

Pillar 1 - Regulations

MFSA FinTech Strategy

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FinTech & Innovation

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FinTech Strategy Vision

**“To establish Malta as an
international FinTech Hub...”**

within a regulatory environment
which achieves investor protection,
market integrity and financial
soundness



The 6 Strategic Pillars



Regulations



Ecosystem



Architecture



International
Links



Knowledge



Security

Strategic Objectives

FinTech and Innovation function

Proportionality	Smart Regulations
Regulatory Sandbox	RegTech & SupTech

Regulatory Sandbox

Pillar 1 – Regulations



Regulatory Sandbox

Regulatory approach wherein Sandbox Participants can **test their innovations for a specified period of time** within the financial services market, **under certain conditions** which **contain the associated risks** to consumers and the financial system.



Definition of FinTechs

“**FinTech**” shall refer to **technologically enabled financial innovation** that could result in **new business models, applications, processes or products** with an associated **material effect on financial markets** and institutions and the provision of financial services.

EBA (2018)

Objectives

Fostering Innovation

The Sandbox will provide for a **structured framework which would allow technologically enabled financial innovation** - new business models, applications, processes or products - **to operate within the financial services market.**

Objectives *(continued)*

Ensuring Effective Investor and Consumer Protection

Through **close dialogue**, the MFSA will be **monitoring** the Sandbox Participants and observing whether the **innovations truly offer an added value** to the ultimate consumer. The testing environment will **strictly limit risks to consumers** through **specific safeguards**.

Objectives *(continued)*

Enhancing Firms' Understanding of Regulatory Expectations

Through **close dialogue with the Authority**, such **innovation will be carried out in a sustainable manner**, which safeguards **investor protection, market integrity and financial soundness**.

Objectives *(continued)*

Knowledge Sharing

The Authority will have the **opportunity to study** the financial innovations being employed while **assessing regulatory and supervisory implications and discuss the appropriate response**. The Sandbox will also keep the Authority up-to-date with the latest innovations.

Framework



Two Proposals:

1. Standalone Framework
2. No changes - leverage on the existing powers under the MFSA Act

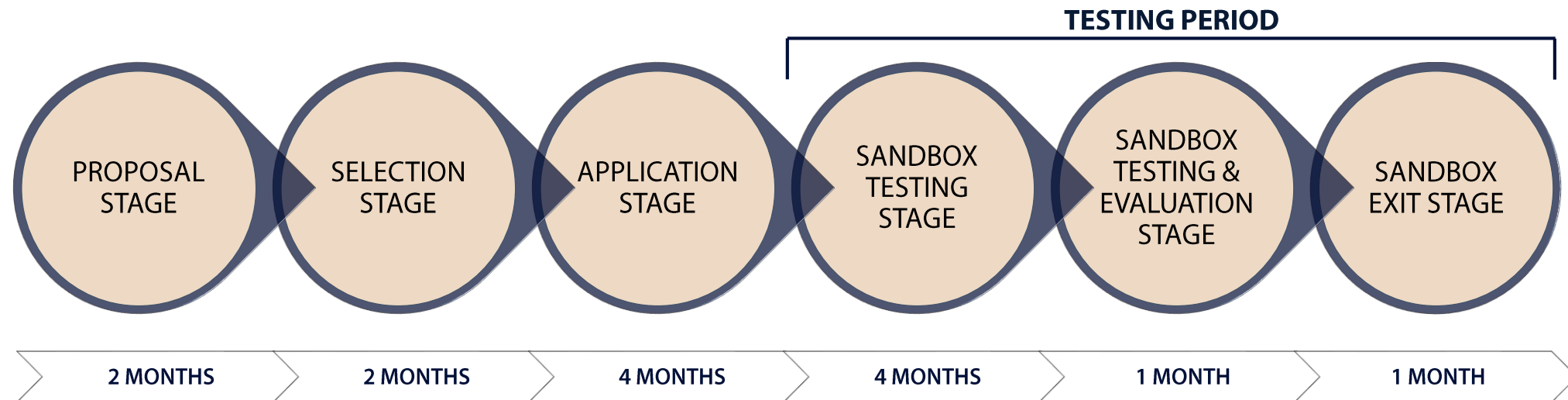
Structure



Two Proposals:

1. Bi-annual cohorts
2. Special purpose cohorts

Sandbox Lifecycle



Stage 1

Proposal Stage

The MFSA will issue a **call for interest** to the industry, during which **interested Sandbox Participants** would need to **submit their proposal** to the MFSA through a specific **Sandbox Proposal Form**.

Stage 2 Selection Stage

The proposals will be **ranked in terms of the eligibility criteria**, and **presented to the Sandbox Selection Board** due to the Cohort restrictions.

Stage 2

Selection Stage – Eligibility Criteria

Innovation

Proposals should **be innovative**, leveraging on **emerging technologies**, or **represent a significant scale-up** in existing technologies in offering **new business models, applications, processes or products** within the financial services market.

Stage 2

Selection Stage – Eligibility Criteria *(continued)*

Need for Testing

Proposals should have a **genuine need for testing** in the Sandbox, *inter alia*:

- (i) evidence that the Sandbox will be **beneficial to the Sandbox Participant and the MFSA**
- (ii) ambiguity as to which **regulation** the proposal falls under.

