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**Bank of Sierra Leone**

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**Regulatory Sandbox Pilot Program  
Response to Public Consultation**

April 2018

## **I. Introduction**

On September 25, 2017, the Bank of Sierra Leone, with support from the United Nations Capital Development Fund (UNCDF) Mobile Money for the Poor (MM4P) and the Financial Sector Deepening Africa, released a Proposed Regulatory Sandbox Pilot Program Framework for public comment and feedback (“Consultation Draft”). As set forth in the Consultation Draft, the purpose of the Sandbox Pilot Program is to enable innovative FinTech products, services, and solutions to be deployed and tested in a live environment prior to full licensing, within specified parameters and timeframes. Equally important, the Sandbox Pilot Program is intended to facilitate the Bank’s understanding of emerging technologies and support evidence-based approaches to regulation that advance the goals of financial inclusion, financial stability and consumer protection.

Between September 25 and October 10, 2017, the Bank of Sierra Leone received comments from numerous domestic and international organizations, including the Sierra Leone FinTech Association, the Digital Financial Services Working Group, the Consultative Group to Assist the Poor, the United States Agency for International Development (USAID), and others.

Based on its review and consideration of the public comments, the Bank has adopted several revisions to the Consultation Draft. These revisions are intended to make the application and supervision process more efficient for applicants and participants, while at the same time furthering the Bank’s objective to provide a flexible regulatory venue for safely experimenting with new products, services and business models that have the potential to advance the National Strategy for Financial Inclusion 2017-2020.

Several commentators requested that we provide greater clarity on the contours of the Sandbox Pilot Program – for example, by identifying specific technologies that would be excluded from the Sandbox, setting a limit on the number of companies that would be eligible to participate in a single cohort, and providing metrics to define what constitutes a “consumer benefit.”

We recognize and appreciate that certainty is often a virtue in financial regulation. Regulations that clearly define minimum conduct or capital requirements provide a sound basis for structuring supervisory conversations, designing compliance systems, encouraging investment, and maintaining important consumer and systemic risk protections. At the same time, however, the purpose of a sandbox is to provide some flexibility in the application of formal legal requirements while regulators and innovators alike assess the potential of new financial products, services and business models. Accordingly, after careful consideration, the Bank continues to believe that the objectives of the Sandbox Pilot Program will be best served – at least for this initial Pilot phase – by retaining this flexibility.

The final Regulatory Sandbox Pilot Program Framework, released today, marks an important step for the Bank in facilitating innovation in Sierra Leone. As a two-year Pilot Program, our intention is to experiment with and learn from our experiences with the initial sandbox cohorts and revise the program over time to reflect these learnings.

## II. FEEDBACK FROM THE PUBLIC CONSULTATION

Public comments to the Draft Regulatory Sandbox Pilot Program Framework consultation are presented below along with an explanation of the Bank's response.

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**Comment 1** *"There needs to be more clarification in the document on the type of organizations that are eligible to test out their innovative products and services under the Sandbox program."*

The Consultation Draft made the Sandbox Pilot Program available to both (a) citizens of Sierra Leone and (b) legal entities (companies) that are more than 50% owned by a Sierra Leone citizen. The Sierra Leone citizenship/ownership requirement was intended to encourage the broadest possible pool of applicants while at the same time ensuring a strong connection to Sierra Leone.

To encourage local content and bring this jurisdictional requirement in line existing requirements for financial institutions operating in Sierra Leone, BSL has revised the eligibility requirements. For at least the initial one-year term, the Pilot Program will be available to legal entities with at least 25% Sierra Leone ownership. For avoidance of doubt, the Pilot Program is open to all legal entities that otherwise satisfy the eligibility criteria including, among others, regulated financial institutions and emerging technology companies (FinTechs).

**Comment 2** *"More information is required with regards to the kind of technologies that would be covered under the Sandbox Program. For instance, would BSL consider over the counter services that use mobile money in a retail context to be covered under the Sandbox framework? A greater amount of clarity around what technology is covered by the Sandbox Framework would help the FinTechs community in designing new products and services"*

The Sandbox is open to all kinds of financial products, services and solutions that have the potential to advance financial inclusion in Sierra Leone. An important objective of the Sandbox is to encourage the design, development and launch of innovative financial products, services and technologies in Sierra Leone, and to develop a platform for the Bank to interact more closely with innovators as they experiment with those solutions. If an innovator feels they have a solution that would benefit from participation in the Sandbox, they are encouraged to apply to the Sandbox or contact the Sandbox Ombudsperson to discuss whether the Sandbox might be appropriate.

**Comment 3** *"If an application is unsuccessful to be selected for the Sandbox program cohort, can the applicant apply again for the next program cohort?"*

Applicants who are not selected for participation in the Sandbox Pilot Program may apply to participate in a future Sandbox cohort.

**Comment 4** *"There should be a well-defined list of financial products and services that cannot be practiced in the Sandbox framework."*

As discussed in Section I above, the purpose of the Sandbox is to encourage and support the development of innovative financial products, services and solutions that advance the goals of financial inclusion in Sierra Leone. The Bank will review Sandbox applications on a case-by-case basis according to the criteria set forth in the Final Sandbox Framework. At this time, the Bank does not intend to designate any specific financial product or service as inappropriate for the Sandbox.

