



17 February 2026

Secretariat
Enhanced Regulatory Sandbox Review
The Treasury
Langton Crescent
Parkes ACT 2600
By email: enhanced-regulatory-sandbox@treasury.gov.au

Dear Secretariat

INDEPENDENT REVIEW OF THE ENHANCED REGULATORY SANDBOX

The Australian Finance Industry Association (AFIA) is the only peak body representing the entire finance industry in Australia.¹ We appreciate the opportunity to respond to Independent Review of the Enhanced Regulatory Sandbox.²

We represent over 150 members, including bank and non-bank lenders, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.

¹ [Australian Finance Industry Association \(afia.asn.au\)](https://afia.asn.au).

² [Independent Review of the Enhanced Regulatory Sandbox \(2025\)](#)

INTRODUCTORY COMMENTS

The Enhanced Regulatory Sandbox (ERS) was a well-intentioned reform in 2020, but after five years it has delivered only ~19 participants and a transition-to-licence rate below 10 per cent.³ This is not a failure of intent, but of architecture: the current exemption-only model creates an “unlicensed stigma”, a hard regulatory cliff, subjective entry tests, and no integration with broader government support.

AFIA recommends a fundamental shift to a conditional licensing model (“License Lite”) from day one, combined with:

- Tiered, objective eligibility and fast-track/sponsored entry
- Functional, tech-neutral scope definitions
- Tiered monetary limits (retail caps retained; aggregate raised to \$50–100m for B2B/institutional)
- Dedicated case officers and safe-harbour self-reporting
- Automatic, merit-based graduation with data portability
- Formal cross-regulator coordination and post-graduation soft-landing support

These changes are proven in the UK, Singapore, Hong Kong and Abu Dhabi, where they have delivered 5 to 10 times higher uptake and graduation rates. They require modest legislative and regulatory amendments and can be implemented within 12 to 18 months.

Adopting them would transform the ERS from an under-delivering pilot into a genuine engine of competition, productivity and financial inclusion. AFIA and its members stand ready to partner with Treasury and ASIC to deliver this outcome.

CONSULTATION QUESTIONS

Question 1: What are the benefits and limitations of the current ERS?

The Enhanced Regulatory Sandbox offers clear improvements over the 2016 version. The 24-month testing window allows proper product iteration and consumer feedback, while deferred AFSL/ACL requirements can save firms \$50,000–\$100,000 in early compliance costs. The broadened scope now includes more credit and non-cash payment activities, and integration with the Innovation Hub signals government support for fintech.

However, uptake remains very low; only ~19 participants since 2020, with fewer than 10 reaching full licensure³, compared with the UK FCA (>195 firms) and Singapore MAS (>70 applications). The exemption-only model creates a serious “unlicensed stigma”: banks, payment providers and insurers routinely refuse to deal with exempt entities, making real-world testing commercially unviable.

³ [ASIC, Enhanced Regulatory Sandbox Users \(accessed 5 Feb 2026\)](#)

The hard \$5 million aggregate exposure cap and \$10,000 retail client limit force businesses out as soon as any meaningful scale is achieved. There is no structured pathway to full licensing, producing a sharp “regulatory cliff” at the end of testing. Overall, the ERS is well-intentioned but “not fit for purpose”. Without fundamental reform it will continue to deliver interesting pilots rather than sustainable, scaled businesses.

Question 2: What outcomes should the ERS aim to achieve, and how should success be measured?

The ERS should aim to serve as an effective bridge that enables innovative firms to test their products safely and, where appropriate, transition into fully licenced, sustainable businesses.

Key desired outcomes include:

- A meaningful number of participants successfully graduating to full AFSL or ACL status and continuing to operate at scale;
- Creation of a low-friction environment in which firms can allocate resources primarily to product development rather than early-stage compliance costs;
- Growth in areas of particular policy interest, such as non-bank credit, embedded finance and AI enabled lending; and
- Positive contribution to competition, consumer access to finance and overall productivity in the financial sector.