Stage 2

Selection Stage – Eligibility Criteria *(continued)*

Readiness of the Applicant

The Applicant should set-up **clear objectives and parameters**, and should **clearly demonstrate** that the proposal is **ready to be tested** within the Sandbox.

Stage 2

Selection Stage – Eligibility Criteria *(continued)*

Consumer Benefit

Proposed solutions should offer an **identifiable and direct benefit** (e.g. improving security or quality of service) or **indirect benefit** to consumers (e.g. increasing competition).
Proposals have to adequately **identify and address** any **resulting risk** for consumers and the market.

Stage 2

Selection Stage – Selection Board

An internal **Sandbox Selection Board** would be entrusted to **select a limited number of proposals** from those eligible. The Board will **operate independently** from officials reviewing the proposals.

Stage 3

Application Stage

Selected Applicants will be requested to submit their **Sandbox application** to the MFSA – will be used to perform **fitness and properness assessment**. The MFSA shall subsequently grant the Sandbox Participant authorisation within the Sandbox.

Stage 3

Application Stage - Participant Development Leads

A dedicated contact point, or **Participant Development Lead**, will be assigned with every Sandbox Participant. These proposed Leads will **guide Sandbox Participants** and provide them with the necessary **regulatory and supervisory support**.

Stage 3

Application Stage – Types of Applicants

1. Authorised Persons testing proposals covered by their existing authorisation
2. Authorised Persons testing proposals not covered by their existing authorisation but within scope of existing legislation

Stage 3

Application Stage – Types of Applicants

3. Unauthorised persons testing proposals within scope of existing legislation
4. Un/authorised persons testing proposals outside scope of existing legislation

Stage 3

Application Stage – Authorisation Conditions

Participation within the Sandbox shall be **subject to certain conditions** which shall be identified during authorisation. These conditions will **mitigate any identified risks** in relation to the proposal.

Stage 3

Application Stage – Test Criteria

Test criteria will be **identified within the Sandbox Licence** and will be used for the **evaluation of the Participant's performance** in the Sandbox.

Stage 3

Application Stage – Disclosures to consumers

Sandbox Participants will be required **propose during the Application Stage the required disclosures** to prospective clients that they are **operating under a Sandbox Licence**. Disclosures shall include **guidance** as to how the **exit strategy** will affect the client, the respective **risks pertaining to the innovation** and any **compensation structures** in place.

Stage 3

Application Stage – Compensation Arrangements

Three Proposals:

1. Consumer Protection Fund
2. Guarantee
3. Internal Arrangements

Stage 4

Sandbox Testing Stage

Close Dialogue and Individual Guidance

All Sandbox Participants will **closely dialogue** with the MFSA, through **frequent reporting and semi-monthly meetings**. The Participant Development Lead will act as a **liaison** between the Participant and the MFSA's supervisory experts in order to **guide and support** the Participant on **regulatory and supervisory matters**.

Stage 4

Sandbox Testing Stage - Sandbox Regulatory Tools

Toolkits

MFSA intends to provide Participants with **regulatory and supervisory toolkits**. Such toolkits shall consist of **basic guidance** on the respective legislation.

Stage 4

Sandbox Testing Stage - Sandbox Regulatory Tools *(continued)*

Waivers

The MFSA may also **grant waivers** to certain requirements, as afforded to by the **applicable legislation** and **under defined conditions**, taking into **consideration the nature, scale, size and complexity** of the participant.

Stage 4

Sandbox Testing Stage - Sandbox Regulatory Tools *(continued)*

No Enforcement Action Letters

These letters would clearly state that **no enforcement action** will be taken provided that the **circumstances are required** for the financial innovation and/or **mitigated by the financial innovation** itself.

Stage 4

Sandbox Testing Stage - Arbiter for Financial Services

To further **ensure effective investor protection**, the MFSA is also proposing that clients of Sandbox Participants have recourse to the **Office of the Arbiter for Financial Services** for any complaints they might have.

Stage 5

Sandbox Testing & Evaluation Stage

Whilst Participants will continue to provide their service, they will be required to provide a **detailed report** of the outcomes of the respective tests. This report will help the Authority to **assess** whether the **Sandbox environment proved valuable** and to **determine the next steps** following the Sandbox period.

Stage 6

Sandbox Exit Stage

Exit Strategy

1. Discontinuation of the financial innovation
2. Extension for continuation inside the Sandbox
3. Authorisation with certain restrictions
4. Authorisation without restrictions



Other Considerations



International Links

RegTech and SupTech

Pillar 1 – Regulations



RegTech

Regulatory Certification of RegTech Solutions

The MFSA is **proposing to set up a voluntary framework** for certification of RegTech solutions, wherein the Authority would be proactively **assessing that such solutions comply with the respective legislative requirements.**

SupTech

Engagement with SupTech solutions

Further to its **Vision 2021**, the **MFSA is actively working on harnessing the benefits of technology and digitisation** and **embracing regulatory innovation** itself through investment in SupTech.

THANK YOU