. The integrity and capability of the Participants to test the product or service in the Sandbox;
- iv. The potential of the Bank, as the Regulator, to obtain evidence on the benefits and risks of the emerging technologies and implications; thereby allowing the Bank to consider regulatory changes that facilitate useful innovation in financial products and services while mitigating the risks; and
- v. The potential for improving the pace of adoption of innovation and fostering financial inclusion while mitigating the risks to financial stability.

5.3 The Bank will consider exemptions from existing regulatory requirements ('no objection') on a case-by-case basis for Regulated Entities.

5.4 To become a Participant in the Sandbox, applicants must demonstrate that they meet the requirements below as part of their application:

- i. Innovation: The product and services are technologically innovative or applied in an innovative way within the remit of financial regulators (for products cutting across regulatory jurisdictions, the Bank has the responsibility to communicate and engage other regulators where necessary).
- ii. Consumer, country and regional benefit:
 - a. The product or service addresses a significant issue or brings benefits to consumers or the industry.

- b. The product or service improves the efficiency and effectiveness of financial institutions' risk management, addresses gaps in technological innovation in accessing financial services or opens up new opportunities for financing or investments in the economy.
- c. The product or service should encourage financial inclusion or has the potential to financially include more citizens in the formal financial sector.
- iii. Need for sandbox: There is a need for sandbox testing of the product or service (that is, there are no alternative means of releasing the innovation to customers).
- iv. Testing readiness: The systems procedures and processes of the applicant are ready for immediate testing in the sandbox, including close monitoring of trial.
- v. If an applicant satisfies the eligibility criteria, it will be issued with a statement of sandbox acceptance. An applicant that does not satisfy the eligibility criteria will be rejected, and may reapply after a 6-month period.

VI. Duration/Timing

6.1 The testing period or duration in the Sandbox shall not exceed 24 months from the Participant's start date, unless it can be demonstrated that an extension is necessary to respond to specific issues or risks identified during initial testing.

6.2 Expiration of Approval

- i. Upon expiration of the testing period, approval to participate in the sandbox will automatically expire.
- ii. To extend the testing period, a written application must be submitted by the Participant no later than 30 business days prior to expiration of the testing period. The written application should state the additional time required and clearly explain reasons for requiring the extension.

The Bank will not approve an extension of the testing period unless testing of the solution was positive and it can be demonstrated that an extension is necessary. This extension will not exceed 6 months.

6.3 Revocation of Approval

- i. The Bank may revoke an approval to participate in the Sandbox at any time during the testing period if the Participant:
 - a) Fails to develop and implement any of the necessary safeguards;
 - b) Submits information that is materially false, misleading or inaccurate , or has concealed or failed to disclose material facts in the application;
 - c) Contravenes any applicable law(s) administered by the Bank or any applicable law in Jamaica or abroad which may affect the Participant's integrity and reputation;
 - d) Is undergoing or has gone into liquidation¹;
 - e) Breaches data security and confidentiality requirements;
 - f) Carries on business in a manner that is detrimental to or adversely impacts customers or the public at large or poses a risk to financial system stability;
 - g) Fails to effectively address any technical defects, flaws or vulnerabilities in the product, service or solution which gives rise to recurring service disruptions or fraud incidents; or
 - h) Any other reason determined by the Bank.
- ii. Prior to revoking an approval to participate in the Sandbox, the Bank will provide the Participant:
 - a) with 30 business days' written notice of its intention to revoke the approval and the detailed reason(s) for revocation; and
 - b) an opportunity for the Participant to respond to the Bank regarding the revocation.
- iii. The Participant(s) may voluntarily surrender their approval to participate in the Sandbox subject to clearly demonstrating that the interest of their customers have been addressed to the satisfaction of the Bank.
- iv. The Bank reserves the right to revoke approval without prior notice where there is an urgent need to protect the financial system, the Participant, its customers and the

¹ This includes the filing of a winding up petition or any action taken under the Insolvency Act

general public². The Participant may challenge the Bank's decision to revoke approval, through a written response submitted within 30 business days of the effective date of revocation of its approval.

- v. Upon revocation of an approval, the Participant must:
 - a) Immediately implement its exit plan to cease the provision of the product, service or solution;
 - b) Provide notification to customers of the cessation and their rights to redress where relevant;
 - c) Comply with obligations imposed by the Bank to securely store or dispose of all confidential information including customer personal information collected during testing;
 - d) Compensate customers who had suffered financial losses during the testing period in accordance with the safeguards submitted by the Participant; and
 - e) Submit a report to the Bank on the actions taken after revocation.

VII. Safeguards

7.1 Client Limits:

Limits for the number of clients in the Sandbox shall be set by the Participating institutions, in conjunction with the Bank, based on the product, service or solution being tested.

7.2 Exposure Limits:

The financial liability exposure of the Participant's business should not exceed a prescribed limit agreed with the Bank.

7.3 Consumer Protection:

An applicant must:

- i. develop and implement consumer protection and disclosure mechanisms.

² Participants should refer to the operating procedures manual which will be published on BOJ's website.

