

RBI releases Enabling Framework for Regulatory Sandbox

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Background

An inter regulatory Working Group was set up in 2016 by the RBI to review the regulatory framework in the financial technology sector. It recommended introducing a framework for a regulatory sandbox to provide regulatory guidance, increase efficiency, manage risks and create new opportunities for consumers

What is Sandbox?

The sandbox provides an environment which allows market participants to test new products, services or business models with customers in a controlled environment. The objective of the sandbox is to foster innovation in financial services, promote efficiency and bring benefit to consumers.

Key Features of the Framework

- Eligibility: The focus of the sandbox will be on **encouraging innovations amongst FinTech companies** where there is an absence of governing regulations, easing regulations enable the proposed innovation, or (c) the proposed innovation can significantly ease the delivery of financial services.
- In view of the above, the **draft framework identified an indicative list of innovative products, services, and technologies** which could be considered for testing under the sandbox. **These include;**

- Retail payments
- Money transfer services
- Mobile technology applicants
- Data analytics
- Financial advisory services
- Financial inclusion and products.
- The framework also provides that the **FinTech company should be incorporated in India for participation in the regulatory sandbox.** Financial institutions constituted under a statute are also eligible. Further, the entity should have a minimum net worth of twenty-five lakh rupees as per its latest audited balance sheet.
- **Timeline of implementation: The sandbox process will consist of five stages spanning across 27 weeks.** The stages include a preliminary screening of product, test design, application assessment, testing, and evaluation. The relaxations provided to the participating companies will expire at the end of this period.
- **The implementation will be overseen by the FinTech Unit at the RBI.** The RBI may discontinue sandbox testing for an entity at any time if it does not achieve its intended purpose or if it fails to comply with the regulatory requirements.

What is Fintech?

FinTech stands for financial technology and describes technologically enabled financial innovations.

It is applied in financial services or used to help companies manage the financial aspects of their business, including new software and applications, processes and business models. It is an emerging industry that uses technology to improve activities in finance.

Examples of FinTech companies in India :

- **Paytm:** It is a payment processor built specifically for

India's mobile shoppers.

- **Policy bazaar:** It is a portal that brings an unbiased comparison of financial services from all major insurance companies.
- **Pine Labs:** It is a provider of retail POS(point of sale) solutions that simplify payment acceptance while creating business opportunities for issuers, merchants, and brands to connect with consumers.
- **PhonePe:** It is a mobile payment app that allows its users to transfer money.
- **Lendingkart Technologies:** It is a FinTech startup in the working capital space that developed technology tools based on big data analysis which facilitates lenders to evaluate borrower's creditworthiness and provides other related services.
- **FreeCharge:** It is India's digital payments platform where one can make prepaid, post-paid, DTH, and electricity bill payments.
- **ClearTax:** It offers taxation and financial solutions to individuals, businesses, organizations and chartered accountants in India.