

# Second Cohort under the Regulatory Sandbox

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Regulatory sandbox is important from the perspective of adopting new technology, consumer awareness and inclusive growth. All these aspects are interrelated for UPSC preparation.

**In news:** The RBI announced opening of Second Cohort under the Regulatory Sandbox.

**Placing it in syllabus:** Economy

**Static dimensions**

1. What is a regulatory sandbox?
2. IFSCA and regulatory sandbox
3. Phase 1 of regulatory sandbox
4. Regulatory sandbox announced for decongestion of cities

**Current dimensions**

1. In news

**Content:**

**In news:**

- The Reserve Bank of India (RBI) has invited companies in the **cross-border payments space** to apply as part of the second cohort of its regulatory sandbox.
- It released the framework for its regulatory sandbox in August 2019, which would **help companies and startups test new payments and lending solutions, under limited regulatory controls and supervision.**
- The **aim** of creating the sandbox is to **test a “product’s viability without the need for a larger and more expensive roll-out”.**

- It also gives regulators “*first-hand empirical evidence on the benefits and risks of emerging technologies and their implication*”.
- The Cohort is expected to spur innovations capable of recasting the cross-border payments landscape by **leveraging new technologies to meet the needs of a low cost, secure, convenient and transparent system in a faster manner.**
- The framework for the sandbox has been updated in order to broaden the **eligibility criteria.**
- It has **reduced the minimum net-worth requirement from ₹25 lakh to ₹10 lakh** and has also allowed **Partnership firms and a Limited Liability Partnership to participate** in the sandbox.
- Interested entities can apply to participate in the second cohort of the RBI’s sandbox between December 21, 2020 to February 15, 2021.

The RBI has decided that the **third cohort of the sandbox will focus on MSME lending solutions.**

## What is a regulatory sandbox?

- A Regulatory Sandbox (RS) is a **framework that allows for live-testing of new products or services in a controlled environment.**
- RBI’s framework for a regulatory sandbox outlines a **‘learning by doing’** approach for all ecosystem players.
- With certain safeguards, the regulator allows start-ups/Fintechs/tech companies/banks to innovate their products.
- Regulatory sandbox **allows a few cohorts with a limited number of entrants to test their product.**
- The cohorts can run at various time periods but shall be **completed within six months.**
- The presence of appropriate safeguards helps in **containing the consequences of failure.**

- The sandbox allows for the **pilot testing** of newly developed technologies.
- RBI has segregated innovation into two parts: **Innovative products and services** and **Innovative technology**.
- The regulatory sandbox framework **doesn't allow any FinTechs or start-ups to innovate with cryptocurrency**.
- RBI has also given an **exclusion list** where it will not entertain any innovation.



- For the sandbox framework to work, banks will have to come on board first, then fintechs and startups consume the **API (application programming interface)** provided by the National Payments Corporation of India (NPCI) and banks.

## IFSCA and regulatory sandbox:

- The **International Financial Services Centres Authority (IFSCA)** has introduced a framework for Regulatory Sandbox.
- Under this Sandbox framework, **entities operating in the capital market, banking, insurance and financial services space shall be granted certain facilities and flexibilities to experiment with innovative FinTech solutions in a live environment** with a limited set of

real customers for a limited time frame.

- These features shall be fortified with necessary safeguards for investor protection and risk mitigation.
- The Regulatory Sandbox shall operate within the IFSC located at GIFT City, Gujarat.
- **All entities (regulated as well as unregulated)** operating in the capital market, banking, insurance and pension sectors as well as **individuals and startups** from India and FATF compliant jurisdictions, shall be **eligible for participation**.
- IFSCA shall assess the applications and extend suitable regulatory relaxations to commence limited purpose testing in the Sandbox.
- **Market Infrastructure Institutions (MIIs)** operating in the IFSC will manage the Innovation Sandbox.

### Phase 1 of regulatory sandbox:

- The Reserve Bank opened the **first cohort** under the Regulatory Sandbox with **'Retail Payments'** as its theme.
- It is expected to spur **innovation in digital payments space** and help in offering **payment services to the unserved and underserved segment** of the population.
- Migration to digital modes of making a payment can obviate some of the costs associated with a cash economy and can give customers a friction-free experience.
- The innovative products/services shall be considered for inclusion under RS such as:

**mobile payments including feature phone based payment services.**

**Offline payment solutions** – Though mobile internet speed has risen, connectivity issues remain unresolved in large areas. Therefore, providing an option of off-line payments through mobile devices for furthering the adoption of digital payments is required.

**Contactless payments** – Contactless payments, while decreasing the time taken for payment checkout, also ease payments for small ticket payment transactions.

- The live testing of new products or services in a controlled environment may require a bank/NBFC/any other partner for the testing to commence.
- From November 16, 2020, **two entities – Natural Support Consultancy Services Pvt Ltd, Jaipur and Nucleus Software Exports Ltd, New Delhi started testing** of their products under its RS- First cohort on Retail Payments – Test Phase.

Natural Support Consultancy Services' product 'eRupaya' is a set of Near-Field Communication (NFC) based Prepaid card and NFC-enabled Point of Sale (PoS) device to facilitate offline Person-to-Merchant (P2M) transactions and offline digital payments in remote locations and the offline digital cash product, 'PaySe', of Nucleus Software Exports will help connect with rural areas for e-payments.

## **Regulatory sandbox announced for decongestion of cities:**

- Startups could soon get to try out novel transport models in cities under regulatory sandboxes to live-test promising services, as the government bets on innovation in mobility to ease urban congestion.
- The government is ready to provide a regulatory sandbox to any company that comes with a better (transport) model and help them to fine-tune their model.
- The government is open to the idea of startups or companies introducing fresh mobility models beyond cab aggregation as it has already become established.
- Car pooling, bike taxi and other micro mobility options offered by startups are also gaining popularity.
- Though there can be one common idea, implementation will

have to vary from state-to-state depending on mobility requirements.

**Mould your thought:**

1. Explain the utility of a Regulatory Sandbox (RS). How does the RS announced by RBI spur innovation and growth?

**Approach to the answer:**

- Define Regulatory Sandbox (RS)
- Write about its importance
- Write the advantages of phase-1 of RS
- Explain the newly announced phase -2 of RS and its advantage
- Conclusion