

Shifting sands: FinTech innovation and the Regulatory Sandbox

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INTRODUCTION

Against the backdrop of a rapidly evolving financial technology (FinTech) landscape, the Monetary Authority of Singapore (“MAS”) is taking great strides to encourage FinTech experimentation. The basic premise is to create an enabling environment for promising innovations to be tested in the market and have the chance for wider adoption in Singapore and abroad. For that purpose, in November 2016, MAS presented its “Regulatory Sandbox” (the “Sandbox”), that enables FinTech players to experiment innovative financial products or services within a well-defined space and duration, and with appropriate safeguards to contain the consequences of a potential failure and maintain the overall safety and soundness of the financial system.

The Sandbox offers flexibility to FinTech players with regards to MAS’ regulatory requirements as, depending on the context, MAS would provide appropriate regulatory support by relaxing specific legal and regulatory requirements to which the FinTech player would otherwise be subject to, for the entire duration of the Sandbox. To guide the potential applicants through the Sandbox’s application procedure, MAS released its “FinTech Regulatory Sandbox Guidelines” (the “Guidelines”).

Based on initial feedback about the Sandbox being well received by the industry, MAS conducted a public consultation from 14 November to 13 December 2018 on the creation of pre-defined sandboxes, known as “Sandbox Express”, to complement the existing approach. Such sandboxes would enable FinTech players which intend to conduct regulated activities to

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embark on experiments more quickly, without needing to go through the existing bespoke Sandbox application and approval process.

I. Regulatory Sandbox

The initial approach of MAS was the Regulatory Sandbox, which is tailored to the specific characteristics of FinTech players and their services or products, to allow an innovative experimentation in a defined space and time by relaxing specific legal and regulatory requirements for the duration of the Sandbox. The Sandbox will also include proper measures adapted to FinTech players' profiles, to safeguard against the detriments of failure and maintain the overall integrity of the financial system.

A. How to apply?

To conduct innovative and disruptive experiments within the Sandbox, any interested firm or financial institution can apply to the Sandbox by submitting to MAS its application form (available on MAS' dedicated portal [here](#)) to finTech_sandbox@mas.gov.sg. The application will then be processed within 21 working days, and there will be no administrative fees involved.

B. Application process

After its submission to MAS, each Sandbox application will be assessed based on the following criteria:

- (a) The proposed financial service includes new or emerging technology, or applies existing technology in an innovative way;
- (b) The proposed financial service addresses a problem or brings benefits to consumers or the industry;
- (c) The test scenarios and expected outcomes of the Sandbox experimentation are clearly defined and the applicant will report to the MAS on test progress on an agreed schedule;
- (d) Appropriate boundary conditions are clearly defined to execute the Sandbox meaningfully while protecting consumer interests and maintaining the safety and soundness of the industry;
- (e) Significant risks arising from the proposed financial service are assessed and mitigated;
- (f) An acceptable exit and transition strategy is clearly defined in the event the proposed financial service must be discontinued or proceeds to be deployed on a broader scale after exiting the Sandbox; and
- (g) The applicant has the intention and ability to implement the

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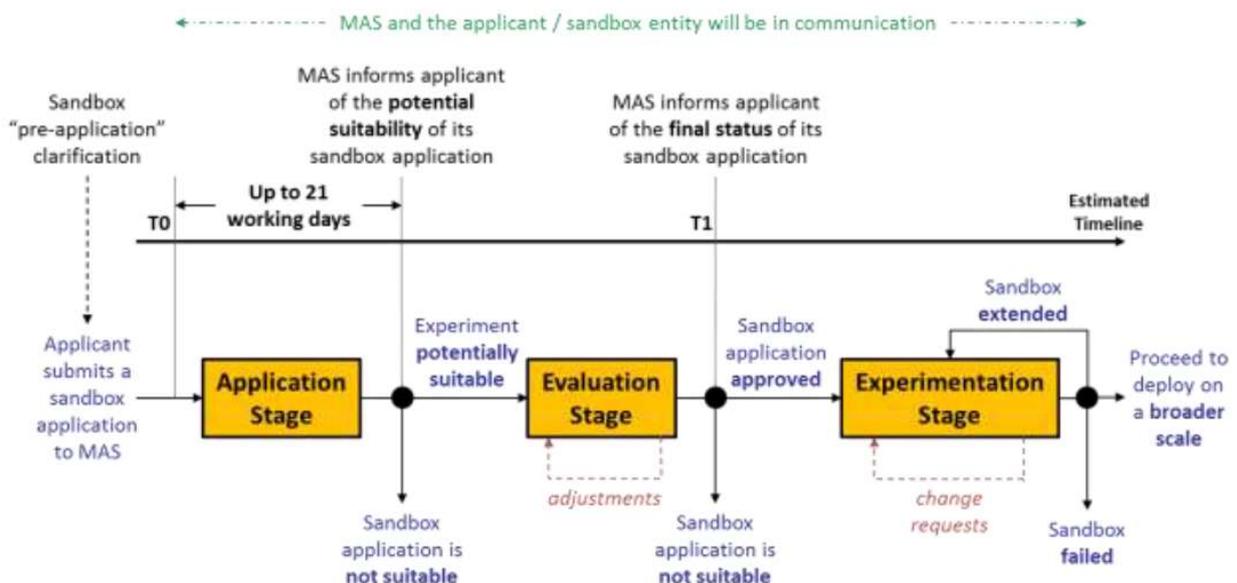
proposed financial service in Singapore on a broader scale following its exit from the sandbox. If there are exceptional reasons why the proposed financial service cannot be deployed in Singapore, the applicant should be prepared to continue contributing to Singapore in other ways, e.g. continuing the developmental efforts of the proposed financial service in Singapore.

