FCA Sandbox – The New Frontier

The 1st year and beyond!
Through their innovation Hub, the FCA welcome new and established businesses - both regulated and non-regulated- to introduce innovative insurance and financial products and services to the market.

The regulatory sandbox allows businesses to test innovative products, services, business models and delivery mechanisms in the real market, with real consumers.

**Experience to Date**

As we all know by the Sandbox took effect in June 2016 when the FCA opened for new applications, developed as part of a so called Innovation Hub the ambition was to help businesses gain access to direct feedback on regulation surrounding their new financial products/services.

The FCA writes, that in the first year of operation, early indicators point to sandbox having been successful in meeting its overall objective.

"*Access to the regulatory expertise the sandbox offers has reduced the time and cost of getting innovative ideas to market*”

And the FCA has now set out their indicators of success which are as follows:

- 75% of firms accepted into the first cohort have successfully completed testing;
- Circa 90% of firms in the first cohort that completed testing are proceeding to launch;
- The majority of firms issued with a restricted authorisation have gone onto secure a full authorisation following completion of their tests;
- 77% of firms accepted into the second cohort have progressed toward testing; and
- Testing in the sandbox has helped facilitate access to finance for innovators.

During this period the FCA received applications from 164 applicant firms and supported 73 of those towards designing, implementing and supervising their tests. Not all have progressed to test their solutions in the sandbox. Nine firms were unable to test their solutions for a variety of reasons, including not being able to secure necessary partnership agreements. However, seemingly the schemes popularity and success is resulting in further investments and ambitions for global impact.

**Global Ambitions**

The FCA has now announced that until the 2 March 2018 it will be seeking firms’ views on the potential for a Global Sandbox Programme. The FCA’s aim is to ascertain the viability of creating a Global Sandbox across other jurisdictions. This has arisen as a result of the fact that many aspects of FinTech and financial markets are global and some firms would like to work with other international regulators to conduct tests. The FCA believes that there is a lot of value in this approach as it has observed and learned from other jurisdictions about how they promote innovation in financial services.
The FCA has signed nine bilateral cooperation agreements with other jurisdictions which will enable and encourage increased dialogue between regulators.

There are three suggestions thus far about what the Global Sandbox could focus on:

- Invitation for applicants to address pre-identified challenges, for instance developing innovative solutions to handle AML compliance and KYC on-boarding;
- Supporting specific firms with cross border ambitions across any sector; the FCA is keen to hear from firms who could benefit from testing their ideas in multiple markets; and
- Seeking to address policy and regulatory challenges. The Global Sandbox could host joint events or papers on emerging trends and challenges to assist the experience of participating regulators, and work towards consistent approaches.

**What Next**

Inevitably and in our view, the Global Sandbox can only be seen as a good thing and with its establishment will offer firms access to information from wider markets and territories in which to test their products, and is particularly pertinent for insuretech businesses whose distribution models make it easy to capture a difficult to limit a global audience. Solutions for improving detection rates in respect of financial crime could also be tested through the Global Sandbox through the use of KYC and AML portals and processes. Although KYC and AML processes are sometimes seen as a hinderance to business, the Global Sandbox aims to introduce new means of sharing and exchanging views during product testing which can assist with addressing AML/KYC challenges.

Even though the Global Sandbox was ultimately created for the purpose of conducting tests in the UK, for UK products it is great news that the FCA have realised the potential and international scope and shows that they are open to innovation and adapting to a new technologically world and customer. For far too long Insurance has lagged behind and been often been slow to respond to technological change, Global Sandbox is testament the Uk regulator who is attempting to more openly engage with firms. The hope is that firms will participate and seek guidance from the UK regulator to remain competitive in the eye of the global market.

Remember the closing date for feedback is the 3rd March 2018.

Below is the link to feed in your views - [https://sandboxglobal.com](https://sandboxglobal.com)
About the author

Sara is both a solicitor and Associate of the Chartered Insurance Institute. She has worked across claims, corporate development, operations, governance and risk areas within law firms and London and Lloyd’s market insurers and MGA businesses. She is a qualified lawyer and well known within the industry for taking a logical and practical approach when problem-solving and is adept at bridging the gaps between ‘front end’ business ambitions and FCA regulatory requirements.

Sara Ager
Partner
+44 (0)203 553 4898
sara.ager@ec3legal.com

For more information on the Regulatory Sandbox please contact Sara Ager at EC3 Consultants and/or go to www.fca.org.uk.

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