



Bank of Zambia

REGULATORY SANDBOX

FREQUENTLY ASKED
QUESTIONS

OVERVIEW

Digital Technology and the associated innovation in the financial sector has had a transformative impact in the way financial services are provided and accessed. The Bank of Zambia recognises the critical role that digital technologies and Financial Technology companies (FinTechs) that provide these services can play to promote financial inclusion.

In this regard, the Bank of Zambia issued Regulatory Sandbox Guidelines on 1st April 2021 for the deployment of variety of innovative products and services and other emerging financial technologies that have potential to benefit stakeholders and promote financial inclusion. The initiative is part of the Bank's effort of providing an enabling regulatory environment to promote innovation in the financial sector.

The Regulatory Sandbox Guidelines will provide prospective applicants especially start-ups and already licensed entities a framework for testing novel financial products and services in a controlled live environment with reduced regulatory burden. Such innovations could potentially enhance financial service delivery, customer experience and security and safety of financial services among other things. As such, the Regulatory Sandbox is also poised to contribute towards the financial inclusion agenda, which remains a key strategic objective of the Bank.

Application for participation in the Regulatory Sandbox can be made to the Office of the Director – Payment Systems.

The Bank of Zambia can be contacted for more information using the following details;

Bank of Zambia
Bank Square
Cairo Road
P.O. Box 30080
LUSAKA

Telephone: (+260) 211 399300, 0971 270090, 0963884820)

Email: info@boz.zm or psd@boz.zm

1. What is the Bank of Zambia Regulatory Sandbox?

The Regulatory Sandbox is a framework set up by the Bank of Zambia to allow small scale, live testing of payment system innovations in a controlled environment operating under special time-bound exceptions under the Bank's supervision. It's what other people may call a pilot test.

2. Why has the Bank established the Regulatory Sandbox?

Digital technology has become central to the way financial services are delivered. These digital financial services are products of innovative ideas from start-ups and established companies. The sandbox guidelines are aimed at promoting the introduction of a variety of innovative products and services that have the potential to promote financial inclusion and benefit customers.

3. Who is Eligible to Participate in the Regulatory Sandbox?

Any entity, whether already holding a regulatory license or prospective applicant of such a regulatory license, seeking to subject a novel product or service to the market using a Regulatory Sandbox is eligible to participate. Participation in the Regulatory Sandbox shall be overseen by the Bank but shall not guarantee a regulatory license being subsequently issued or approval of the product by the Bank.

4. Does the Bank offer financial support to participants in the Regulatory Sandbox?

No, the Bank does not offer financial support to participants in the Regulatory Sandbox. The Bank's role will be that of overseer of the Sandbox to promote innovation while at the same time protecting the stability and integrity of the financial system.

5. Given that the products and services will be accessed by real people in a live environment, how will potential risks be managed?

It is exactly because of the potential risks that the Bank will provide regulatory oversight over the Sandbox. The Bank will not only vet entrants and continue to monitor them during their participation, but also request for certain information from applicants before and during their participation.

The draft guidelines have proposed additional measures to address the identified risks. Firstly, the guidelines have made it clear that the business risk that may arise from the products and services offered under the Sandbox shall be borne by the participant, and not the Bank. Further, the guidelines require the participant to adequately inform customers about any potential risks to allow customers make informed decisions.

It is also worth noting that the Bank may at any time require a Participant to exit the Regulatory Sandbox if the Participant fails to comply with the requirements or conditions prescribed by the Bank or where the risk of continuing has potential to cause harm to customers or the payment systems environment.

