

RBI proposes framework for testing of products, services by fintech firms

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The Reserve Bank of India has released a draft framework for setting up a regulatory sandbox (RS) or live testing of products or services by fintech firms.

The draft framework suggested that areas that can potentially get a thrust from the RS include microfinance, innovative small savings and micro-insurance products, remittances, mobile banking and other digital payments. However, technology, products or services related to credit registry, credit information, crypto currency/assets, trading/investing/settling in crypto assets, Initial Coin Offerings, or any other products banned by the regulators or government cannot be a part of the framework.

In a 14-page document, the banking regulator had detailed out the need, objective, principles, risks and benefits and legal issues of the having a RS. It also allows the regulator, the innovators, the financial service providers and end users to conduct field tests to collect evidence on the benefits and risks of new financial innovations, while carefully monitoring and containing their risks. It can provide a structured avenue for the regulator to engage with the ecosystem and to develop innovation-enabling or innovation-responsive regulations that facilitate delivery of relevant, low-cost financial products. The RS is potentially an important tool which enables more dynamic, evidence-based regulatory environments which learn from, and evolve with, emerging technologies.

The concept of a RS was mooted by a committee headed by RBI Executive Director Sudarshan Sen. The panel, which submitted its report in November 2017, had called for a regulatory sandbox to help firms experiment with fintech solution.

While detailing the benefits, the RBI also highlighted the risks and limitations attached to the RS by stating that the innovators may lose some flexibility and time in going through the RS process but running the sandbox programme in a time-bound manner at each of its stages can mitigate this risk. It further added that the regulator and its RS cannot provide any legal waivers and that companies or innovators might still require further regulatory approvals even after a successful sandbox testing.

Regulators can potentially face some legal issues, such as those relating to consumer losses in case of failed experimentation or from competitors who are outside the RS, especially those whose applications have been/may be rejected. These, however, may not have much legal ground if the RS framework and processes are transparent and have clear entry and exit criteria.

The RS shall begin the testing process with 10-12 selected entities through a comprehensive selection process as detailed in the framework under 'Fit and Proper criteria' for selection of participants.

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