To assess whether these outcomes are being achieved, a balanced set of performance indicators is recommended. ASIC could publish these (or similar) metrics annually, with international benchmarking where relevant, following the lead of successful overseas jurisdictions such as the UK FCA – which reports on graduation/progression rates, post-sandbox investment attraction, survival outcomes, and efficiency gains – and Singapore’s MAS, which discloses graduation, full licensing, and operational continuation statistics.⁴

The following framework could be considered:

Metric	Indicator	Rationale
Graduation	Percentage of participants obtaining full licence	Primary measure of the sandbox as an on-ramp
Survival	Percentage still operating 3 years post-exit	Indicator of long-term viability
Economic value	Capital raised by graduates	Reflects market confidence
Efficiency	Time to market compared with standard licensing	Highlights regulatory time savings
Cost savings	Compliance costs saved vs full licence	Shows redirection of capital to innovation

⁴ [Attrey, A., et al. \(2026\). Effectiveness of regulatory sandboxes in financial services: A systematic review](#)

Consumer outcomes	Complaints per 1,000 customers	Ensures safety and fairness relative to incumbents
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ASIC could publish these (or similar)⁵ metrics annually, with international benchmarking where relevant. This would provide transparency and support ongoing refinement of the regime.

Question 3: How should the ERS be amended to accommodate a broader range of innovative firms (e.g. small start-ups, international fintechs or established entities testing new products)?

It is suggested that the ERS be amended with three targeted pathways to make it accessible to the main groups currently under-served:

1. Small start-ups and early-stage Australian firms

Introduce a fast-track self-certification route for firms with revenue below \$5 million or fewer than 20 employees. This could include provisional relaxations on insurance and AFCA membership for the first 6–12 months, replaced by milestone reporting. Sponsored entry through approved industry bodies (e.g. AFIA, FinTech Australia) could also be allowed.

2. International fintechs

Establish a mutual-recognition pathway for firms already accepted in comparable regimes (UK FCA, Singapore MAS, Hong Kong HKMA, Abu Dhabi ADGM). Once verified in their home jurisdiction, they could notify ASIC and receive 12-month access subject only to Australian consumer-protection overlays.

3. Established licensed entities testing new products

Create a simple “Licensed Entity Innovation Testing Exemption” that allows an existing AFSL or ACL holder to test genuinely new products or models inside the ERS without a full licence variation or separate subsidiary.

Cross-cutting measures that would assist all cohorts include:

- Replacing the rigid \$5 million aggregate exposure cap with tiered limits (retaining retail protections while allowing higher thresholds for B2B or wholesale testing).
- Moving from a pure exemption model to a time-limited conditional authorisation that provides regulatory legitimacy from day one.

These changes would broaden participation without lowering consumer safeguards. They draw on features that have increased uptake and graduation rates in the UK, Singapore and Hong Kong.

⁵ [FCA, Annual Report and Accounts 2024–2025](#)

Q4. How can the ERS be amended to provide a more structured pathway to an Australian financial services or credit licence?

It is recommended that the ERS move from a pure exemption model to a conditional licensing model (“License Lite”). Under this approach, qualifying participants would receive a full AFSL or ACL from day one, but with tailored conditions.

This would give the firm an official licence number and place it on the ASIC register, removing the “unlicensed stigma” that currently blocks banking, payment and insurance partnerships.

Graduation would occur through the progressive lifting of conditions as milestones are met (e.g. successful audit, low complaint levels, demonstrated risk controls). There would be no second application, no duplication of evidence, and no regulatory cliff.

Sandbox-generated data, audits and compliance records would be automatically accepted for the removal of conditions. Conditions would be time-bound (e.g. automatically expire after 24 months unless specific milestones are unmet).

Question 5: How should the scope of products and services covered by the ERS be broadened while upholding tech-neutrality?

The current ERS scope is defined by a narrow, prescriptive list of activities drawn directly from the Corporations Act and National Consumer Credit Protection Act. This approach excludes many innovations that deliver the same economic outcomes as permitted products simply because they use different legal or technological structures. Examples include DAOs performing collective investment functions, smart-contract payment initiation, tokenised real-world assets used for credit, and algorithmic claims handling.

To broaden the scope while remaining genuinely technology-neutral, it is recommended that ASIC be empowered to apply functional, outcomes-based definitions for sandbox purposes only. These definitions would focus on the economic substance and risk of the activity rather than the legal wrapper or delivery mechanism.

For example:

- “A service that pools funds from multiple persons for collective investment or financial return”
- “A service that facilitates the transfer of value between parties without requiring the provider to hold a banking licence”
- “A service that assesses, processes or settles insurance claims using automated or novel methods”

Such definitions would automatically include emerging activities such as claims-handling services, payment initiation services, and AI-driven credit scoring or underwriting, while preserving the same consumer-protection obligations and exposure limits regardless of whether the service is delivered by a traditional company, smart contract or AI system.

Question 6: How can the current eligibility criteria be improved to increase participant uptake?

