

REGULATORY SANDBOXES VS. INNOVATION HUBS

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The presentation is partly based on a paper written by Ross Buckley, Douglas Arner, Robin Veidt and Dirk Zetzsche: Building FinTech Ecosystems: Regulatory Sandboxes, Innovation Hubs and Beyond, <https://ssrn.com/abstract=3455872>

A. Topic

- *Regulatory Sandbox as buzzword in current innovation debate*
- *What exactly is a regulatory sandbox?*
- *What does it achieve?*
- *Are there alternatives to sandboxes?*
- *Are the resources invested in a sandbox proportional to the gains?*

Agenda

A. Topic v

B. Definitions

C. ADA-Chair Sandbox Project

D. Focus on Sandboxes

E. Conclusions & Take Aways

B. Definitions

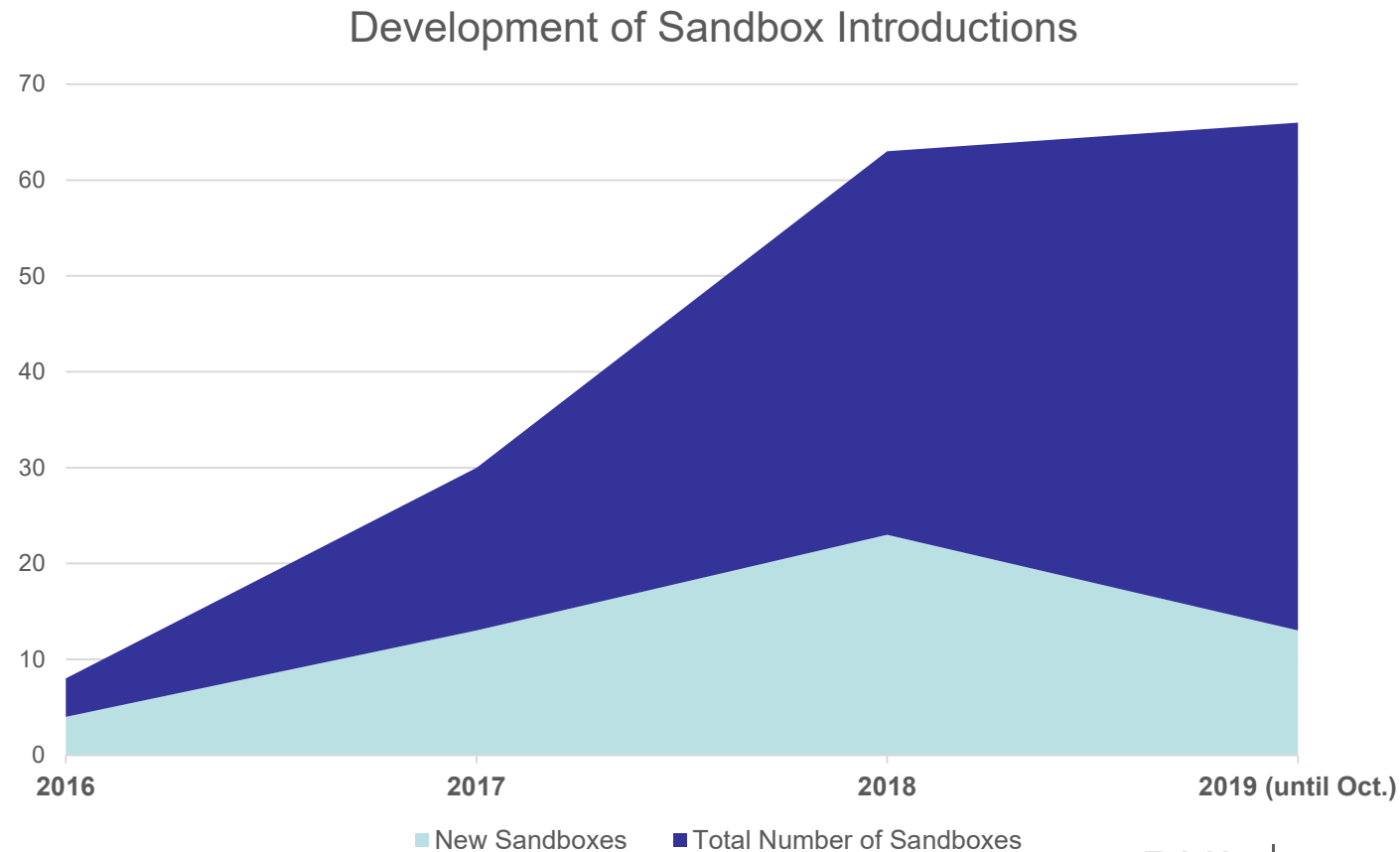
- *FinTech: Applying technology to financial services*
- *Regulatory sandbox: regulatory safe space – automatic relief – entry test*
- *Innovation hub: Access to regulators – guidance on applicable requirements – dispensations or adjustments on case-by-case basis*

