



BANK OF PAPUA NEW GUINEA

**Regulatory Sandbox Framework
August 2022**

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1 Introduction

The purpose of this document is to provide a broad framework of the rules and regulations that will govern the Bank of Papua New Guinea's (BPNG) Regulatory Sandbox (Sandbox). The Sandbox is a space for the live testing of innovative financial products, services and delivery mechanisms, where the risks to financial consumers and the financial system have been strictly contained.

The innovative financial product or service can be observed for a period of time. At the end of the period, the BPNG should be in a position to determine whether and how the product or service should be licensed.

This framework provides standards for the operations of the Sandbox, and prescribes the processes and procedures for analysing, collecting, updating, integrating, and storing of consumer data and information. The Sandbox cannot be used to circumvent existing laws and regulations and is therefore not suitable for a proposed product, service or solution that is already appropriately addressed under prevailing laws and regulations. BPNG will provide formal guidance and advice to the applicant(s) on the modifications that can be made to align proposed business models or solutions with prevailing laws and regulations.

2 Objectives

The objective of the Sandbox is to enhance financial inclusion in Papua New Guinea (PNG) through safe financial innovation which provides the BPNG an opportunity to assess innovative activities that as a result of new technologies or practices:

- a. Give rise to vagueness as to its appropriate regulatory regime;
- b. Present potential consumer protection concerns; and
- c. Pose a potential risk to financial system stability.

3 Governance

It is envisaged that some innovations may blur traditional lines of banking and non-banking financial activity. The Sandbox is an initiative of the BPNG and the framework will be governed by a Regulatory Sandbox Committee (RSC). The members of the RSC will comprise of the four (4) Assistant Governors¹, the Chief Information Officer (CIO) and the Adviser. The RSC may invite other knowledgeable persons in its discussions as necessary, to bring about appropriate proficiency to bear on final outcomes. RSC will be supported by a team comprising of the staff from Financial System Development and Information & Communication Technology Departments. The Chair of the RSC will be appointed from among the nominated members of the RSC and shall be responsible for ensuring that all agreed processes of the RSC are carried out and communicated.

¹Financial System Stability Group, Corporate Affairs Group, Finance and Payments Group and Monetary and Economic Policy Group

4 Functions of the Review Panel

The RSC's remit and functions will include, but are not limited to:

- a. Determining, with justification, whether the applicant should be approved for entry into the Sandbox or instead regulated under an existing licensing regime.
- b. Issuing a Certificate of Participation where the application has been approved.
- c. Determining what the main regulatory issues are for the product or service being tested in the Sandbox and whether consumers or investors are at risk, with the rationale for this determination.
- d. Determining and explaining how the main regulatory issues are to be best managed, for instance through capital or liquidity requirements, or caps on exposures.
- e. Determining the key performance indicators to monitor and test the robustness, redundancy, scalability and associated risks of the technology being applied.
- f. Determining whether an entity has breached the terms and conditions of the Sandbox and whether they are rectifying that breach with sufficient haste; or whether information produced during the application process was materially misrepresented. In both circumstances the RSC may require the entity to exit the Sandbox.
- g. Determining the duration of the testing period giving reasonable notice and rationale where the duration is to be extended.
- h. Ensuring that the applicant has established standards for Anti-Money Laundering and the Combating of Financing of Terrorism & Proliferation (AML/CFT) in accordance with the AML/CFT Act 2015.
- i. Determining at the end of the Sandbox whether the activity can be licensed under the existing licensing regime or whether new legislation will be required.
- j. Providing an opportunity for an applicant to review and comment on the draft report before it is finalised.
- k. Ensuring there is a high degree of transparency surrounding the operations of the Sandbox.
 - l. Establishing additional prior conditions that should be met before the Sandbox testing can start, including a review of the applicant's proposed exit strategy, ensuring that controls are sufficient to ensure protection and privacy of consumer data and determining whether the management team possess the necessary competencies to oversee, monitor, evaluate and mitigate the risks that exist.
- m. Establishing any other terms and conditions that will govern the operations of the Sandbox and issue any guidelines as needed to provide clarity on the objectives and principles of the Sandbox.

5 Eligibility Criteria

The eligibility criteria for applicants is as follows:

- a. The product, service or solution is innovative with clear potential(s) to:
 - i. Improve accessibility, customer choices, efficiency, security and quality in the provision of financial services; or
 - ii. Enhance the efficiency and effectiveness of PNG financial institutions' management of risks; or
 - iii. Address gaps in or open up new opportunities for financial benefits or investments in the PNG economy.
 - iv. Ensure that applicants will provide the proposed project within a limited transaction (value and volume) for better risk management and mitigation. The limits must not be exceeded during the testing period.
- b. The applicant has conducted an adequate and appropriate assessment to demonstrate the usefulness and functionality of the product, service or solution and identified the associated risks which should be devoid of adverse effect to existing structures and consumer experience;
- c. The applicant has the necessary resources to support testing in the sandbox. This includes the required resources and expertise to mitigate and control potential risks and losses arising from offering of the product, service or solution;
- d. The applicant should have a realistic business plan to deploy the product, service or solution on a commercial scale in PNG after exit from the sandbox.