The two subjective tests currently required to enter the ERS (the Innovation Test and the Net Public Benefit Test) are the main source of uncertainty and cost for applicants. They require early-stage firms to make speculative claims about novelty and consumer benefit before they have any real data, often leading to expensive legal advice and a perception that entry depends on regulatory advocacy rather than merit.

It is recommended that these subjective tests be replaced with a short, objective checklist that can be self-certified by the applicant, subject to post-entry audit. Entry would be automatic or near-automatic once the following four criteria are met: the entity is solvent (confirmed by a simple director declaration), it holds adequate professional indemnity insurance, and all directors and key personnel are fit and proper persons under the existing statutory test.

To retain a light-touch filter for genuine novelty, applicants would provide a short self-assessment declaration explaining why the proposed product cannot reasonably be tested under ordinary licensing rules or existing exemptions.

These changes would materially reduce upfront costs and time, and shift ASIC's role from ex-ante gatekeeper to ex-post supervisor of conduct. International experience (UK FCA and Singapore MAS) shows that objective, low-friction entry criteria typically increase applications three to five-fold.⁶

Question 7: How do you perceive ASIC's effectiveness at enabling financial innovation in Australia (e.g. through ASIC's Innovation Hub)? Do you have suggestions for how it could be improved?

ASIC's primary role as an enforcement and consumer-protection regulator can foster a cautious culture that, while appropriate for supervision, sometimes discourages the open disclosure and rapid iteration that effective sandbox testing requires.⁷

The sandbox should represent a genuine opportunity for experimentation and there should be an understanding that some businesses will fail. ASIC's role in facilitating sandbox participation should not be to de-risk every participant to zero risk; some failures should be expected, and in fact encouraged, to ensure there is the appropriate amount of risk undertaken to facilitate innovation.

⁶ [OECD, Regulatory Sandbox Toolkit \(July 2025\)](#)

⁷ [ASIC, Key issues outlook 2026 \(27 Jan 2026\)](#)

Leading jurisdictions explicitly adopt this balanced approach.⁸ The UK FCA operates a formal safe-harbour policy: good-faith self-reported issues during testing are addressed through remediation and guidance rather than enforcement action. Singapore's MAS openly states that "failure is an expected outcome" and still grants failed sandbox alumni continued access to grants, tax incentives and talent visas for their next venture. Both regimes see significantly higher application volumes and graduation rates precisely because founders know that controlled failure carries low reputation or commercial cost.

Question 8: What are the key barriers to financial innovation in Australia? Are there different barriers across specific stages of development, from start-ups to established firms, and do these barriers vary by sector?

Australia has many of the foundations needed for strong fintech growth; advanced data-sharing through the Consumer Data Right, a skilled workforce, and supportive government policy settings. However, several interconnected barriers continue to limit innovation, reduce competition and slow the development of new products and services.

The most commonly cited barriers fall into four broad categories: complex and overlapping regulatory requirements, limited access to growth capital, difficulty obtaining essential infrastructure and partnerships, and structural features of the domestic market that favour incumbents. Regulatory fragmentation across ASIC, APRA, AUSTRAC, ACCC and the forthcoming PSP and DAP regimes creates uncertainty and high compliance costs. Access to banking rails, payment gateways and insurance partnerships is often restricted for firms that are unlicensed or in the sandbox. Capital is harder to raise when regulatory clarity is missing, and the relatively small domestic market can make it difficult to achieve the scale needed to attract further investment.

These barriers manifest differently at each stage of development. Early-stage start-ups frequently cite the subjective ERS entry tests, the cost of proving innovation and net public benefit, and the inability to test with real customers without full licensing. Scale-ups often face the sharpest challenge at the point of ERS exit: the sudden loss of testing relief, duplication of evidence for full licensing, and sudden infrastructure lock-out. Established licensed firms report that varying an existing licence to test new models (embedded finance, AI underwriting, tokenised products) is almost as slow and expensive as a new application, while board risk appetite and legacy systems can further slow internal innovation.

The barriers also vary by sector. In non-bank credit and BNPL, responsible lending obligations and the current \$25,000 credit-contract ceiling in the ERS create practical constraints on product design and testing. Digital assets and tokenisation face ongoing regulatory uncertainty around the DAP framework and custody requirements. Insurtech is constrained by outdated monetary and sum-insured caps. AI and embedded finance encounter uncertainty around algorithmic accountability, explainability and bias testing.

