



INDUSTRY SANDBOX

A BLUEPRINT FOR AN INDUSTRY-LED VIRTUAL
SANDBOX FOR FINANCIAL INNOVATION:
A CONSULTATION GUIDE



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THE BIG PICTURE





What is an Industry Sandbox?

An **Industry Sandbox** is an industry utility which provides a testing environment that isolates experimentation and piloting from companies' production environments. Like any sandbox, it protects "live" systems, data and consumers, and replicates at least the minimal functionality needed to accurately test, pilot and or simulate software in development.

What is the value of using an Industry Sandbox for FinTech?

A FinTech **Industry Sandbox** aims to accelerate innovation by reducing the time and cost of getting products to market, improving regulatory certainty around new technology or business models, providing a cost-effective way for institutions to manage access to open data. This can facilitate industry-wide open innovation, and promoting the adoption of common standards.

The **Sandbox** will be an open and interoperable industry utility where companies can contribute and access data or systems, operational tests, feedback or other tools to initially validate innovative ideas before potentially taking them to a Regulatory Sandbox, to regulatory authorisation, or directly "to market" with customers.

Where did the Industry Sandbox consultation originate?

Sandboxes have been used by software developers for many years but "industry shared" sandboxes are relatively new. There have been calls from FinTech startups in the UK community to provide industry sandboxes to accelerate the development of and showcase Proofs of Concept (POCs), access, share and test Application Programming Interfaces (APIs) for application or data, assess scalability, and drive industry standardisation.

In 2015, the UK Financial Conduct Authority (FCA) consulted industry on a "Regulatory Sandbox" and an "Industry-Led Virtual Sandbox". The Consultation was in support of the FCA's mandate to improve competition in financial services by making it easier for companies of any size to test out their ideas.

The FCA tasked Innovate Finance with chairing the Consultation on a industry sandbox. Innovate Finance has assembled a working group of advisors and observers from across financial services and industry bodies to participate in the Consultation. Innovate Finance is conducting surveys, interviews, roundtables and design workshops to gather evidence.

How will my organisation access these sandboxes?

The Regulatory Sandbox was launched in the UK in May 2016, with as many as 14 other global jurisdictions developing similar plans. The FCA accepted 24 firms to 'develop plans to test'. Of these, 18 will test in the first cohort. The remaining six will go on to be part of the second cohort. Applications for the second cohort open in November 2016.

The **Industry Sandbox** Consultation opened in July 2016, seeking industry wide feedback on the demand for such solution, the incentives of different stakeholders to support it, and its key technical, operational and legal features, the full spectrum of the FinTech industry, including startups, financial institutions, technology providers, telecoms and data vendors are in scope.

The Consultation is open to the sector and can be accessed by contacting sandbox@innovatefinance.com.

The Consultation will provide blueprint of design requirements of an Industry Sandbox in early 2017. It is envisioned that the **Industry Sandbox** will be available for access by all industry participants following the publication of the blueprint in early 2017.

THE WHO AND THE HOW



The Who and The How >>

Who will be invited to 'play' in the Industry Sandbox?

Access to the **Industry Sandbox** will be made simple for companies of all sizes. There are no requirements for products or services being tested in the **Industry Sandbox** to be already regulated or authorised by the FCA.

Different sandbox environments may be developed to cater to the needs of companies at different growth stages or companies operating in different FinTech verticals. For example, an early startup looking to validate an idea by accessing datasets will need a different sandbox environment to a momentum growth looking to scale its application.

The **Industry Sandbox** is open to all FinTechs, which includes seeds startups to momentum growth start-ups, financial institutions, technology and data providers, and, where relevant, investors and academia.

How will the Industry Sandbox operate?

The **Industry Sandbox** will be developed and operated by industry. It will need to have a sustainable, scalable operating model to allow participants to join in gradually. It will be open to competitors from across the FinTech landscape and seek where possible to extend accessibility globally.