C. The ADA-Chair Regulatory Sandbox Project

- *Collecting publicly available information on regulatory sandboxes, innovation hubs, other regulatory frameworks*
- *Comparing different legal solutions*
- *Analyzing transparency and access to detailed information*
- *Collecting data on sandboxed firms, analyzing their performance*

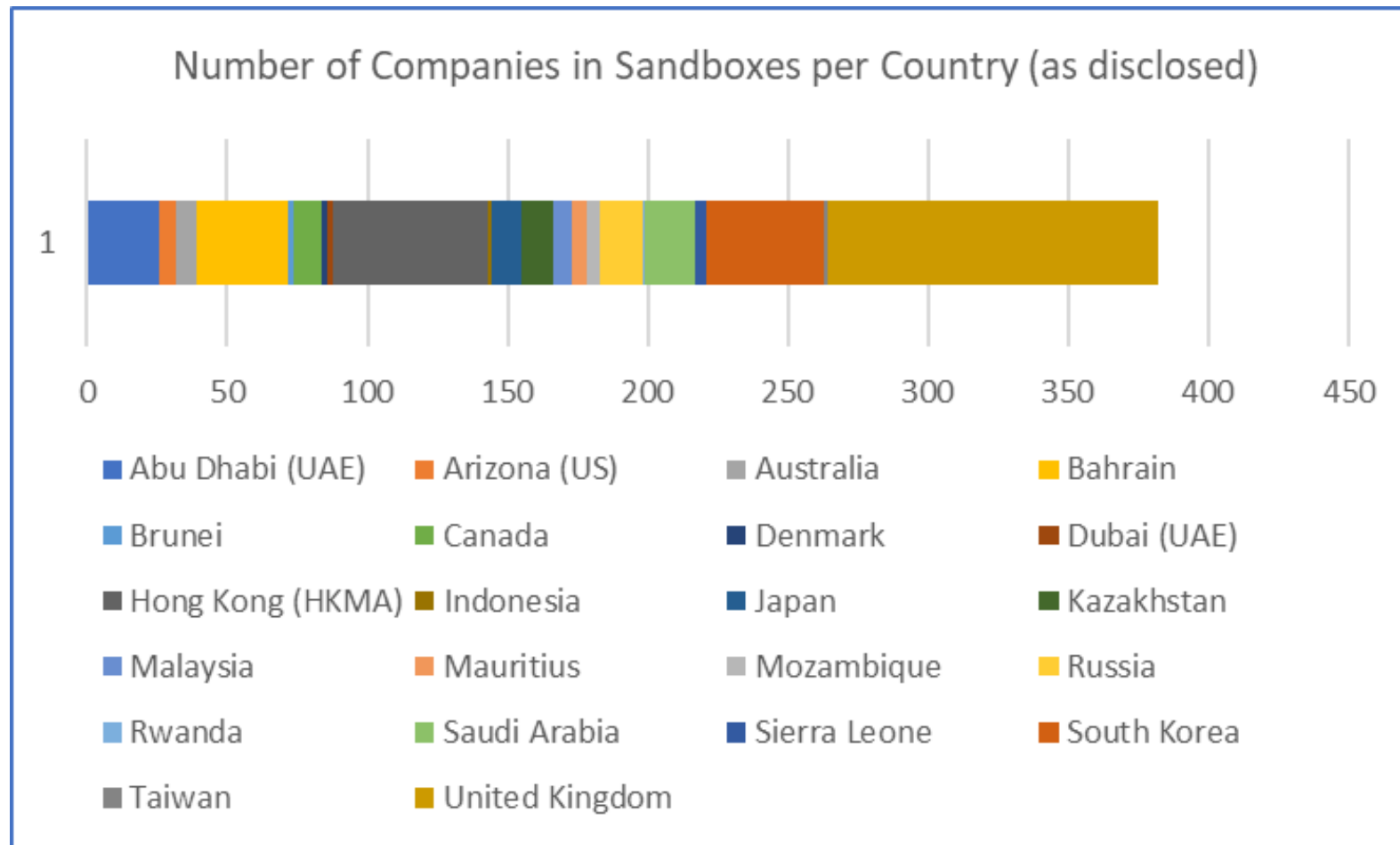
D. Focus on Sandboxes: The Regulatory Landscape