6 Participation in the Sandbox

BPNG welcomes interest in participation in its Sandbox from the following entities, subject to their fulfilment of BPNG's entry criteria and principles:

- a. Authorised financial institutions already active in PNG, already subject to regulatory review by BPNG;
- b. Institutions that do not fall under the regulatory purview of BPNG but where the nature of their innovation may deem them to be carrying out activities requiring a license or regulatory approval from BPNG;
- c. The Sandbox will welcome participation from non-financial sector players developing solutions that can accelerate financial inclusion, in recognition of the cross-cutting benefits of financial services with other industries;
- d. Local FinTech developers, such as newly created entities in PNG that have developed or are developing solutions/concepts outside traditional business models that may represent new inclusion or financial opportunities;

- e. Overseas FinTech developers, such as start-ups and other entities domiciled outside PNG that have developed or are developing solutions outside traditional business models that may represent new possibilities;
- f. That has conducted adequate and appropriate assessments to demonstrate the usefulness and functionality of the product or service and to understand the associated risks; and
- g. Demonstrating possession of the necessary resources (financial and human) to participate in the Sandbox, and to mitigate and reasonably control potential consumer risks and losses from activity within the Sandbox.

7 Risk Assessment and Safeguards

- a. An applicant must identify the potential risks to financial institutions and financial consumers that may arise from the testing of the product, service or solution in the Sandbox and propose appropriate safeguards to address the identified risks.
- b. In assessing the risks and evaluating the proposed safeguards, the Bank will give due regard to the following:
 - i. Preserving sound financial and business practices consistent with monetary and financial stability;
 - ii. Promoting the fair treatment of consumers;
 - iii. Compliance with AML regulations;
 - iv. Protecting the confidentiality of customer information;
 - v. Promoting the safety, reliability and efficiency of payment systems and payment instruments;
 - vi. Encouraging healthy competition for financial products and services.

8 Application Process

8.1 Applicant

Application forms are available on the BPNG website². Entities can apply to participate in the Sandbox by submitting a completed application form with supporting documentation, inclusive of Confidential Statements for each shareholder, director and executive officer of the applicant to: *regsandbox@bankpng.gov.pg*. The information contained in the Confidential Statement is intended to assist in determining whether persons are fit and proper.

8.2 Application - Preliminary Assessment

- a. The application will be assessed for completeness and to ensure that all supporting documentation (refer Appendix A) is attached. Applicants may be required to make adjustments to their application for re-submission. Where the application has been completed as required, it will be submitted to the RSC.

²<https://www.bankpng.gov.pg/wp-content/uploads/2019/12/BPNG-Regulatory-Sandbox-Application-Form-V5.1.pdf>