It will have clear and consistent requirements for access and clear policy on intellectual property as well as data handling and storage, in compliance with legal and regulatory requirements. It will be a virtual solution rather than a physical space, though it may have temporary physical outlets for training and development activities.

The **Industry Sandbox** Consultation will include the key principles and blueprint for a functional operating model in early 2017. Until then, The **Industry Sandbox** Consultation is gathering evidence from industry on requirements and global best practices.



Who will bear the costs of providing the Industry Sandbox?

Industry will bear the costs of making the Industry Sandbox available. A range of funding models is being considered to propose the most efficient models of utility for the range of users and stakeholders.

What is the role of the FCA in the Industry Sandbox?

The ultimate role that the FCA may play in the Industry Sandbox once it is operational is still under consideration. The FCA sits on the Consultation's Steering Committee.

THE WHAT



What 'tools' are in the sandbox?

The **Industry Sandbox** aspires to be a fit-for-purpose environment for a diverse set of stakeholders. That is why The **Industry Sandbox** Consultation has been focused on collecting industry views before proposing new or existing models or solutions.

The feedback from the **Industry Sandbox** Consultation to date has delivered three main preferences for which hypotheses for tools in the Industry Sandbox have been developed, subject to design and final validation.

1. API Portal

The **Industry Sandbox** should be equipped with a virtual portal providing access to a catalogue of APIs to facilitate discovery and access to datasets or applications in a sandbox environment.

Application APIs could include payments, identity, ratings and guidance engines. Data APIs could include historic asset price data, rating data, transaction data and risk data. APIs in the API Portal could range from open source, free, to fee based APIs.

The API Portal will be equipped with collaboration tools such as an API-fit assessment framework, API usage analytics, discussion and information sharing capabilities, a showcase space and mechanisms to open-source developments.

An API Portal should support innovators in building a solution and testing its viability in an "off-market" environment, support institutions in managing the pipeline of innovators accessing their APIs and ensuring their API strategy is supportive of innovation and creating a community that acts as a clearing house of thinking around business and technical challenges.

2. Certification Facility

The **Industry Sandbox** should be equipped with tiered certification capability.

This will constitute business and technical analytics on issues such as business maturity or data security management, the outcome of which can be taken into consideration in: firstly, accessing the API marketplace; subsequently, in the assessment of a new technology for various purposes such as procurement into financial institutions.

The certification levels and details will be agreed with industry through various metrics such as the development of a standard.

A certification facility will be successful if it demonstrably reduces time of procurement or authorisation.

3. Regulatory Feedback Unit

The Consultation survey asks:

"What type of FCA engagement would contribute to a sandbox environment?"
Possible solution may include:

- a) Make further feedback on regulatory treatment available to Sandbox participants
- b) Use the Sandbox to identify RegTech solutions for FCA use
- c) Leverage Sandbox output towards development of applicable regulatory /supervisory approach
- d) Review Sandbox tests in authorisation or supervisory decisions

This is the possible scope for FCA engagement in the **Industry Sandbox**.

INDUSTRY SANDBOX AND OTHER SANDBOXES



Industry Sandbox and Other Sandboxes >>

What is the difference between a Regulatory and an Industry Sandbox?

Both sandboxes seek to provide an environment to test innovative products, services and business models.

The Regulatory Sandbox creates a "space" where a FinTech and a limited number of real consumers can engage in an "on-market" trial. Some of the regulatory requirements can be amended to create a bespoke framework for the duration of the trial where the normal regulatory consequences do not apply.

The **Industry Sandbox** aims to create a "space" for FinTechs and industry players to collaborate on new products and proof of concepts in an "off-market" environment without consumers. There are no regulatory implications from testing off-market, so creating a bespoke regulatory framework is not necessary. The sandbox environment can be used to simulate consumer behaviour to test and trial applications to a functional acceptance level desired by the organisation using the sandbox.