- *Huge increase in sandboxes since 2016, many more expected to follow*



D. Focus on Sandboxes: The Regulatory Landscape

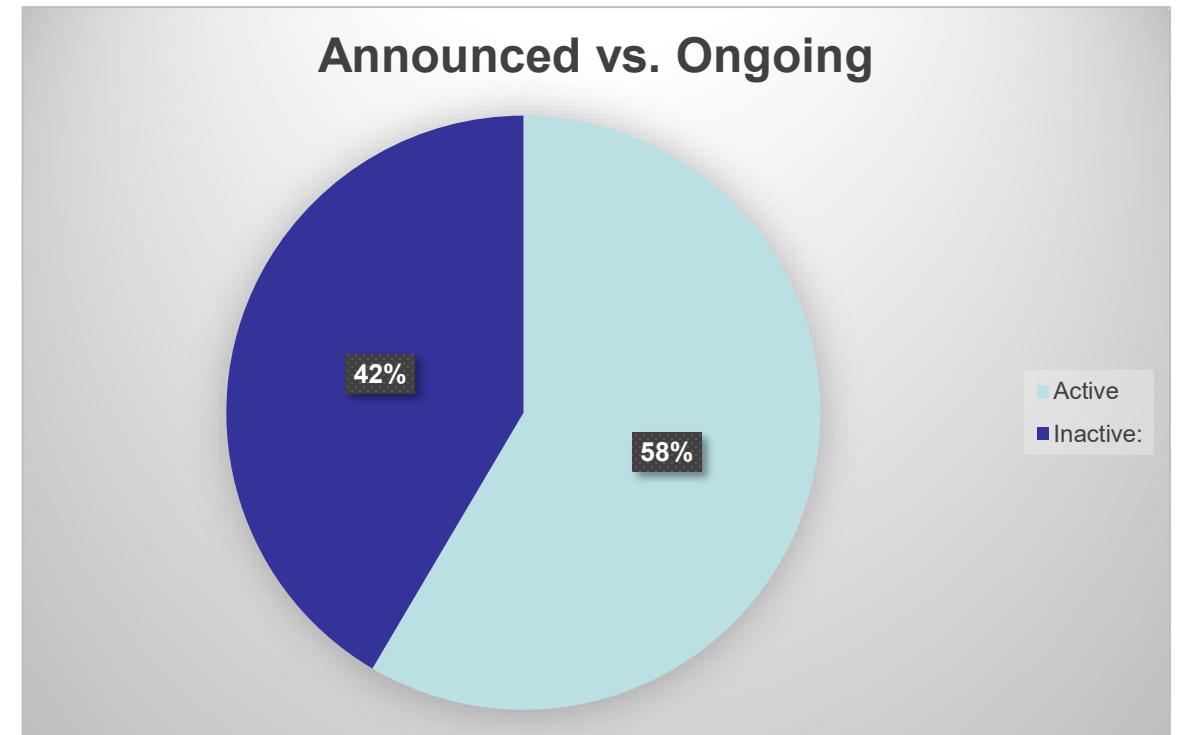
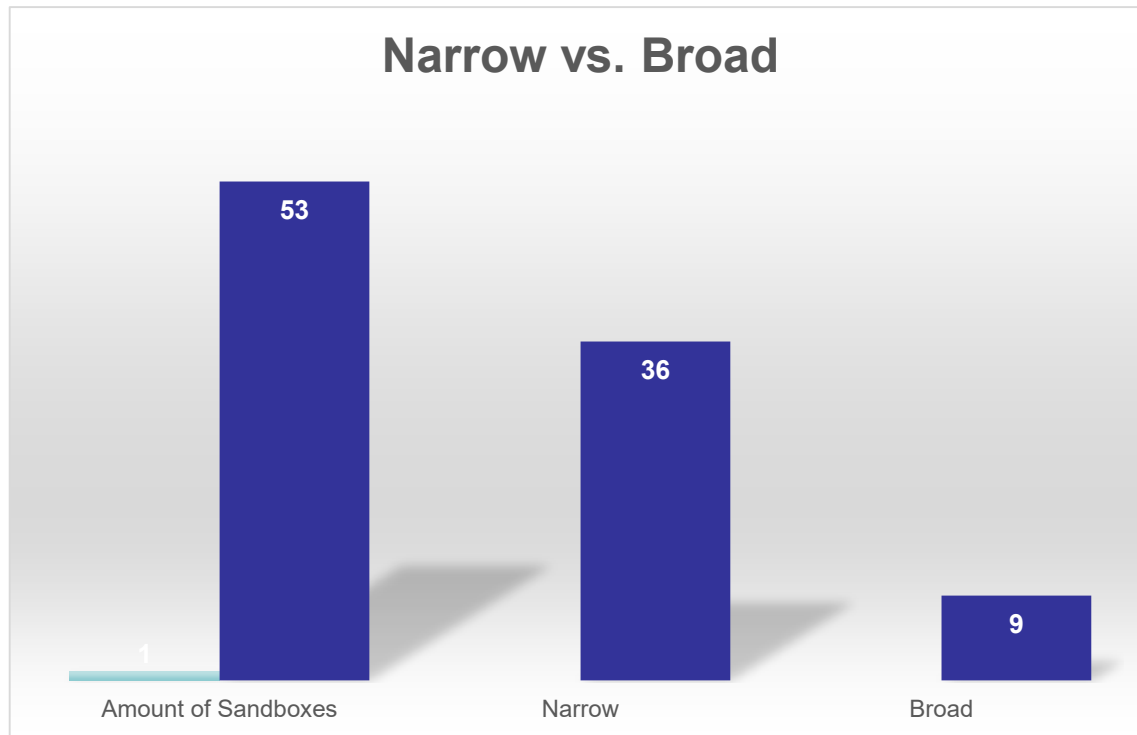
- *Sandboxed entities make up only a fraction of yearly licenced firms*



NIT

D. Focus on Sandboxes: The Regulatory Landscape

- *Wave of announcements, delay in implementations*
- *Clear tendency to narrow design without an innovation hub*



D. Focus on Sandboxes: Four Main Goals to Achieve

- *Regulatory sandboxes as an automated tool for regulators*
 1. *Enable standardized and publicized procedure*
 2. *Boost to innovation in the market*
 3. *Knowledge-gain for regulators*
 4. *Clear message to the market that the regulator is open to innovation*

