

# EXECUTIVE SUMMARY

The UK FCA invited Innovate Finance to chair an industry consultation on an industry-led sandbox for financial innovation. The consultation was conducted between July 2016 and April 2017.

The Consultation found that Industry Sandboxes can be an advancement in open innovation which develop, accelerate and promote collaboration in the FinTech ecosystem.

Further, the consultation identified options for the design, governance, funding, and regulatory treatment of Industry Sandbox which would generate industry demand and meet feasibility requirements.

## Key Consultation Findings

In this consultation, an Industry Sandbox was defined as a shared off-market development environment where developers of FinTech solutions can access data, technologies, and services from different providers in order to validate innovative ideas or address common industry challenges.

Industry Sandboxes can be useful as a means to accelerate:

- Solution development by providing the whole of the FinTech ecosystem with access to resources such as data, APIs, or reference architectures which enable entrepreneurs to create solutions that are additive and more readily integrated with the existing technology stack;
- Complex problem solving by facilitating industry collaboration on identifying and addressing complex shared consumer, technological and regulatory challenges. Case studies of such shared challenges include RegTech, digital identity, and opening access to bank data;
- Regulatory efficiency by encouraging regulators to engage as observers where industry can share knowledge early in the life cycle of solution development.

## Industry Sandbox Implementation Options

High level Industry Sandbox design principles and components were developed by reviewing global practices and community requirements.

- OPEN to the whole of the ecosystem on a voluntary participation basis;

- CONNECTED to shared testing environments and different proprietary sandboxes;
- ACCESSIBLE via clear eligibility requirements and as low barriers for participation as are economically feasible.

Industry Sandboxes participation ranges from:

- USERS of the sandbox resources;
- CONTRIBUTORS of the sandbox resources;
- SPONSORS of the sandbox;
- OBSERVERS of the sandbox outputs.

FinTech startups, financial institutions, technology and data vendors, professional services firms, and venture capital funds can all be users, contributors or sponsors of Industry Sandboxes (or a combination of these roles). Regulators, academia and professional membership bodies can participate as observers or, where relevant, enablers in secretariat or research functions.

## Industry Sandboxes could have the following components:

- **Application assessment mechanism** allowing users to self-certify their eligibility for access, supported by case worker review where necessary;
- **Data sets** of as wide and varied nature as feasible, including market, product and consumer transactional data provided data privacy standards are met. Such data can be synthetic, historic, delayed or live market data, or anonymised transactional data. Data architecture should allow for both structured and unstructured data, with the ability to layer analytics. Enabling access to sample sizes live data from volunteer consumers was left to further review;
- **Permissions** for data access should be managed by the data provider, while the Industry Sandbox develops a registry of available data assets and collects meta-data on their usage;
- **Reference architectures** providing users with a set of domain-specific artefacts, design patterns and terminology that describe successful operational architectures, thus facilitating multiple parties coming together to interoperate and solve new problems at a business and technical level;

- **Product Certification** providing industry-level assurance that solutions tested in the sandbox confirm to existing national or international industry standards, best practices defined by competent bodies; or emerging standards agreed at sandbox level. Certification should be voluntary, time-bound, transparent, and reflective of the product maturity;
- **Showcase space** allowing solutions tested in the sandbox to be easily and digitally accessible by observers anywhere;
- **Advisory space** connecting sandbox users with interested providers of professional service advice, particularly with regard to regulatory compliance and readiness to integrate with legacy systems;
- **Analytics and audit** tools allowing understanding and transparency of how sandbox assets are being used;
- **Participants' Forums** providing a dedicated communication, collaboration and feedback channel for each participant type. Forums can be both digital platforms and physical meetings.

- TEST RegTech solutions for regulators;
- FEEDBACK into policy development.

Industry Sandbox could have simple and flexible governance structure providing for neutrality, robust management of the rights and obligations of participants, and compliance. They would be set up as non-for-profit structures.

Industry Sandboxes could be funded through a combination of subscriptions, sponsorship and benevolent funding. Their cost would vary significantly based on the sophistication of the environment constructed.

### Implementation Choices

Based on the identified design and governance requirements, an Industry Sandbox can be as simple as a catalogue of existing open datasets or APIs or as complex as a fully fledged digital platform for managing access to market and institutional data and conducting collaborative research and development. An Industry Sandbox could also be generic or dedicated to a specific industry challenge.

### Industry Sandboxes could engage with regulators in order to:

- ENGAGE in curated dialogue with sandbox participants;
- REVIEW Industry Sandbox tests in applications to regulatory sandboxes;

Implementation Choices would vary between organisations taking an Industry Sandbox forward.

