



CENTRAL BANK OF SOLOMON ISLANDS



# Regulatory Sandbox Guideline



APRIL 2022



**Central Bank of the Solomon Islands**  
**Regulatory Sandbox Framework**

Contents

1. Rationale for Regulatory Sandbox .....	3
2. Purpose of the Regulatory Sandbox .....	3
3. Principles of the Regulatory Sandbox .....	4
4. Regulatory Sandbox lifecycle .....	5
5. Duration of the Regulatory Sandbox lifecycle .....	5
6. Scope of Applicants .....	6
7. Scope of products and services .....	6
8. Application and submission of Application .....	7
9. Agreement .....	8
10. Regulatory reliefs and exemptions .....	8
11. Licensing and activities subject to authorization .....	9
12. Restrictions .....	9
13. Key Performance Indicators .....	9
14. Reporting .....	10
15. Withdrawals and termination .....	10
16. Conclusion of the testing .....	11

## **1. Rationale for Regulatory Sandbox**

- 1.1. Implementation of innovative products and services, as well as innovative business processes may significantly improve the quality and coverage of the financial services.
- 1.2. Central Bank of the Solomon Islands is dedicated to supporting financial inclusion through creating environment conducive to implement responsible financial innovation in the country, with a focus on remote islands as well as vulnerable groups (elderly, women, etc.).
- 1.3. It is important that consumers have access to wide array of financial services which are appropriate to their needs, affordable and reliable.
- 1.4. Although the regulatory framework continuously evolves in the Solomon Islands, some innovative products and services might not be yet regulated or are associated with regulatory uncertainty.
- 1.5. It is crucial to support the attractiveness of the Solomon Islands market for innovators and fintech firms by providing friendly environment allowing for minimized time-to-market period – i.e accelerated rollout of new products or services to the market.
- 1.6. Fintech firms and financial institutions need to be flexible to adapt swiftly to changing circumstances and customer needs. To help them with these changes, it is important to ensure efficient interaction with regulator.
- 1.7. While new technologies may bring significant advantages, it is also important to ensure that they do not bring systemic and important risks that may destabilize the financial system and be detrimental to the customers' position.
- 1.8. Fintech firms and financial service providers also need to test their hypotheses to assess the demand for the new product and services and adjust them accordingly to ensure that they are in line with international standards and best practices.
- 1.9. It is also crucial to ensure that the financial services are available not only to individual consumers but micro-, small and medium enterprises to support entrepreneurship and ensure sustainable economic development in the country.
- 1.10. Development of the new regulations in the financial sector shall be evidence-based and aimed at mitigating relevant risks without imposing unnecessarily strict requirements towards market players.
- 1.11. Taking into account the aforementioned considerations, Central Bank of Solomon Islands (CBSI) decided to enact this Framework for Regulatory Sandbox in the financial market.
- 1.12. In all aspects not covered by this Framework, Applicant may request CBSI for assistance and clarifications related to Regulatory Sandbox.

## **2. Purpose of the Regulatory Sandbox**

- 2.1. Purpose of the Regulatory Sandbox is to allow testing of new products and services in a limited environment to assess the associated risks and/or the viability of these propositions.

- 2.2. Testing within the Regulatory Sandbox will be subject to the restriction, as approved by the regulator. The purpose of these restrictions is to minimize potential risk associated with the testing.
- 2.3. Throughout the testing regulator may approve certain regulatory exemptions and reliefs that are necessary to facilitate the testing.
- 2.4. If the testing is found successful, CBSI may decide to make necessary regulatory changes or issue a waiver or no objection letter to ensure that the new product or service can be scaled up and provided outside the testing environment.
- 2.5. Throughout the Regulatory Sandbox lifecycle the Applicant may ask for additional guidance from CBSI on regulatory expectations and regulatory requirements.