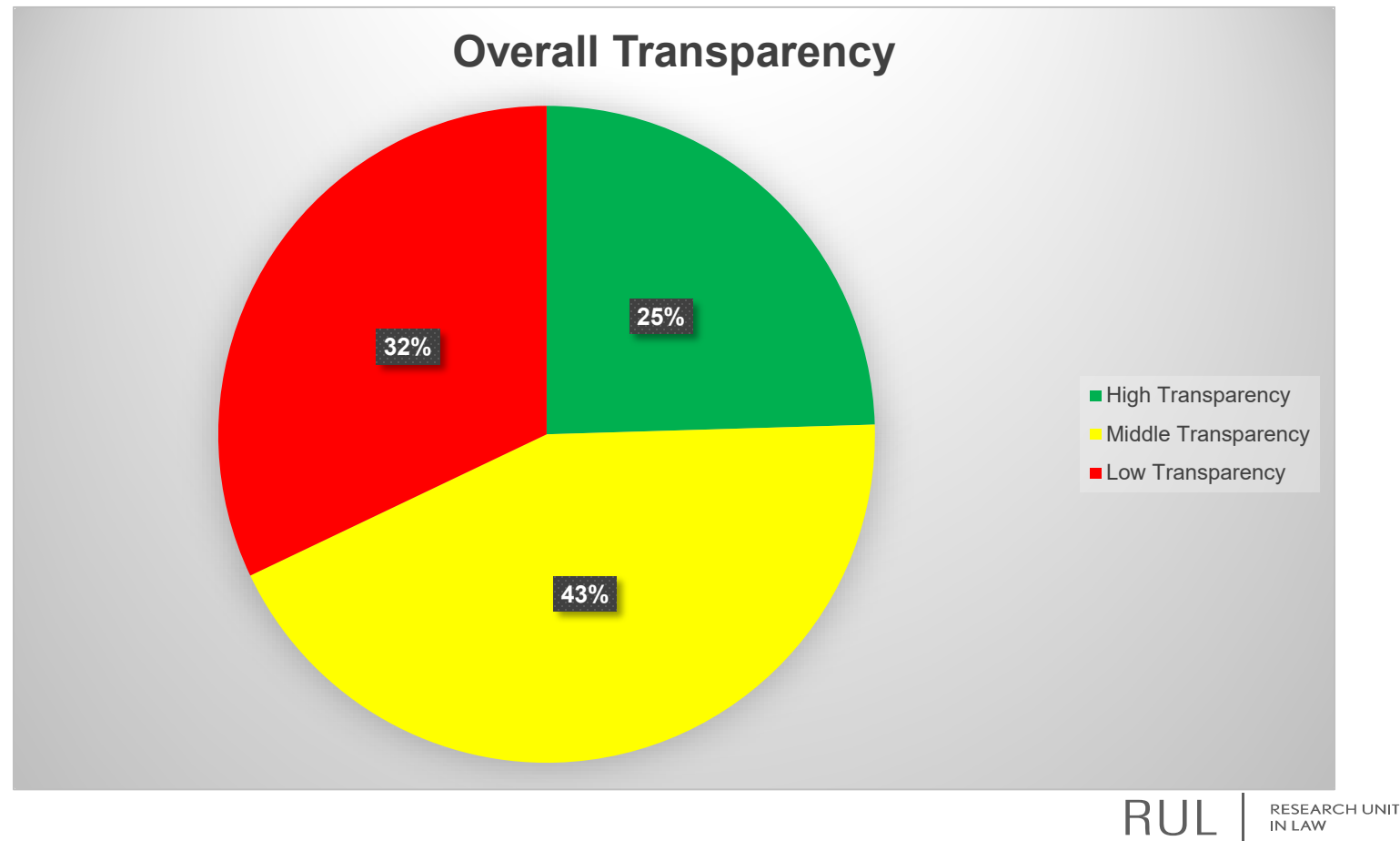
D. Focus on Sandboxes: Standardized and Publicized?