Firms wishing to test in the Regulatory Sandbox must meet the FCA's eligibility criteria. In addition, unauthorised firms wishing to test must gain authorisation or be registered with the FCA. Firms must also meet the FCA's Threshold Conditions in order to be authorised. Firms may also choose to partner with an existing authorised firm for the purpose of a test.

Access to the **Industry Sandbox** will be tiered and the eligibility criteria is currently under consultation. It is envisioned that there will be wider access to the **Industry Sandbox** than the Regulatory Sandbox.

The FCA will not provide a "stamp of approval" or a similar type of endorsement for a particular application, product or business model tested in the Regulatory or Industry Sandboxes. The FCA's engagement with the **Industry Sandbox** is under consultation.

Is there any connection between the **Industry Sandbox** and the work on opening access to bank data?

The **Industry Sandbox** Consultation has a clear mandate from the FCA to consider on-going work on opening access to bank data in the UK when putting forward a blueprint on an **Industry Sandbox**.

In August 2016, the Competition and Markets Authority made recommendations to the nine largest retail banks in Great Britain and Northern Ireland which include: develop and adopt an open banking API standard, and release information on products and prices by March 2017, and transaction data by early 2018.

Currently, an Implementation Entity is taking this recommendation forward, while NESTA is developing a bank data sandbox for their challenge on improving SME access to comparative information on banking services.

Are there examples of other sandboxes or similar projects globally?

There are three examples the Consultation is learning from:

- 1 The FinTech Sandbox**

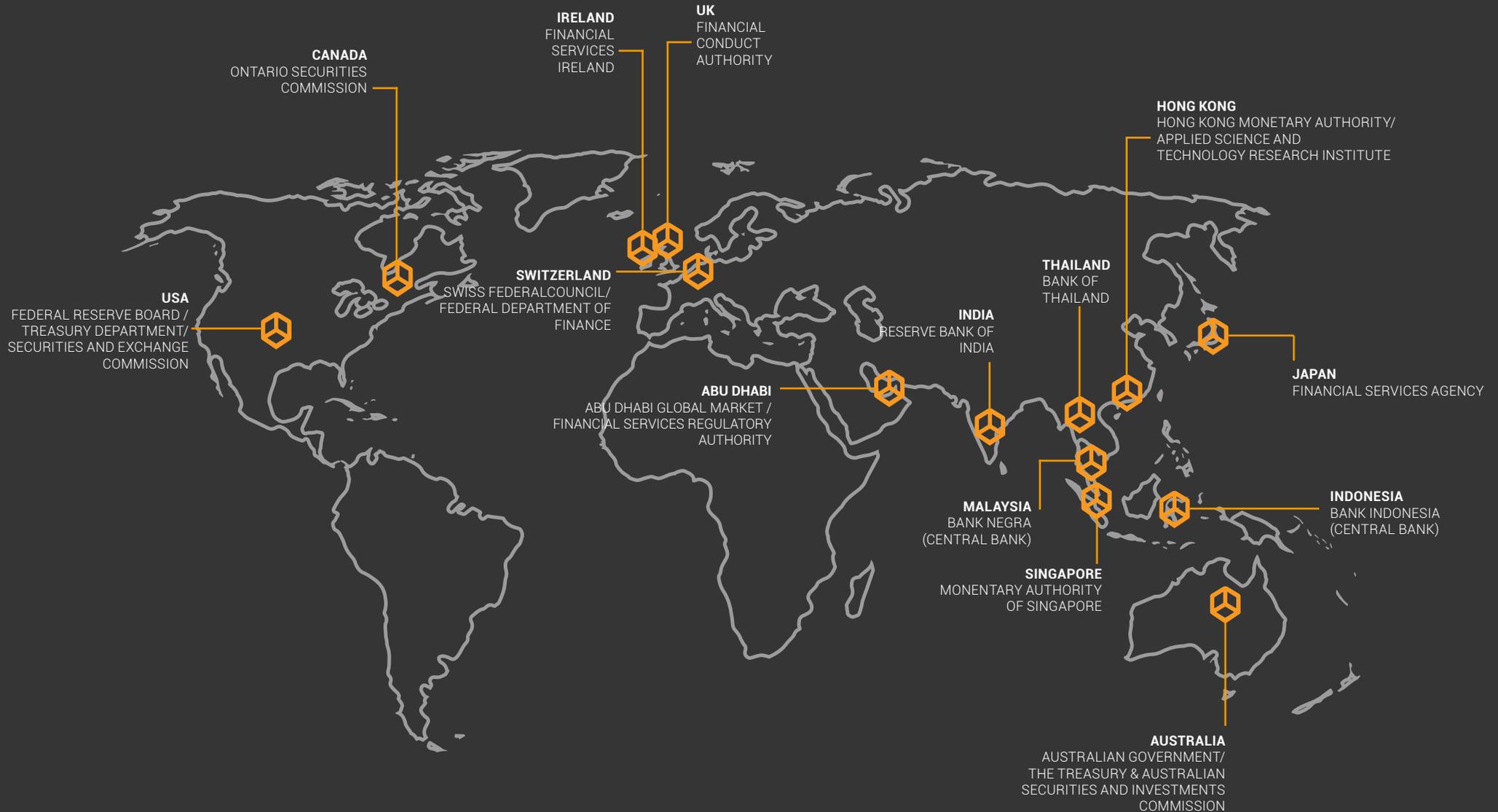
The Boston-based FinTech Sandbox is a non-profit community backed by more than 25 partners including Amazon Web Services, Reuters and FactSet, which aims to foster innovation and collaboration globally. The sandbox participants spend six months in the sandbox to gain access to market data and shared infrastructure, in return for shared learning with the community.
More here: www.fintechsandbox.org
- 2 The Open Bank Project**

