FinTech REGULATORY SANDBOX FRAMEWORK

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1. Introduction

The emergence of disruptive technologies, such as Application Programming Interfaces, Artificial Intelligence, Big Data and Distributed Ledger, etc., are transforming the financial sector landscape and creating a new set of opportunities and values, enhancing financial inclusion and challenging the way regulators supervise and regulate. In order to respond to the dynamics of the rapidly emerging technologies, the introduction of Regulatory Sandbox (RS) Framework will provide the requisite regulatory guidance, to increase efficiency, manage risks and create new opportunities for consumers. Regulatory Sandbox will be useful for start-ups and established IT firms seeking for clarity around applicable rules and regulations related to a new digital solution that does not easily fit into the existing regulatory framework.

The Regulatory Sandbox will provide a structured avenue to engage with the firms and innovators to successfully test their solution, before a wider-scale launch, within a well-defined space and duration, while carefully monitoring and containing the risks.

2. Objectives of RMA's FinTech Regulatory Sandbox

The Regulatory Sandbox aims to achieve the following strategic objectives:

2.1. To support and embrace the FinTech ecosystem in a responsible manner;

2.2. To understand the application of how technology applied to financial services (FinTech) is developed to support financial inclusion and greater digital transaction;

2.3. To educate aspiring innovators and firms to develop their knowledge and skills in the FinTech field;

2.4. To assess a FinTech for its innovation, features, functionalities and risks before its release for widespread market adoption, through a practical learning by doing approach;

2.5. To regulate and supervise FinTech innovations and technologies to test new products, services or business models in live environment, subject to certain safeguards and oversight; and

2.6. To collect evidence on the benefits and risks of new financial innovation with the view to develop innovation-responsive and innovation-enabling regulations that facilitate delivery of innovative, relevant, low-cost financial products.

3. Benefits of RMA's FinTech Regulatory Sandbox

The RS can bring several benefits, most of which are significant and are delineated below:

3.1. First, the Regulatory Sandbox shall foster 'learning by doing' for the innovators and firms to test the financial product and service with certain regulatory relaxations for the limited purpose of testing;

3.2. Second, the Regulatory Sandbox shall assist the RMA to obtain first-hand empirical evidence to implement new regulations to support new innovation, while safeguarding against risks;

3.3. Third, innovation and technology can facilitate financial inclusion and improve financial outreach, especially in areas, such as remittances, digital platform, digital lending and digital payments, etc.; and

3.4. Fourth, the Regulatory Sandbox shall enable the RMA to engage with the innovators, the IT firms, the financial service providers (as the potential deployers of the technology) to experiment with innovative technologies to address a problem, or bring benefits to customers.

4. Sandbox Cohorts

The RMA will run a few cohorts for the Sandbox testing by floating Expression of Interest (EOI), with a limited number of applicants in each cohort testing their products during a stipulated period. The sandboxing shall be based on thematic cohorts aligned with the RS scope.

5. Scope of RMA's FinTech Regulatory Sandbox

The scope of the RS which could be considered for testing under RS includes, but is not limited, to the following products, services and technologies:

5.1. Innovative Products/Services
- Digital payments;
- Money transfer and remittance services;
- Digital lending;
- Digital KYC (c-KYC, e-KYC, etc.);
- Digital Platform;
- RegTech/SupTech;
- Digital identification services;
- Open Banking/APIs;
- Financial inclusion services and products;
- Cybersecurity services and products;

- Sustainable Financing; and
- FinTech in response to pre- and post- COVID-19.

5.2. Innovative Technologies
- Mobile technology applications (banking, insurance, etc.);
- Big Data/Data Analytics;
- Open Banking/Application Program Interfaces (API) services;
- Applications using Distributed Ledger Technologies; and
- Artificial Intelligence and Machine Learning applications.

Innovator must align with the Financial Sector Development Program and the development of the national economy.

5.3. Exclusions from Sandbox Testing

The FinTech Regulatory Sandbox, however, excludes the following products, services or activities:
- FinTech solutions similar to other products or solutions already exist in the market which do not use any significantly different technology or bring value addition and increase efficiency as compared to existing FinTech solutions;
- Chain marketing services or the pyramid scheme; and
- Any product/services which have been banned by the regulators/Government of Bhutan.