6. What is the eligibility for participation in the Regulatory Sandbox?

Not all products and services are qualified to be registered under the Sandbox. Only products and services that meet the following eligibility criteria shall be considered in the Regulatory Sandbox:

- a) The product or service must be ready for live testing;
- b) The product or service must be a genuine innovation or be markedly different from what is being offered by other players on the market;
- c) The applicant must show cause why the normal licensing or authorization requirements should not be applied for the product or service;
- d) The applicant must stipulate which regulations should not be applicable or should be relaxed and why;
- e) The applicant must have clearly defined deliverables and/or key performance indicators to measure the outcome;

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- f) The product or service must be of benefit to consumers and must promote financial inclusion;
- g) The product or service, if implemented would bring more convenient, safer and cheaper financial services or other identifiable benefits to consumers;
- h) The applicant should beforehand identify the potential risks that may arise from the testing of the product or service and must propose appropriate safeguards to address the identified risks;
- i) The applicant must have an exit strategy; and
- j) Any other criteria that would be deemed necessary by the Bank.

7. How can a person apply to participate in the Sandbox?

Any person intending to participate in the Regulatory Sandbox can apply to the Bank for authorization. The application shall be addressed to Director – Payment Systems;

The application shall be in the form of an Application Form available on the Bank website www.boz.zm ;

The application shall be accompanied by such authorization fee as determined by the Bank.

Where the participant does not already have a regulatory license, the application form shall be accompanied by the following:

- (a) Certified copies of the Certificate of Incorporation;
- (b) Detailed Curriculum Vitae of each of the significant Shareholders, Directors and senior management;
- (c) Directors questionnaires for significant shareholders, Directors and senior management;
- (d) Vital Statistics forms for each of the significant Shareholders, Directors and senior management;
- (e) Where a significant shareholder, senior manager or Director is a non-Zambian, results of security screening from their country of origin;
- (f) Any other information that the Bank may require.

The Bank shall determine an application for participation in the Regulatory Sandbox within a period of 30 days from the date of receipt of a duly completed application.

8. How can applicant determine whether they meet Sandbox participation criteria?

The participation criteria have been clearly laid out in the Sandbox guidelines as well as in this document. However, further enquiries can be made to the Bank via the contacts given above and guidance will be provided.

9. How does a Sandbox assist prospective applicants in terms of Regulatory navigation?

Since any person intending to offer a financial service requires a license/designation, and any licensed entity that wishes to introduce a new product requires prior approval from the Bank, this may lead to delays in the amount of time it takes for businesses to test and introduce new products on the market. The delays normally are as a result of uncertainty as these products are new, technology based and may not have a regulatory framework in place to support the new innovation.

The proposed sandbox regulations are intended to help to overcome the uncertainty by allowing companies to test and fine-tune new products to ensure safety and efficiency.

10. What the benefits of a Regulatory Sandbox?

Some of the benefits of a Regulatory Sandbox include the following:

- a) *Access to the regulator* – the Regulatory Sandbox will provide FinTech access to the regulator, thus simplify the regulatory navigation process for them.
- b) *Ability to test new products and services* – the proposed Sandbox regulations will allow the testing of new products and services in a controlled manner. This will provide applicants the opportunity to gain useful insights from the market, which can be incorporated into their products or a complete re-think of the product.
- c) *Reduced time-to-market* – The proposed Sandbox regulations will reduce time-to-market for new innovate products and services, at a potentially lower cost. The Bank shall determine an application for participation in the Sandbox within a period of 30 days from the date of receipt of a duly completed application.
- d) *Consumer Protection* – Since the new products and services under the Sandbox regulations will be introduced to the market in a controlled manner, in terms of geographical spread and other terms and conditions, it will provide an opportunity to identify appropriate consumer protection safeguards to incorporate into new products and services.
- e) *Product acceptance* – participation in a Sandbox can increase customer confidence in new products and services, thus encouraging active customer uptake thereby raising much needed finance.
- f) *Risk Management* – The Sandbox provides an opportunity for FinTechs to pick out flaws in their design models much quicker and speed up the process of iteration and correction. Since products and services in the sandbox are provided in a controlled manner, the costs that may be associated with any design errors is minimized and increases the prospects for success when the product is fully launched.

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