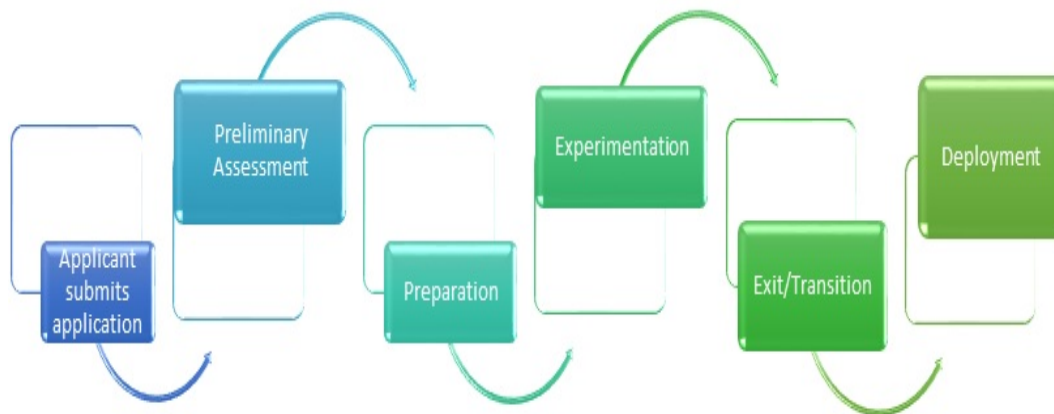


Figure 1: Sandbox Process

- b. The first action of the RSC will be to determine whether the activity is eligible to participate in the Sandbox and the RSC will carry out its functions as set out in Section 4.0 above. Where the RSC has determined that the innovative digital solution is not eligible for the Sandbox, the RSC will write to the applicant with a detailed explanation.
- c. Applicants will receive a decision from the RSC within 30 to 45 working days of the date of submission of the application, unless additional information is requested. The decision will provide a detailed response, including the terms and conditions. This step will also serve to guide the applicant with business and resource planning for the preparation and experimentation stages. If applicants fail to proceed in the application stage, reasons for this outcome will be provided to the applicant.
- d. Until further notice, applications will be selected on an ongoing basis, not as part of a cohort. This means there are no specific deadlines, and the applicant will automatically be in line for review once the application is received.
- e. All information submitted by the applicant(s) are given with full consent to be used as required by the BPNG and the Sandbox. The applicant hereby indemnify the Sandbox and BPNG from confidentiality and non-disclosure obligations and losses.

8.3 Preparation

- a. This is the second stage of the sandbox process. If a potentially suitable applicant passes the preliminary assessment (para. 6.2 (a - f) and receives a decision then they will move on to the preparation stage.
- b. At this stage, guidance will be provided to the applicant by the regulatory authority on relevant parameters, boundary conditions and safeguards for a potential live pilot of the proposed service.
- c. If potentially suitable applicants successfully proceed to this stage, they will be requested to consult, discuss and further develop their proposals in person or virtually with the BPNG.
- d. The time required by BPNG to deeply assess, guide and consider the proposal for a well-defined live environment pilot at this stage depends on the completeness and complexity of the proposal and the specific legal and regulatory requirements, waivers or flexibility involved. However, it is expected to not exceed 60 calendar days or 3 months.
- e. Decisions in the preparation stage will be informed by BPNG RSC as outlined in Section 3.
- f. The testing parameters and recommended changes to proposals on exit/transition strategies, consumer protection/redress frameworks and other risk mitigation measures recommended by BPNG shall be communicated by the RSC to the applicants.
- g. Approval to proceed to the experimentation stage will be in form of an official approval from the RSC within 30 to 45 working days and sent to the applicant via e-mail. The approval will detail the terms and conditions, including all parameters and/or limitations governing the experimentation.
- h. If the applicant fails to proceed in this stage, a detailed explanation is required to be provided.

8.4 Experimentation

- a. As per paragraph 6.3 [f.], and in consultation with BPNG, applicants are granted parameters in a live production setting with live customers in PNG.
- b. The Sandbox will actively monitor and supervise applicants at this stage (see Section 10 on, "Reporting Obligations").
- c. A limit of 3 to 6 months of testing will be permitted, followed by provisions for extensions (a maximum additional 3 months). Extensions are granted on a case-by-case basis and subject to the laws and regulations of PNG.
- d. The applicant is obliged to notify all customers that the provided service is operating in the BPNG Sandbox and disclose the key risks associated with the service. The applicant is also required to obtain the customers' acknowledgement and documented consent that they have read and understood the risks associated with participating in the service, as communicated transparently (in simple, clear and concise language) in the terms and conditions.

- e. In the event that the applicant intends to make material changes to the service during the “Experimentation Stage”, it must apply to the Sandbox, providing details and justification for the change at least 30 to 45 days in advance. The Sandbox reserves the right to request additional information in their review of the change request. Successful submission and acknowledgement of receipt of the change request on the Sandbox does not constitute a favourable determination, official consent or approval of any kind by the Sandbox.
- f. The applicant can continue experimenting with the existing financial service pending determination of their change request. The Sandbox shall communicate its decision to the applicant within 60 to 90 days of receipt of the application with all information required to inform a decision.
- g. For the purpose of transparency, and to provide information to consumers, non confidential information from all approved sandbox applications, such as the name of the applicant and the start and end dates of the sandbox experiment, will be published on the BPNG webpage.

8.5 Exit/Transition

The RSC may require an extension to the testing period if it determines that there is insufficient information to make a determination. In this case, the RSC will write to the entity no later than ten (10) working days before the scheduled end of the testing period. Similarly, an entity operating in the Sandbox may request an extension using the same notification requirement. The RSC requires an entity to exit the Sandbox on completion of the testing period or in the case where the Certificate of Participation has been cancelled. Further, an entity will be required to exit the Sandbox where it opts to discontinue testing prior to the agreed date. Under these circumstances, the procedures required for exiting the Sandbox will include:

- a. Immediate execution of the approved exit strategy, including terminating the provision of the product, service or solution to all prospective and existing customers;
- b. Notice to all customers of the intent to terminate operations and the process necessary to recover any unsatisfied financial interest held by the entity on their behalf, as well as their rights to redress where necessary; and
- c. Compliance with all legal obligations and adequate disposal of confidential information, in accordance with the relevant Acts.