6. Type of Applicants

The RS does not mandate an applicant to be a licensed entity. The application will be open to start-ups, innovators and FinTech firms to enter the Sandbox to test an innovative solution. The applicants can fall into any of the following four categories:

6.1. Licensed FinTech Firms
Examples of firms under this category include local registered IT companies.

6.2. Non-licensed Start-ups/ individuals
Non-licensed Individual applicants or startups with innovative FinTech Solutions will be provided a fast-track Sandbox permission by the RMA in form of **Letter of Acceptance (LoA)** that acts as a temporary restricted permission valid only for the duration of sandbox testing.

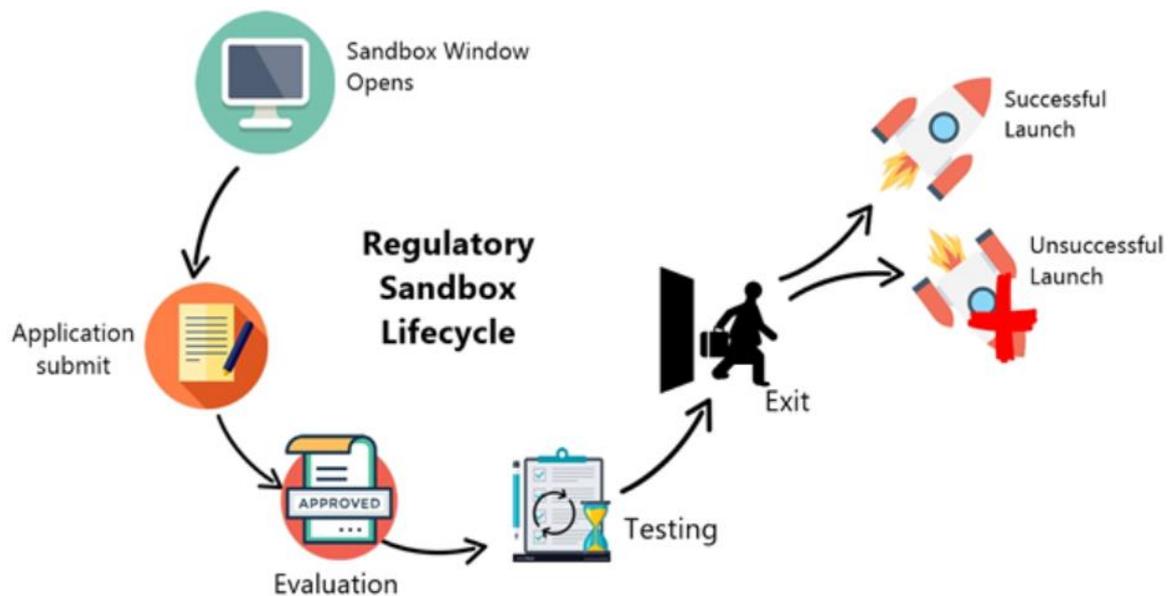### 6.3. FinTech Firms/ Start-ups partnering with Financial Institutions
This is an attractive option for start-ups and individuals without an operational license whereby they can jointly partner with Financial

Institutions in testing their innovative FinTech products. However, clearly segregated responsibilities must be established between the partnering entities and the Financial Institution as a key stakeholder is accountable to the RMA upon successful admission to the Sandbox.

6.4. FinTech Firms/ Startups partnering with international FinTech

Licensed IT Firm or non-licensed start-ups or individuals *(with LoA)* can partner with international FinTech companies and apply for the Sandbox to test their innovative solution. In this case the local partner will be the applicant to the Sandbox and will remain responsible for submission of the application and the testing.

7. Regulatory Sandbox Lifecycle Process

1. Application (30 Days)	2.Evaluation (60 Days)	3.Testing (6 Months)	4.Sandbox Exit
The startup or company applying to participate in the sandbox submits a testing proposal to the RMA explaining the FinTech solution detailing all the application requisites.	The RMA Sandbox Evaluation Committee will review the proposal against the eligibility criteria and identify the applicants that will enter the cohort Applicants will be notified within **30 working days** after closure of the application window. Successful applicants will be expected to	Participants test their FinTech solution in the sandbox for a period of 6 months. This period is subject to extension under certain circumstances. The participants will be required to send interim reports to the	Based on the outcomes of the sandbox testing, the evaluation committee decides whether participants can proceed to launch the FinTech solution at a broader scale – outside the sandbox if

	enter the sandbox within **30 working days** of approval after mutually agreeing with RMA on the sandbox tools such as testing approach, regulatory waivers, measurable outcomes, reporting requirements and customer safeguards.	RMA on a periodic basis, during the testing period and a final report upon completion.	the testing is successful.