1. Enable standardized and publicized procedure?

- *ADA-Chair Database analyzes transparency of four criteria:*
 - *Entry Conditions*
 - *Scope*
 - *Limitations*
 - *Reporting duties*

D. Focus on Sandboxes: Standardized and Publicized?

- *Only one out of four sandboxes provides transparent information*



D. Focus on Sandboxes: Rather small Innovation Boost

2. Sandboxes boost innovation *(but are constrained by their tight criteria and budget)*

- *UK sandbox: <120 firms since 2016*
 - *UK innovation hub: 800 requests (until 04'2018)*
 - *Total: around 56,000 firms under supervision*
- *Sandboxes get the headlines, but innovation hubs do the heavy-lifting*

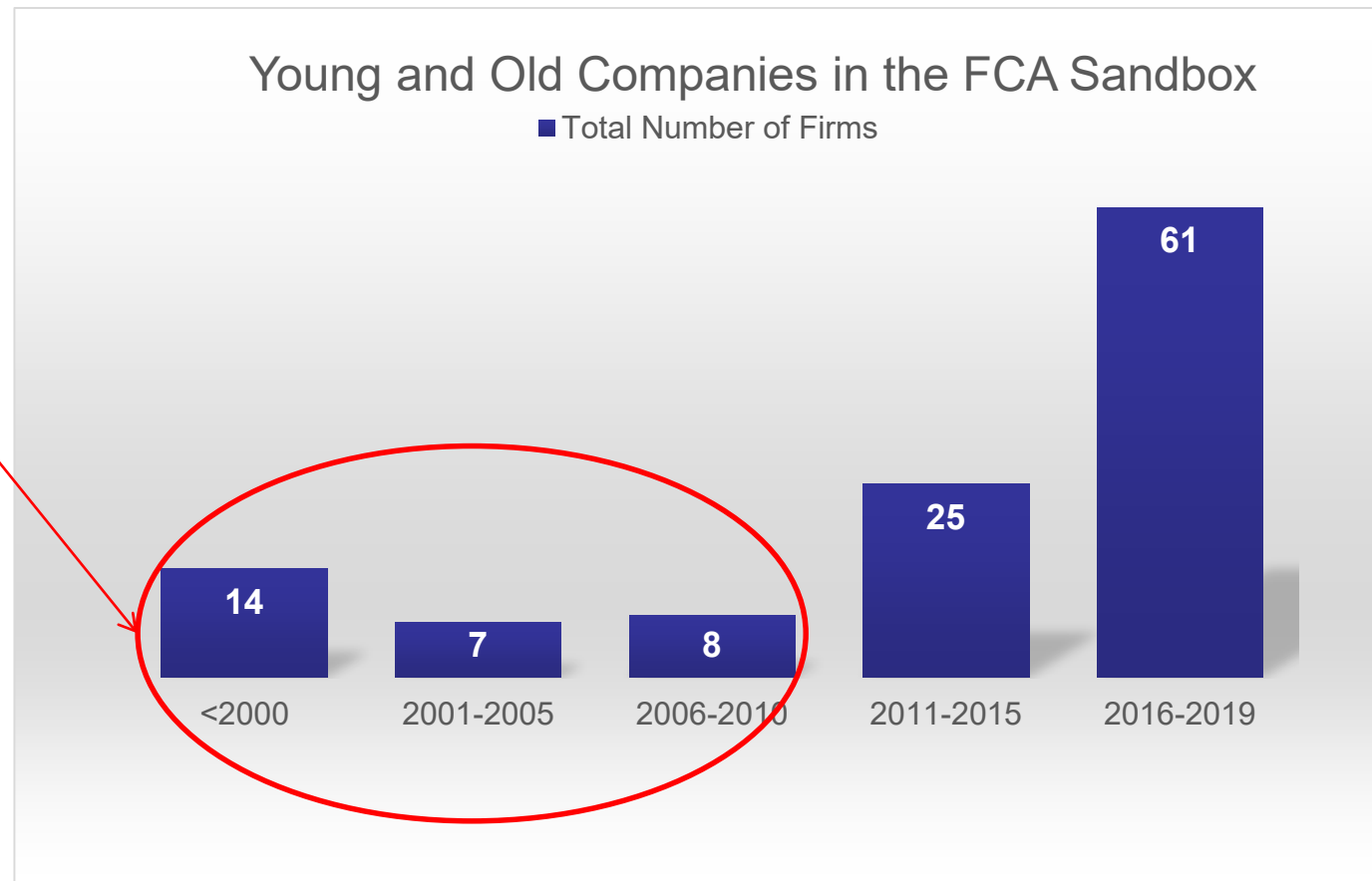
D. Focus on Sandboxes: Rather small Innovation Boost