**Comment 5** *“There should be a well-defined list of documentations that the applicants need to document for their product or service. This list of documentation should cover areas such as the risks associated with their product or service, and the legal regulatory framework under which their product/service would operate.”*

For avoidance of doubt, the Bank has amended the Sandbox Pilot Program Framework to include a checklist which clearly identifies the documentation that comprises the application. Specifically, a complete application packet includes: (a) a completed application form; (b) a business plan; (c) official incorporation documents; (d) names and titles of current board of directors members; and (e) payment of the application fee. The Application Form asks applicants to provide information regarding the anticipated risks associated with the proposed test, as well as any legal diligence undertaken to identify potential uncertainties or ambiguities in the anticipated regulatory framework.

**Comment 6** *“There needs to be more clarification on the maximum number of products or services that can be supported under each cohort of the Sandbox Program.”*

The size of any specific cohort will depend on both the number of eligible applicants and the Bank’s capacity to effectively supervise Sandbox participants. The Bank will not establish a maximum (or minimum) number of products or services that can participate in a single Sandbox cohort.

**Comment 7** *“What kind of specific innovation would be considered as ‘genuine innovation’? For instance, if a product or service has already been deployed in other markets, would it still be considered to be ‘genuinely innovative’ . . . What quantifiable measurement tool or methodology would be used to calculate the potential benefit to the customers that a proposed product or service has?”*

The Bank acknowledges that the “genuine innovation” and “consumer benefit” criteria as framed in the Consultation may have caused confusion for market participants. Although these criteria are standard features in sandboxes around the world, they are inherently subject to interpretative discretion. However, the Sandbox Pilot Program is unique in that it is expressly tied to Sierra Leone’s National Strategy for Financial Inclusion 2017-2020. The type of “innovation” and “consumer benefits” that the Bank seeks to encourage through the Pilot Program are bounded by these national financial inclusion objectives.

To clarify this intent, the Bank has streamlined the eligibility criteria to merge the “Genuine Innovation” and “Consumer Benefit” criteria into a single criterion regarding “Potential to Advance Financial Inclusion.” On this criterion, applications will be evaluated based on their potential to positively impact financial inclusion in Sierra Leone. For purposes of this Pilot Program, the Bank will not define the

specific metrics or methodologies it may use for evaluating an applicant’s potential for financial inclusion impact.

**Comment 8** *“Competition should be encouraged for all products and services, and first mover advantage should not be reserved. Therefore, just because a specific product or service has already been launched in the market, other similar products or services should not be prevented from being launched in the market too.”*

The Bank agrees.

The primary purpose of the Pilot Program is to encourage the development of a vibrant FinTech ecosystem in Sierra Leone that helps to advance the financial inclusion objectives set forth in the National Strategy for Financial Inclusion. The Consultation Draft stated that “Applicants are not likely to be accepted into the Sandbox if the proposed financial product, service, or solution are similar to those that are already being offered in Sierra Leone, unless the Applicant can show that either a different technology is being applied or the same technology is being applied differently.”

We agree with the industry commentators that viewing innovation through this narrow lens is potentially at odds with the broader mission of the Sandbox. Accordingly, paragraph 9(a) of the Consultation Draft has been deleted from the Final Framework.

**Comment 9** *“BSL should provide a framework of baseline regulations that all sandbox program applicants should adhere to with regards to the risk and safeguard mechanisms that need to be put in place for the end users.”*

Several commentators recommended that the Framework be amended to include a list of regulations and safeguard mechanisms that would remain in place for all Sandbox tests to ensure the protection of participating consumers. The Bank agrees. Accordingly, paragraph 12 of the Final Framework now identifies three safeguards that will remain in place during all Sandbox tests. These safeguards include:

- Applicable character and fitness requirements for the Applicant, its founders and directors;
- Applicable suitability requirements pertaining to business premises; and
- Anti-Money Laundering and Countering the Financing of Terrorism regulations.

**Comment 10** *“A redressal committee should be established under the Sandbox framework. The aim of this committee would be mediate on disputes between BSL and the sandbox participants with regards to the BSL’s decision to [sic] a specific product or service from the sandbox program.”*

The Sandbox’s internal operating procedures will include a process for elevating and reviewing determinations by the Sandbox Team. The Bank believes that this internal review process, when combined a highly iterative supervisory process and opportunities for Sandbox participants to engage informally with the Sandbox ombudsperson, will provide sufficient opportunities for mitigating potential disputes with participants in the Pilot Program. That said, and for the avoidance of any doubt, an

invitation to participate in the Regulatory Sandbox Pilot Program does not confer or guarantee any particular regulatory outcome.

**Comment 11**      *Requiring applicants to identify specific testing criteria as part of the application process is highly burdensome and may discourage participation.*

The Bank agrees. The function of the Pilot Program is to provide an opportunity for Participants to live test the performance new products, services and solutions against different regulatory frameworks. So long as the Applicant has demonstrated sufficient legal diligence to show that their proposed product, service or solution raises regulatory issues, requiring additional specification of testing protocols seems unnecessary at the application stage.

Accordingly, the final Framework deletes paragraphs 8(e) (Risk Identification), (f) (Safeguards), and (g) (Testing Plan) from the Consultation Draft and also deletes Section 3 (Testing Plan) from the Application Form. Once admitted to the Sandbox, Participants will work with their designated Sandbox supervisory teams to draft mutually agreeable testing plans.