8. Application Stage

The applicants must demonstrate a clear understanding of the Regulatory Sandbox objectives. Furthermore, the applicants shall duly follow the application procedures set herewith by the RMA and furnish all required documents as follows:

8.1. A copy of a valid business license or a Letter of Acceptance (LoA);

8.2. A duly filled application form *(attached in Annexure I)* with a project proposal signed by the Chief Executive Officer (CEO) or the appropriate head with relevant profiles/CVs;

8.3. A comprehensive plan comprising of the following, but not limited to:

8.3.1. Description of the proposed FinTech solution (product, service or business model) to address an existing gap in the financial ecosystem; and

8.3.2. Financial projections for the proposed solution.

8.4. Provide evidence on sufficiency of financial, personnel and infrastructure resources availability to support testing in the Sandbox; and

8.5. Applicants must demonstrate arrangements to ensure compliance with the existing regulations/laws on consumer data protection and privacy.

9. Evaluation Stage

The RMA will establish a Sandbox Evaluation Committee to assess sandbox applications based on the evaluation criteria and shortlist the applicants that will enter the cohort.

The RMA will work with the shortlisted applicant to finalize the RS testing approach including testing parameters, relevant applicable regulatory waivers, monitoring

and reporting requirements, risks and safeguards and other measurable outcomes for the duration of the testing. The evaluation period may be extended as deemed necessary by the RMA.

In addition to the application requirements, the following evaluation criteria must be duly met by the applicant to be accepted for sandbox testing:

9.1. The applicant must have conducted adequate market research and due diligence on the proposed FinTech solution and must prove substantial innovative and intellectual content for the proposed solution, utilizing new or emerging technologies defined under the scope of the Regulatory Sandbox with supporting statistics;

9.2. The proposed FinTech solution must be novel and address gaps prevalent in the financial ecosystem or offer benefits through improved access to financial services or increase efficiency of existing processes and create new opportunities for investment in the national economy;

9.3. The applicant must demonstrate the business strategy and plan including the roadmap to deploy the proposed FinTech solution on a broader scale after exiting the sandbox and must prove viability and scalability of the proposed solution for the domestic and/or international market;

9.4. The objectives, test scenarios and boundaries along with expected outcomes of the sandbox experimentation must be clearly identified and defined for the proposed FinTech solution in the Sandbox. The applicant should report to the RMA on the test progress, based on an agreed schedule;

9.5. Adequate and appropriate comprehensive risk assessment must have been conducted and a clear risk mitigation strategy must be defined for the proposed FinTech solution to ensure that appropriate safeguards are in place;

9.6. The applicant must have a well-defined exit strategy for deploying the FinTech solution at broader scale in the country or ex-country, should the sandbox testing be successful or if the sandbox testing is discontinued or unsuccessful;

9.7. The applicant must demonstrate arrangements to ensure compliance with the existing applicable regulations and laws including on AML/CFT, consumer protection and data privacy. If the proposed product or service is intended to be made available in the international market, it must satisfy and meet compliance to all the necessary and applicable international laws and regulations; and

9.8. Adequate safeguards must be implemented in the proposed FinTech solution to ensure security against cyber threats and to preserve confidentiality, integrity and availability of customer information.

10. Risks and Safeguards

10.1 In assessing the risks and evaluating the proposed safeguards, the RMA will give due regard to the following, among others:

10.1.1. Preserving sound and financial business practices consistent with monetary and financial stability;

10.1.2. Promoting fair treatment of and preserving consumer protection;

10.1.3. Preventing money laundering and countering terrorism financing;

10.1.4. Promoting the safety, reliability and the efficiency of digital payment solutions; and

10.1.5. Encouraging competition for financial products and services.

10.2 The applicant must ensure that a robust risk management process and appropriate safeguards are in place for proposed FinTech solution for the RS testing purposes, covering the following, at minimum:

10.2.1. Identification of potential risks to financial consumers and financial institutions that may arise from the testing of the FinTech solution in the sandbox and propose appropriate safeguards to mitigate the identified risks;

10.2.2. A monitoring plan to ensure compliance and prompt notification of any breach of Sandbox testing conditions to the RMA;

10.2.3. A clear and transparent customer onboarding process stating how each customer will be identified and the identity verified using reliable, independent source documents, data or information;

10.2.4. Boundary conditions such as limitations on number and type of customers participating in the test with prior consent from the customers, limitations on transaction thresholds and other quantifiable limits;

10.2.5. A detailed communication plan on procedures to inform customers of the following: The duration, boundary conditions and the associated risk for participating in the Sandbox;

10.2.6. Clear methodology to notify the customers that the product is currently operating within a sandbox. The applicant must also ensure that they provide adequate disclosure of potential risks to customers participating in the sandbox and confirmation from such customers that they fully understand and accept the inherent risks;

10.2.7. Conducts security assessments to ensure security by design mechanisms are considered for the proposed FinTech solution;

10.2.8. Contingency and disaster recovery plans including but not limited to a backup and recovery plan;

10.2.9. Details on how the applicant plans to implement customer protection measures;

10.2.10. Providing a consumer redress mechanism, including the possibility for financial compensation claimable against the sandbox participant under clearly specified circumstances; and

10.2.11. Ensuring that appropriate channels, mechanisms and timeframes to handle customer enquiries, complaints and suggestions are in place to address problems in a fair, effective and prompt manner.

11. Testing stage

The participant enters the RS and starts working on the testing approach with agreed-upon parameters. This phase may last for a **maximum of 6 months** and extendable based on requirements for further testing as determined by the RMA or through an advanced application from the applicant, requesting for extension before the expiration of the sandbox period. The RMA's decision on the application for extension will be final.

The participants must fulfill the following requirements during the sandbox testing stage:

11.1. Maintain proper records detailing their product performance, issues observed, risk mitigation and customer participation and other statistics. The RMA will also make data requests to participants, as needed, to assess and ensure proper record maintenance;

11.2. Prepare and submit periodic reports, with the schedule and details agreed on between the participant and the RMA;

11.3. Interim reports must be submitted on a monthly basis which will not be limited to, but include the following information:

11.3.1. Key performance indicators;

11.3.2. Testing parameters (e.g. number of customers onboarded, duration, prices, etc.);

11.3.3. Customer grievances, issues and risks observed;

11.3.4. Measures taken to address customer complaints, issues and risks identified during the testing period in review; and

11.3.5. Any other relevant information or data.

11.4. Within *thirty (30) working days* of exiting the sandbox, participants will be required to submit a final report detailing their participation in the sandbox. The report should include the following information:

11.4.1. Testing outcomes against agreed performance indicators;

11.4.2. Incidents and incident resolution during the testing period;

11.4.3. Lessons learned and future plans; and

11.4.4. Recommendations for the sandbox.

The interim and final reports must be accepted and signed by the CEO or the appropriate level of management of the company or the individual applicant.

12. Sandbox Exit Stage and Revocation

12.1. Towards the end of the Sandbox period, all legal and regulatory requirements relaxed by the RMA for sandbox testing duration will expire, and the Sandbox participant must ensure compliance to all applicable regulatory and legal requirements upon exit from the Sandbox;

12.2. The applicant shall have a well-defined exit strategy in place to fully address all risks and possibilities which may arise due to a failure or halt of the sandbox related activities without impacting the client/ customer/partners or any related stakeholder;

12.3. Non-licensed start-ups and individuals' innovators issued with LOA for the sandbox testing must ensure to obtain a valid operating license to deploy their proposed FinTech solution in the market upon successful exit from the sandbox;

12.4. The applicant may also exit from the activity at its own discretion by informing the RMA and the customers/ partners/agencies concerned. However, it shall ensure that any obligations to its customers/partners under the sandbox testing are fully assured and addressed before exiting or discontinuing the activity;

12.5. The RMA may revoke an approval to participate in sandbox at any time before the end of the testing period if the participant:

12.5.1. fails to comply with the aforementioned requirements and other conditions specified at any stage during the sandbox process;

12.5.2. submits false, misleading or inaccurate information, or has concealed or failed to disclose material facts in the application;

12.5.3. contravenes any applicable law administered by the RMA or any applicable law in the country or abroad which may affect the participant's integrity and reputation in the country;

12.5.4. is undergoing or has gone into liquidation;

12.5.5. breaches data security and confidentiality requirements;

12.5.6. carries on business in a manner detrimental to customers or the public at large; or

12.5.7. 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.

12.6. Before revoking an approval to participate in the sandbox, The RMA will:

12.6.1. provide the participant 30 days advanced notice in writing of its intention to revoke the approval; and

12.6.2. allow an opportunity for the participant to respond to the RMA on the grounds for revocation.

12.7. Where any delay in revoking the approval would be detrimental to the interests of the participant, the customers, the financial system or the public generally, the RMA may revoke the approval immediately and provide the opportunity for the participant to respond after the effective date of revocation. If the response is accepted by RMA, the RMA may reinstate the approval to participate in the sandbox; and

12.8. Upon revocation of an approval, the participant must:

12.8.1. immediately implement its exit plan to cease the provision of the product, service or solution to new and existing customers;

12.8.2. provide notification to customers informing them of the cessation and their rights to redress where relevant; and

12.8.3. comply with obligations imposed by the RMA to dispose of all confidential information including customer personal information.

13. Statutory and Legal Issues

13.1. The RMA will provide the appropriate regulatory support by relaxing specific regulatory requirements, where necessary, for the duration of the Sandbox. The RMA shall bear no liability arising from Sandbox testing process and any liability arising from the experiment will be borne by the participant; and

13.2. The participant must not use the regulatory relaxations offered during the sandbox testing as a means of circumventing legal and regulatory requirements and must demonstrate the ability to meet all applicable regulations upon successfully exiting the RS.

14. Disclosure

The RMA shall reserve the right to publish any relevant information about the Sandbox activity and the applicants on its website, including for the purpose of knowledge transfer and collaboration with other regional and international regulatory agencies.

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ANNEXURE I

FinTech Regulatory Sandbox Application form

Section 1: Applicant Details	
Name of applicant (company/ Firm/ Individual)	
License Registration number/*LoA*	
Website URL	
Name of key personnel (e.g. CEO, CFO) and attach profiles/CVs	
Email address	
Phone number	
Postal address	
Shareholders *(if any)*	
Describe the nature and scale of your operations *(Not Applicable for individual applicants)*	*Please keep the response below 200 words. Additional information may be provided as supporting documents.*
Section 2: Overview of the Proposed FinTech solution (Application requirement)	
Briefly describe the proposed FinTech solution.	*Please keep the response below 200 words. Additional information may be provided as supporting documents*
Briefly describe the timelines relevant to development and deployment of the proposed solution.	*Please keep the response below 200 words. Additional information may be provided as supporting documents*
Briefly describe the underlying technologies and infrastructure of the proposed solution	*Please keep the response below 200 words. Additional information may be provided as supporting documents*

Financial projection for the proposed FinTech solution	
Provide evidence of resources (Financial, personnel and infrastructure) available to support testing in the sandbox.	

Section 3: Regulatory Sandbox Evaluation Criteria	
Briefly describe how the FinTech solution is innovative, i.e. it constitutes a significantly unique offering to the financial ecosystem, utilizing new or emerging technologies defined under the scope of the regulatory sandbox with supporting statistics. Provide details of adequate market research and due diligence conducted on the proposed FinTech solution.	*Please keep the response below 200 words. Additional information may be provided as supporting documents*
Explain how the proposed FinTech solution is novel and will address gaps prevalent in the financial ecosystem or offer benefits through improved access to financial services or increase efficiency of existing processes and create new opportunities for investment in the national economy.	*Please keep the response below 200 words. Additional information may be provided as supporting documents*
Describe and attach the business strategy and plan including the roadmap to deploy the proposed FinTech solution on a broader scale after exiting the sandbox and prove the viability and scalability of the proposed FinTech solution for the domestic and/or international market.	*Please keep the response below 200 words. Additional information may be provided as supporting documents*

Describe your proposed exit strategy in the event of discontinuation at any time or deployment on a broader scale if testing is successful.	*Please keep the response below 200 words. Additional information may be provided as supporting documents*
Please disclose information relevant to the compliance of your solution to applicable laws and regulations including consumer protection and data privacy. If the proposed product or service is intended to be made available in the international market, provide details of applicable international laws and regulations and how compliance will be met.	*Please keep the response below 200 words. Additional information may be provided as supporting documents*
Please disclose how appropriate safeguards are implemented and assessed to ensure security against cyber threats and to preserve confidentiality, integrity and availability of customer information.	
Identify the legal or regulatory requirements that are incompatible with the proposed solution and the regulatory flexibilities needed to undertake the test.	*Please keep the response below 200 words. Additional information may be provided as supporting documents*
Explain the intended key outcomes of the testing.	*Please keep the response below 200 words. Additional information may be provided as supporting documents*

Risk and safeguards

Outline all risks of the proposed FinTech solution and corresponding safeguards and measures to mitigate them. *Address all the requirements stated in section 10 of the RS framework.*	*Additional information may be provided as supporting documents*
Provide details of the boundary conditions for the RS testing.	

Section 4: Other relevant information

Briefly indicate source of funding (both present and future arrangements) for the development and deployment of the solution.	
Please provide any other information that may be relevant to your application	