### **3. Principles of the Regulatory Sandbox**

- 3.1. This section outlines main principles that need to be adhered to throughout the Regulatory Sandbox lifecycle.
- 3.2. *Transparency.* Review of applications as well as decisions related to all stages of the testing are made in a transparent manner. Whenever it is possible, the Applicant will be informed about the reasons of the decision taken in relation to the proposed project and testing. Relevant information about the testing is published on the CBSI website.
- 3.3. *Cooperation.* The Applicant and CBSI shall actively cooperate throughout the Regulatory Sandbox lifecycle, including, whenever necessary, exchanging information, conducting online and/or offline discussions, etc.
- 3.4. *Customer protection.* Testing parameters shall take into account customer protection considerations. Provision of services within the regulatory sandbox shall not have negative impact on the level of customer protection. Customers shall also be notified that the product or service is provided within the Regulatory Sandbox; if applicable, their documented confirmation that they understand all risks associated with the product or service might need to be obtained.
- 3.5. *Financial Inclusion focus.* The products and services tested in the Regulatory Sandbox shall contribute to advance financial inclusion in the Solomon Islands, with the special focus on the vulnerable groups (e.g. the youth, the elderly, women, those living on remote islands).
- 3.6. *Risk mitigation.* The testing shall be constructed with risk mitigation measures in place and requires good understanding of risks associated with the product or service.
- 3.7. *Compliance.* Regulatory Sandbox shall not be used to circumvent existing rules or regulations and thus obtain unfair competitive advantage vis-à-vis other market players.
- 3.8. *Proportionality.* Any regulatory exemptions or reliefs shall be provided only in a bundle with risk mitigating restrictions, in line with a risk-based approach.
- 3.9. *Definite period.* The testing shall be limited in time and cannot be open-ended.
- 3.10. *Consequentialism.* Testing shall have clear results, whether positive or negative.

- 3.11. *Indemnity.* CBSI will not be liable for any financial or material loss, failure, harm or liability arising from the testing and decisions taken throughout the Regulatory Sandbox lifecycle. Any internal costs associated with the testing will be borne by the applicants.

#### **4. Regulatory Sandbox lifecycle**

- 4.1. Regulatory Sandbox is a process of interaction between the Applicant and CBSI that constitute the Regulatory Sandbox lifecycle. This section briefly outlines the purpose of each stage of the Regulatory Sandbox lifecycle.
- 4.2. *Submission of Application.* At this stage the Applicant submits the Application for testing in line with these Framework. Prior to submission, the Applicant may contact CBSI for guidance and information about the process of the Regulatory Sandbox application and testing.
- 4.3. *Preliminary review of the Application.* At this stage the responsible CBSI department reviews the completeness of the Application and whether the Applicant can apply to the Regulatory Sandbox. The ‘fit-and-proper’ test will be conducted at this stage as well.
- 4.4. *In-depth review of the Application.* At this stage the relevant CBSI department looks into the essence of the proposed project and whether it is potentially admissible in the Regulatory Sandbox.
- 4.5. *Preparation of the Agreement.* At this stage CBSI creates a special working group that will review all the information so far and will develop the parameters of the testing.
- 4.6. *Signing Agreement and start of the testing.* The testing is being conducted on the basis of the agreement between the Applicant and CBSI.
- 4.7. *Testing (experimentation).* During the testing stage the Applicant provides the product or service according to terms of the agreement. Periodic reporting will be required during the testing.
- 4.8. *Conclusion of testing.* After the testing is concluded the final report is prepared by CBSI in cooperation with the Applicant. The report includes the lessons learnt and next steps if applicable.

#### **5. Duration of the Regulatory Sandbox lifecycle**

- 5.1. Each stage of the Regulatory Sandbox lifecycle is time-bound.
- 5.2. Preliminary review of the Application does not exceed 20 business days.
- 5.3. In-depth analysis of the Application does not exceed 40 business days.
- 5.4. Preparation of the Agreement shall not exceed 15 business days and can be extended to more 15 business days, by the CBSI Working Group decision.
- 5.5. The testing (experimentation) shall not last longer than 18 months and can be extended only by decision of the CBSI Working group to more 12 months.
- 5.6. Conclusion of the testing. The final report on the testing shall be approved no later than 21 business days after the end of the testing.

- 5.7. Throughout the Regulatory Sandbox lifecycle CBSI may request additional information and clarification on the matters related to proposed project. Each stage might be extended for the time until this information and clarification is received.
- 5.8. Every time CBSI requests additional information and clarification, it will inform the Applicant about the expected timeframe for receiving them. If such information or clarification is not provided on time without proper reason, this might lead to discontinuation of review of Application or termination of testing.
- 5.9. The Applicant may request the extension of the testing period for no more than 12 months, by submitting such request no later than 21 days before the end of the testing. The extension might be granted only if it is required to address specific issues or risks identified during the initial testing. The decision on extension shall be expected in no more than 14 working days.

## **6. Scope of Applicants**

- 6.1. Only legal entities may apply to the Regulatory Sandbox.
- 6.2. Both profit and non-profit organisations may apply to the Regulatory Sandbox.
- 6.3. The Applicant shall be a legitimate business:
  - a) Incorporated in the Solomon Islands; or
  - b) Incorporated in other jurisdictions.
- 6.4. The Applicant may or may not be licensed by CBSI.
- 6.5. The Applicant and its management shall not have an adverse record of unscrupulous business dealings, a criminal record or other non-compliance with regulations in other jurisdictions.
- 6.6. The Applicant shall have adequate resources to implement the product or service, and adhere to all requirements as stipulated throughout the testing.