2. Sandboxes need considerate amounts of resources – with limited effect

- *Malaysia: 7 firms in sandbox, 6 under review*
 - *12 full-time staff (out of 200) on sandbox project*
 - *Around 5% of staff for two hands full of firms*
- *Developing and Emerging Countries with often tightly restricted resources should think twice where to put their tight resources*

D. Focus on Sandboxes: Rather small Innovation Boost

2. Sandboxes often miss their goal of promoting young startups, but also include established market players testing new ideas



25% were
established before
2011

D. Focus on Sandboxes: Knowledge Gain

3. Regulatory learning:

- *Companies openly disclose information without fear of „putting licence at risk“*
- *However: Same effect from innovation hub*
 - ✓ *Helping with the business plan*
 - ✓ *Promise of a fast track to the market with a full licence at the end of the procedure*
 - ✓ *Chance of waiver / no-action letter leads to full disclosures*

D. Focus on Sandboxes: Market Message

4. *Clear market message that the regulator is open to innovation*

- *Sandbox as buzzword, catchier than innovation hub with many names in different countries*
- *However: Many countries manage to position themselves as centers of innovation without sandboxes, but with innovation hubs and strategic partnerships with other market players*
- *Luxembourg: Innovation hub + LHoFT*
 - *Creation of a FinTech ecosystem without having a sandbox*

D. Focus on Sandboxes: FinTech ecosystem in Luxembourg



E. Take Aways: Promoting FinTech Innovation

(1) Regulators should not only look at sandboxes when it comes to promoting FinTech innovation

(2) Main goals of a sandbox can often be achieved by other, more proportional solutions or in combination of both, where the resources are available

(3) Sandboxes tend to get the headlines – but the heavy lifting is done elsewhere

E. Further Research Questions

- *To what extent do substitutes to sandboxes (including waivers, no-action letter policies, small business exemptions, definitions of thresholds for piloting and testing etc.) achieve the same effect as sandboxes?*
- *What are the ideal preconditions for sandboxes to operate efficiently?*
- *What types of guidelines or underlying laws may lay a successful groundwork for the operation of a sandbox?*
- *What do sandboxes require, in terms of resources?*
- *Do firms that received sandbox treatment perform better or worse than non-sandboxed peers?*
- *What matters more? Announcing or operating a sandbox?*

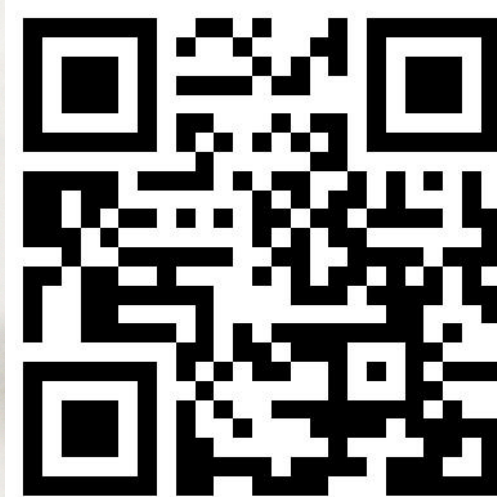
Thanks!

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