8.6 Deployment

- a. An applicant that successfully completes the experimentation stage, for example, by achieving agreed KPIs or sufficiency managing risks or others issues arising from tests, will be in a “post sandbox” stage. In this stage, the applicant may be given approval to proceed to commercial deployment. This will be determined by the RSC on a case-by-case basis subject to the sovereign laws and regulations of PNG.
- b. To permit commercial deployment (as per a.), official approval from BPNG, including potential licensing for specific activities, will be provided to the applicant within the time frame recommended by BPNG. The validity period for this approval will be determined and communicated on a case-by-case basis, with provisions for possible extension (subject

to PNG laws and regulations). This will apply only to solutions or new financial services that are not defined within existing laws and regulations in PNG, or have no licensing requirements related to the proposed activity.

- c. To ensure the commercial deployment of the service is sustainable and effective, BPNG will provide an enabling regulatory environment for the deployment subject to the mandates and appropriate regulatory, supervisory and oversight frameworks of PNG.
- d. An enabling regulatory environment will also include new principles, policies and guidelines specific to the innovative financial service within the scope and authority of the BPNG.

9 Applicable Fees

There are no application fees.

10 Terms & Conditions

The terms and conditions of the Sandbox will be set by the RSC in consultation with the applicant. It will address the objectives set out in Section 2.0, and the remit of the RSC set out in Section 4.0 above. Once the terms and conditions have been agreed to and signed by the applicant, the RSC will issue a Certificate of Participation that grants the entity permission to participate in the Sandbox for the specific product or service.

A Certificate of Participation in the Sandbox creates no automatic right for an entity so participating to receive regulatory approval, if relevant, at the end of the testing period.

In addition, participation by an approved entity in the Sandbox shall be deemed to be acceptable of the terms and conditions thereof.

11 Cancellation/Suspension

An entity shall have its Certificate to Participation in the Sandbox cancelled or suspended if it breaches any of the terms and conditions of operating in the Sandbox and there are insufficient efforts to rectify these breaches. Breaches of the terms and conditions may be deemed to include:

- a. Unsatisfactory testing and outcomes;
- b. Failing risk management control mechanisms; and
- c. The innovation begins to negatively impact the financial system.

12 Reporting Obligations

- a. The BPNG Sandbox will monitor the applicant's compliance with the terms and conditions, including the mitigation of potential risks and implementation of appropriate safeguards, as detailed and mandated by the relevant approval issued by the Sandbox.

- b. The Sandbox will actively monitor and assess the applicant's awareness of risks and their ability to mitigate and manage them.
- c. There will be ongoing reporting obligations in the preparation, experimentation and exit/transition stages, and as part of commercial deployment if the applicant successfully exits the sandbox.

12.1 Interim and Final Reports

- a. During the experimentation stage, which involves testing in a live production environment, the applicant will be required to submit information relating to the test (see para. 12.1(d)) for the required components of interim reports and (para 12.1(f) of the final report).
- b. The applicant must ensure records are properly maintained during the testing period to support reviews of the test by the Sandbox.
- c. The applicant is required to provide their proposed reporting plans even though a minimum baseline reporting requirement for all applicants has been provided. If the reporting structure provided is unacceptable to the Sandbox, it will be returned to the applicant for amendment with guidance from the Sandbox.
- d. The applicant must submit interim reports to the Sandbox on the progress of the test, which will include information on the following:
 - i. key performance indicators (KPIs), criteria for success, key milestones and statistical information;
 - ii. key issues observed arising from fraud or operational incident reports;
 - iii. full account of incident reports and customer complaints; and
 - iv. actions or steps taken to address key issues.
- e. The frequency and specific details to be included in the interim reports will be agreed between the applicant and the Sandbox and will take into account the duration, complexity, scale and risks associated with the test.
- f. The applicant must submit a final report to the sandbox within 30 calendar days of the expiry of the testing period/experimentation stage. The report will contain the following information (not exhaustive list):
 - i. key outcomes, key performance indicators for agreed measures of test success or failure and the findings of the test;
 - ii. a full account of all incident reports and resolution of customer complaints; and
 - iii. in the case of a failed test, lessons learned.
- g. The interim and final reports must be confirmed and signed off by the CEO and, in the case of joint testing by more than one participating company, all CEOs of the participating companies.
- h. This Framework is effective upon approval from the Governor.

13 Appendix

A Documentary Requirements

All applications shall be accompanied with the following:

- Completed application form;
- Board approval (where applicable);
- Certificate of Incorporation;
- Company profile and contact details;
- Memorandum and Articles of Association (where applicable);
- Shareholding Structure;
- IPA Application for Registration;
- CVs of Board and Management;
- Organigram of Company (organisation structure);
- Project Plan;
- Key outcomes that the testing is intended to achieve;
- A document that shall outline the strategy of the sandbox trial including current and potential engagements, geographical spread and benefits to be derived;
- AML/CFT KYC Policy; and
- Any other information that the BPNG may require from time to time.