## **7. Scope of products and services**

- 7.1. In order to be approved for the Regulatory Sandbox, the proposed product or service shall fulfill the following requirements:
  - a) Product or service shall constitute a genuine innovation (e.g. include new process, delivery channel, model of operation, etc.).
  - b) Product or service shall not be a source of systemic risks to economic or social situation in the country.
  - c) Product or service shall be at least at the minimum viable product stage and be ready for implementation the proposed technology and testing plan shall be sufficiently developed.
  - d) Product or service shall contribute to the financial inclusion and serve public interest, with the special focus on the vulnerable groups (e.g. the youth, the elderly, women, those living on remote islands).
  - e) Product or service shall not entail the use, promotion, distribution, exchange, issuance, trading or provision of cryptocurrencies (in any form).

- f) Product or service shall have a potential to enhance the efficiency and effectiveness of risk management for the financial services providers.

7.2. Annex 1 includes the indicative types of products and services that Applicants are encouraged to submit for testing.

## **8. Application and submission of Application**

8.1. In order to apply for the Regulatory Sandbox, the Applicant shall submit the Application in line with this Framework.

8.2. The Application shall be submitted through the contact point as specified on the CBSI website, through the regional regulatory sandbox or by other means as specified by CBSI in its publications.

8.3. The Application and all attachments shall be submitted in English. If some part of the Application is in language other than English, it shall be accompanied by translation.

8.4. Information about the technical requirements towards the Application (e.g. the format, maximum file size, etc.) is published on the CBSI website and might be updated from time to time.

8.5. Form of Application is included in Annex 2.

8.6. Apart from the Application, the Applicant shall submit the following documents:

- a) Incorporation documents.
- b) License (if applicable).
- c) Other documents that the Applicant seem appropriate.

8.7. The Applicant shall demonstrate that it has conducted due diligence on the applicable regulatory acts and requirements and potential risks.

8.8. The Applicant shall have clear understanding of the objectives of the testing.

8.9. The Applicants are encouraged to provide as detailed information as possible. Lack of information and detailed descriptions may result in delayed review or declined applications.

8.10. Prior to submission of the application, the Applicant may consult CBSI contact point about the specific requirements of the Application.

8.11. Application can be submitted jointly by two or more entities. However, all entities shall fulfill the requirements towards Applicants.

8.12. Whenever the application is rejected during the preliminary or in-depth review, the Applicant is generally allowed to re-submit the application if deficiencies are addressed and/or material changes to the application are made, subject to cooling-off period of three months. However, in case the Applicant does not pass the 'fit-and-proper test', the product or service is outside the scope of the Regulatory Sandbox or other cases, as decided by CBSI, the Applicant might be denied further submissions of the applications.

## **9. Agreement**

- 9.1. Testing in the Regulatory Sandbox is conducted on the basis of agreement signed between the Applicant and CBSI.
- 9.2. Text of the agreement specifies all significant terms and conditions of the testing, including regulatory reliefs and exemption, restrictions, reporting requirements, exit strategy, disclosure requirements, etc.
- 9.3. CBSI may decide to include terms and conditions of the testing it considers necessary.
- 9.4. Any changes to the terms and conditions of the testing shall be made through the amendments to the agreement.

## **10. Regulatory reliefs and exemptions**

- 10.1. For the purposes of testing CBSI may provide the following regulatory exemptions and reliefs:
  - a) Capital requirements / minimum paid-up capital.
  - b) KYC thresholds.
  - c) KYC requirements.
  - d) Board composition.
  - e) Cash balances.
  - f) Credit rating.
  - g) Fund solvency and capital adequacy.
  - h) Management experience.
  - i) Minimum liquid assets.
  - j) Track record.
- 10.2. CBSI may grant other regulatory exemptions or reliefs it deems appropriate in case they relate to the purposes of the testing and do not create additional risks.
- 10.3. These regulatory reliefs and exemptions are only valid for the duration of the testing, as approved by CBSI.
- 10.4. CBSI will not grant regulatory reliefs and exemptions related to at least the following:
  - a) Fit&Proper requirements
  - b) Confidentiality of the customer information (unless the appropriate customer consent is received).
  - c) Handling of customer money and assets.



- d) Specific provision related to AML/CFT requirements if granting a relief will contradict Financial Action Task Force Recommendations or other international AML/CFT standards.