- ii. provide adequate written disclosure of the risks to its customers in the Sandbox and obtain confirmation from these customers that they fully understand and accept these risks.
- iii. establish a limitation on the aggregate value or frequency of transactions, where relevant.
- iv. restrict participation to a certain segment or profile of customers.
- v. provide a consumer redress mechanism.
- vi. provide a clearly defined process for:
 - a) customer selection,
 - b) handling consumer enquiries,
 - c) customer exit procedures, and
 - d) Appropriate facilities or mechanisms for the communication of information that in a manner that is easily accessible by disabled persons
- vii. Participants must protect customer information.

7.4 Dispute Resolution:

Participants must develop and implement an adequate complaints handling mechanism easily accessible to all customers.

7.5 Risk Management Controls:

- i. Full risk management controls are to be developed and implemented.
 - a. An applicant should ensure that the major foreseeable risks arising from the product, service or solution are identified, assessed, documented and mitigated.
 - b. Sufficient risk management systems, including IT and cyber risk management are developed.
 - c. Adherence to anti-money laundering, counter-terrorism and proliferation financing procedures.
- ii. An exit and transition strategy is clearly defined.

7.6 Readiness and Monitoring:

- i. Systems and processes are to be ready for testing.
- ii. An applicant must have a monitoring process in place.

Part III: Fintech Regulatory Sandbox Reporting and Approval

VIII. Submission of Information and Reports

8.1 During the testing period, the Bank will require the Participant(s) to submit information and reports relating to testing within an agreed time.

8.2 All Interim and final reports must be confirmed by the CEO of the Participant(s). Where there is a joint testing between a participating DTI and a participating Fintech company, the reports must be confirmed by both the DTI's CEO and the participating Fintech Company's CEO.

8.3 The Participant must ensure proper maintenance of records during the testing period to support reviews by the Bank.

8.4 Interim Reports:

- i. The Participant must submit interim reports to the Bank on the progress of testing, which includes information on the following:
 - a) Key performance indicators, key milestones and statistical information;
 - b) Key issues arising as observed from incident reports; and
 - c) Actions or steps taken to address the key issues.
- ii. The frequency and specific details to be included in interim reports will be agreed between the Bank and the Participant, taking into account the duration, complexity, scale and risks associated with the test.

8.5 Final report

- i. Within 30 business days from the expiration of the testing period, the Participant(s) must submit a final report to the Bank containing the following:
 - a) Key outcomes, key performance indicators against agreed measures for the success or failure of tests conducted and findings of testing;
 - b) A full account of all incident reports and resolution of customer complaints;
 - c) Information on financial and client limits, consumer protection and risk management arrangements; and
 - d) In the case of a failed test, lessons learnt from the test, including:

- i. The reason(s) for failure, and how they may be addressed.
- ii. How the innovation was received by the public.
- iii. What improvements (if any) were observed as a result of the product, service or solution?

IX. Completion of Testing in the Sandbox

9.1 Upon the completion of the testing, the Bank may:

- i. approve deployment of the product, service or solution to the market on a wide scale with specific conditions to apply to the Participant. Where the product, service, device is a payment service, non-DTI Participants will be regulated by the Bank pursuant to the regulatory framework for payment service providers. Where the Bank has made a determination to grant approval, such approval shall be granted using the following process standards:

- a) conditional approval to deploy the product or service, subject to completion of any Fit and Proper requirements for relevant personnel managing the operations associated with the product or services;
- b) final approval upon successful completion of the Fit and Proper requirements.

The Bank shall grant its conditional approval for the deployment of the product or service within 30 business days of the receipt of the Final Report of the Participant, where the testing of the product, service or solution has been successful.

- ii. prohibit deployment of the product, service or solution to the market upon the completion of the testing due to the following reasons:
 - a) In the event of an unsuccessful testing based on agreed test measure(s); or
 - b) The product, service or solution has unintended negative consequences for the public, the payment clearing and settlement systems, and/or financial stability.
- iii. Where the Bank prohibits deployment of the product, service or solution to the market, this shall be communicated in writing to the Participant within 30 business days of the receipt of the Final Report.

Part IV: Sandbox Process

X. Application Requirements

10.1 An applicant must submit to the Bank:

- i. A certified copy of certificate of incorporation, if not already in the possession of the Bank;
- ii. A completed application form duly signed and dated by the CEO/duly authorised person;
- iii. Supporting documentation to substantiate the information provided in the application form; and
- iv. Such other information as may be required to satisfy the Bank on the applicant's readiness to participate in the Sandbox

10.2 The applicant must document the key outcomes that the testing is intended to achieve and the appropriate indicators to measure such outcomes.

10.3 The Bank will inform an applicant of its eligibility to participate in the regulatory sandbox within 20 business days of receiving a completed application.

The completed application must be submitted electronically via email: fintech-sandbox@boj.org.jm or to the address below:

Bank of Jamaica
Financial Markets Infrastructure Division
76 Knutsford Boulevard
Kingston 5
Jamaica

XI. Appendix Application Process

11.1 Diagram showing the regulatory sandbox process:

