

Overview of the Draft Framework for Regulatory Sandbox Operations and Implications for Industry Players

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The Central Bank of Nigeria (the “CBN”) recently released the Draft Framework for Regulatory Sandbox Operations (“Draft Sandbox Regulations”). According to the CBN, the Sandbox Regulations is in recognition “of increasing consumer appetite for payment solutions and emerging disruptive technology in the financial services space” and the CBN’s desire “to ensure new and more flexible ways of engaging with the industry”. The Sandbox is expected to provide firms with a formal process to conduct live tests of new, innovative products, services, delivery channels, or business models in a controlled environment, with regulatory oversight.

The Draft Sandbox Regulations lists the objectives as follows:

- to increase the potential for innovative business models that advance financial inclusion;
- to reduce time-to-market for innovative products, services, and business models;
- to increase competition, widen consumers’ choice and lower costs;
- to ensure appropriate consumer protection safeguards in innovative products;
- to clearly define the roles and responsibilities of stakeholders and the operations of the Sandbox for the Nigerian Payments System industry;
- to ensure adequate provisions in regulations to create an enabling environment for innovation without compromising on safety for consumers and the overall payments system; and
- to provide an avenue for regulatory engagement with FinTech firms in the payment space, while contributing to economic growth.

Categories of firms that may apply to participate in the Sandbox when it becomes operational are identified as:

- financial institutions with FinTech initiatives;
- Nigerian companies, technology and telecom companies intending to test innovative payments products; and
- companies proposing non-regulated technology i.e. technologies currently not covered by existing regulations of the CBN.

Tests in the Sandbox are for a period of six (6) months with an option for extension. The Draft Sandbox Regulations require that applicants to the Sandbox file periodic progress reports showing the performance of the product, record of achieving its KPIs, and put in place parameters to limit risks to the financial system and customers during the testing process.

We find that the Draft Sandbox Regulations is in line with the global trend by regulatory authorities to track and keep pace with the fast-changing FinTech landscape and the CBN must be lauded

for this initiative. However, care must be taken to ensure that the Sandbox does not become a bottleneck, stifling innovation in the industry. Studies of Sandbox operations globally have shown that where not properly applied, the Sandbox can prevent new players from entering the market or make it more difficult to bring innovative products to customers. In this respect, it is good to note that the Draft Sandbox Regulations do not make it mandatory that all innovative products pass through the Sandbox before they are approved by the CBN.



Studies of effective Sandbox operations have also shown that it goes beyond merely issuing regulations and requires significant financial outlay on the part of the regulator to provide the enabling environment and the hiring of expert manpower. The real desire is that upon the issuance of the final regulations, the CBN will actually take the necessary steps to build an effective sandbox operation that will facilitate growth in financial technology.

Collaboration between the CBN and Sandbox operators will also be critical to the success of the Sandbox operations, and eventual output. The CBN would need to provide avenues which enable Sandbox operators collaborate with it in bringing their ideas to reality. The Sandbox should also be seen as an avenue to socialize the CBN with new models/solutions which may necessitate the CBN amending existing regulations or creating new frameworks to accommodate these new products.

We remain optimistic that once fully operational and if properly implemented, the Sandbox will facilitate innovation, and provide a testing ground to make new solutions and products even more attractive to the market.

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