The Open Bank Project is an independent commercial project initiated by TESOB, a Berlin-based software company, to increase transparency for banks and their consumers through the creation of APIs - which will allow wide adoption of open source platforms.
More here: www.tesobe.com/en/projects/open-bank-project
- 3 The Level One Project**

The Bill & Melinda Gates Foundation launched a consortium project to promote financial inclusion by creating a guide for National Digital Financial Service System that allows open access between all financial services providers, adhering to international payment standards. In addition to a prototype of the DFSS, the Foundation has developed a sandbox environment for those that need to access a reference ecosystem as part of their development work.
More here: www.leveloneproject.org/the-guide

In addition to these examples, sandbox solutions are widely adopted and implemented by financial institution, banks and technology companies, through the provision of access to proprietary datasets. Some FinTech players have also started opening up their individual datasets in publicly accessible API marketplaces – these include BBVA, RBS, and Capital One.

MAP OF EMERGING AND ESTABLISHED REGULATORY SANDBOXES



How can my organisation get involved in The **Industry Sandbox** Consultation?

We would like to hear from any organisation interested in participating in the **Industry Sandbox** Consultation or has experience delivering similar projects. We welcome you to take our survey: www.industrysandbox.org and get in touch sandbox@innovatefinance.com.



INNOVATE / FINANCE

Innovate Finance is an independent not-for-profit membership association representing the UK's global FinTech community. Founded in 2014 with the support of the City of London and Canary Wharf Group, Innovate Finance aims to accelerate the UK's leading position in the global financial services sector by directly supporting the next era of technology-led financial services innovators, from start-ups to institutions.

With over 250+ members, Innovate Finance seeks to address the key barriers and opportunities in the FinTech ecosystem: attracting greater investment, supporting the development of proportionate and effective regulation, engaging in community collaboration, and promoting innovation in financial services, whilst championing an open, inclusive and secular FinTech community.

Members range from start-ups to the world's leading global corporations. Through Innovate Finance membership they have a single point of access to innovators, investors, regulators, policy makers and commercial partners.

www.innovatefinance.com

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