10.5. If the Applicant is found to be in breach of regulations which are not covered by reliefs and exemptions, it will be faced with regulatory actions, as prescribed in the regulations.

## **11. Licensing and activities subject to authorization**

11.1. If provision of the proposed product or service is subject to licensing or authorization, the Applicant may request CBSI to issue a temporary license or authorization.

11.2. CBSI might establish specific requirements towards issuing temporary license or authorization that is valid only for the duration of the testing.

11.3. Apart from obtaining a temporary license or authorization, the Applicant may decide to apply to the Regulatory Sandbox in cooperation with the licensed or authorized entity.

## **12. Restrictions**

12.1. For risk mitigation purposes, CBSI may require adherence to certain restrictions from the Applicant.

12.2. The restrictions shall vary on the type of product and service and might include:

- a) Number of clients.
- b) Number of accounts/electronic wallets.
- c) Maximum value of funds held by Applicant.
- d) Maximum value of loans provided to the customers.
- e) Maximum value of a single transaction.
- f) Maximum value of transactions over time.
- g) Localisation of data processing requirements.
- h) Geography of provision of services.
- i) Specific requirements towards consumer protection and redress procedures.
- j) Other restrictions that might be useful for mitigation of risks associated with the product or service.

## **13. Key Performance Indicators**

13.1. The agreement shall include the key performance indicators that will be used to assess the results of the testing.

- 13.2. Key performance indicators need to be of quantitative nature, there should be a possibility to collect all the necessary metrics to assess the results of the testing.

#### **14. Reporting**

- 14.1. Testing of products or service is subject to periodic reporting.
- 14.2. The scope of reporting and timing of reports shall be agreed upon between the Applicant and CBSI.
- 14.3. The reporting will include, at least, the following:
- a) Information related to key performance indicators.
  - b) Key issues observed arising from fraud or operational incident reports.
  - c) Full account of incident reports and customer complaints.
  - d) Actions or steps taken to address key issues.
- 14.4. The Applicant shall expect CBSI to introduce specific oversight requirements as well (e.g, on-site visits, access to information systems, etc.).

#### **15. Withdrawals and termination**

- 15.1. The Applicant has the right to withdraw the application or terminate the testing.
- 15.2. Termination shall be subject to the implementation of exit strategy, i.e. mandatory steps that need to be taken after the termination of the testing.
- 15.3. Testing can be terminated by CBSI in the following circumstances:
- a) The Applicant breaks the parameters of the testing (i.e. testing restrictions) and does not resolve the situation
  - b) The Applicant does not start the testing until the date as specified in the agreement with CBSI.
  - c) The Applicant does not submit information and documents as requested by CBSI from time to time.
  - d) The product or service is a source of unanticipated social or economic risks.
  - e) Based on the analysis of the customer complaints, it is found that the product or a service is detrimental to the position of the customers.
  - f) The Applicant is found to have submitted false information during the application stages that had significant effect on the decisions regarding the Application.
  - g) The Applicant is undergoing or has gone into liquidation.
  - h) The product or service is provided with continued service disruptions and fraud incidents that are not addressed and mitigated.

- 15.4. After the testing is terminated, all regulatory exemptions and reliefs are considered void.

## **16. Conclusion of the testing.**

- 16.1. No later than 10 business days before the end of testing, the Applicant shall submit the draft report on the results of the testing that includes at least the following:
- a) Factual indicators achieved during the testing, as per agreement.
  - b) Number, brief summary of complaints received during the testing and how they were resolved.
  - c) Problems faced by the Applicant during the testing (including fraud incidents and operational incidents).
  - d) Position of the Applicant on the scaling up of the products or service.
- 16.2. Based on the draft report, CBSI, in coordination with the Applicant and taking into account the latest available data, prepares the final report to assess the result of the testing, whether the product or service might be scaled up and what regulatory changes might be required.
- 16.3. CBSI may prohibit deployment of the service in the market upon completion of the testing if it is considered unsuccessful and/or had significant negative consequences that were not addressed and prevented.

## **17. International cooperation**

- 17.1. CBSI will engage with regulators in other countries for the purposes of review of applications and assessment of results of the testing.
- 17.2. CBSI may decide to use Regulatory Sandbox platforms maintained in part or in full by third parties to receive applications to the Regulatory Sandbox, communicate with the Applicants and for other purposes deemed necessary by CBSI. Information about the usage of Regulatory Sandbox platforms will be published on the CBSI website.