Once the application is deemed potentially suitable, it will enter an evaluation period where MAS will work

closely with the applicant to make the necessary adjustments to the application and determine the specific legal and regulatory requirements it is prepared to relax for the sandbox duration on a case by case basis. During this period, which may vary in length depending on the complexity of the service or product, the applicant is allowed to change details in the application for resubmission.

Fully-approved sandbox applicants, known as “Sandbox entities”, will receive written approval notification, and the agreed regulatory relaxations will come into effect for the duration of the Sandbox.

Summary of the Sandbox application process:



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II. Sandbox Express

The new approach proposed by MAS is a set of pre-defined sandboxes comprised in the “Sandbox Express”. Each predefined sandbox will have its boundaries, expectations and regulatory reliefs predetermined, as these sandboxes are only suitable for financial services or products which carry low or well understood risks that could be reasonably contained by the constructs of such sandboxes. The initial set of pre-defined sandboxes is proposed for the following activities: insurance broking, recognised market operators (RMO) and remittance businesses.

A. Application process

FinTech players interested in conducting experiments within a specific pre-defined sandbox (the “Applicants”) must complete an application form to be provided by MAS and submit it to fintech_sandbox@mas.gov.sg.

The applications will be fast-tracked, with approval decisions granted within 21 days and an assessment based on only two criteria:

- ✓ Technological innovativeness of the financial service; and
- ✓ Fitness and propriety of the applicant’s key stakeholders.

The Applicants will have to declare that they are able to fully comply with all

expectations of the predefined sandbox that they have applied for, which includes providing clear disclosure and obtaining an acknowledgement from their users before these users can be on-boarded as customers. Once approved as “predefined sandbox entities”, they will be required to submit a progress report to MAS every 2 months as well as ensure that the predefined sandbox expectations are adhered to.

The application will contain detailed information about:

- (a) The applicant (i.e. profile of the organization, profile of its key shareholders, financial standing of the organization, regulatory status with regulators etc.);
- (b) The proposed financial service or product (i.e. problems addressed and benefits of this new solution, business model and use cases, details on the specific technology and innovative ways in which the service / product will be applied etc.);
- (c) The readiness of the prototype and the development timeline;
- (d) Start and end date of the pre-defined sandbox, taking into consideration the maximum duration allowed for that pre-defined sandbox;

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(e) Declaration that the applicant will be conducting the specific regulated activity that is permitted by the pre-defined sandbox, and that it fully complies or is able to fully comply with all the conditions for that pre-defined sandbox.

B. From a sandbox to another

If MAS estimates that an application is too complex and requires more time and resources, it might decide to consider it under the Regulatory Sandbox approach instead of purely rejecting it, which represents a significant gain of time for the applicants and guarantees that the application will still move forward.

III. Additional information

Pre-defined Sandbox entities and Sandbox entities have to declare their status to customers and disclose the key risks that will be involved, as well as consent to having their company details disclosed on MAS' sandbox portal. During this period, if they want to make any material changes to their fintech company, they will need to send a change request to MAS at least 1 month in advance.

It is worth underlining that MAS reserves the right to withdraw any

approval at any time if, for example, a prohibited activity is conducted.

IV. Current Pre-defined /Regulatory Sandbox entities

The following FinTech players' details have been published on MAS Website:

1. Inzsure Pte. Ltd. (Insurance Brokers) - The Sandbox period is from 1 November 2018 to 31 October 2019;
2. MetLife Innovation Centre Pte. Ltd. ("MICPL", Direct insurer) – The Sandbox period is from 18 June 2018 to 17 March 2019 (after an extension of the sandbox's expiry date);
3. TransferFriend Pte. Ltd. (Remittance business) – The Sandbox period was from 22 January 2018 to 21 July 2018. With effect from 22 Jul 2018, TransferFriend Pte. Ltd. is no longer licensed to advertise or carry on a remittance business in Singapore.