**Products and services that can be tested in the Regulatory Sandbox**

Products and services proposed for the testing shall contribute to one or more policy objectives as listed below:

- a) Expanding account ownership among the financially unbanked or underserved;
- b) Ensuring regular use of a secured store of value wallets and no-frills bank/deposit accounts, by addressing identification and other documentation barriers;
- c) Enhancing the range, diversity, quality and distribution network of financial services providers infrastructure and products through more sophisticated and innovative digital infrastructure;
- d) Creating an enabling regulatory and supervisory environment to support innovation;
- e) Supporting financial policymakers and regulatory community to improve market regulations and supervision;
- f) Improving digital and financial literacy among people;
- g) Promoting the development of the MSME sector by improving access to information, markets and financing;
- h) Mitigating the loss of correspondent banking relationships and formal remittances services;
- i) Encouraging consumer behavior and adoption of inclusive green finance or other initiatives that help low-income consumers adapt to the impacts of climate change;
- j) Enhancing the uptake and use of digital financial services by low-income women;
- k) Providing low-income young entrepreneurs with enhanced opportunities to access financial services and grow their business;
- l) Enhancing the quality of financial inclusion for the elderly;
- m) Enhancing access to formal financial services for refugees and other forcibly displaced persons;
- n) Promoting and advancing gender-sensitive financial services to increase financial inclusion for women;
- o) Collecting and continuously improving services using unbiased, gender-disaggregated data analytics.
- p) Improve how creditworthiness is assessed for MSMEs using alternative data, data analytics and algorithms.

## Annex 2

**CBSI Regulatory Sandbox  
Application form**

Applicant Details	
1. Name of company	
2. Type of company (sole trader, limited liability company, etc.)	
3. Postal address and physical address (if different)	
4. Telephone/mobile number Number	
5. Email	
6. Website	
7. Name of key personnel (e.g. CEO, CFO, COO)	
8. Name and contact details of key contact person for liaison purposes	
9. Shareholders	
10. Country or countries in which your company operates	
11. Description of the nature and scale of the business in the countries where your company currently operates.	
12. Has the innovative financial service being proposed been tested in other country sandboxes and/or interfaced with the regulatory authorities of other jurisdictions?	
13. Business registration number (e.g. Tax identification number) and the country of incorporation	
14. Information of relevant license(s) or authorization(s) (if applicable)	
15. Does the company or anyone of its managers have an adverse record of unscrupulous business dealings, a criminal record or other non-compliance with regulations in other jurisdictions? If yes, please, provide additional details.	
Partner details	
1. Name of institution(s)	

2. Postal address	
3. Telephone/mobile number	
4. Email	
5. Description of the collaboration between your company and the partner organizations (outsourcing of service, equity stake participation, etc.)	
6. Business registration number (e.g. Tax identification number) and the country of incorporation	
7. Information of relevant license(s) or authorization(s) (if applicable)	
Information about the proposed service	
1. Describe the proposed service.	
2. Explain how your proposed service meets the eligibility criteria	
3. Explain how your proposed service meets the evaluation criteria	
4. Explain the business plan for the proposed service to be offered on a commercial basis.	
5. Identify and describe the legal or regulatory requirements that are incompatible with the proposed service and the	
6. Describe how the usefulness and functionality of your proposed service has already been assessed and/or tested.	
7. Are there any similar products deployed in other jurisdictions? (if yes, please, provide details)	
8. Who are the proposed customers for testing period and how to acquire them	
9. Describe the use case for this proposed testing	
10. Describe the objectives of the proposed test	
11. What are the expected milestones and timelines	
12. Explain your readiness to test the proposed innovative financial solution (sufficient due diligence and technical	

testing done, well-developed testing plans, detailed risk analysis on the tests)	
13. Firm's compliance with applicable AML/CFT laws/regulations & guidelines	
14. Describe cybersecurity and measures in place to ensure safety of innovative financial solution	
Testing phases	
1. Describe the risks associated with the sandbox testing and identify appropriate risk mitigation measures/safeguards.	
2. Explain the intended key outcomes of the testing.	
3. State the expected duration of the test.	
4. State the nature and location of the IT infrastructure.	
5. State the source of funding for the testing.	
6. Provide any other information that may support the application.	
7. What regulatory exemptions or reliefs you might require that prevent the implementation of your product/service without the regulatory sandbox testing?	
8. What restrictions do you propose to be used during the testing?	
9. What are the key performance indicators that you propose to use to assess the success of the testing?	
Support needed from regional sandbox	
1. Explain what support you would need from each of the countries you are interested in pursuing to test your proposed service live in the sandbox.	
2. Any other information that may support your application.	