⁸ [World Bank, Global Experiences from Regulatory Sandboxes \(2020\)](#)

These issues are not isolated. They compound across stages and sectors, making it harder for promising ideas to reach sustainable scale. The reforms outlined in earlier responses (conditional licensing, functional scope definitions, tiered monetary limits, objective eligibility criteria and a structured on-ramp) would directly address many of these frictions. A coordinated response across these areas would materially improve the environment for financial innovation in Australia.

Question 9: Are there other enabling factors that should be considered in relation to fintech and innovation in Australia?

Internationally, the most successful jurisdictions have shown that regulatory relief works best when it is automatically paired with complementary support mechanisms. These have included tax exemptions/relief, global investor and talent visas, and co-investment matching or government backed venture funds.⁹

Further consideration could be given to the important role that leading universities in this field, such as the University of Technology Sydney (UTS), can further engage and interact with the sandbox. Innovative initiatives such as competitions, hackathons, and encouraged student participation or aligned courses, could also improve visibility of the sandbox.

Question 10: What role should the Government play in supporting financial innovation in Australia? What role, if any, should other financial sector regulators play in supporting financial innovation?

The Government has an essential leadership role to play beyond regulation alone. It should act as the coordinator and international champion to create the conditions in which fintech can scale successfully.

Specific contributions could include:

- Enacting the legislative changes needed for conditional licensing, functional definitions in the sandbox, and clear transitional pathways.
- Expanding the Global Talent Visa stream for fintech specialists, accelerating national digital identity and real-time payments infrastructure, and leading by example through government procurement of innovative solutions.
- Pursuing mutual recognition agreements with trusted regimes (UK FCA, Singapore MAS, Hong Kong HKMA) and actively promoting Australia as a fintech destination.

⁹ [MAS, Sandbox Plus](#)

Question 11: Based on your observations and perspective, how does Australia’s ERS compare to global best practice or other comparable jurisdictions?

Australia’s Enhanced Regulatory Sandbox is a well-intentioned regime that has improved on the original 2016 model, but it now lags behind the leading international sandboxes on most key performance measures.

The UK FCA, Singapore MAS, Hong Kong HKMA/SFC and Abu Dhabi FSRA sandboxes all treat the sandbox as a genuine on-ramp rather than a temporary exemption.^{9, 10, 11, 12} They issue participants with a restricted or conditional licence from day one, assign a dedicated case officer, allow flexible scaling limits, and provide an automatic, merit-based graduation pathway. As a result, they achieve participation levels and transition-to-licence rates that are several times higher than Australia’s.

In contrast, the Australian ERS remains an exemption-only model. Firms stay unlicensed throughout testing, which creates the well-documented “unlicensed stigma” that blocks access to banking rails, payment gateways and insurance partnerships. The hard \$5 million aggregate exposure cap forces premature exits as soon as any meaningful scale is reached. There is no dedicated case officer, no automatic data portability, and no structured on-ramp. Participants must restart the full licensing process from scratch at the end of the 24-month period.

These differences are reflected in outcomes. The UK has accepted more than 195 firms since 2016 with an approximate 92 per cent transition rate.¹² Singapore has processed over 70 applications with very high graduation rates.¹³ Australia has had only around 19 participants since 2020 and a transition rate below 10 per cent³.

The Review therefore has a clear opportunity to close this gap. Adopting the core architectural features of the leading regimes — conditional licensing from day one, dedicated case officers, flexible scaling limits, and an automatic graduation pathway — would bring Australia into line with global best practice within a single legislative cycle. These changes are proportionate, have been tested for nearly a decade overseas, and would materially increase both uptake and the number of sustainable, licensed fintech businesses operating in Australia.

¹⁰ [HKMA, Fintech Supervisory Sandbox \(FSS\)](#)

¹¹ [ADGM, RegLab](#)

¹² [FCA, Regulatory Sandbox](#)

¹³ [MAS, Parliamentary Reply on Regulatory Sandboxes \(14 Oct 2025\)](#)

**Question 12: What lessons from overseas sandbox models could be adapted to strengthen the ERS?
Are there specific sandboxes this Review should consider?**

The most successful overseas sandboxes share a common approach: they treat the sandbox as a genuine on-ramp to full regulation rather than a temporary exemption. Five lessons stand out as directly transferable to Australia.

First, leading regimes grant participants regulatory status from day one. The UK FCA, Singapore MAS, Hong Kong HKMA/SFC and Abu Dhabi FSRA all issue a restricted or conditional licence on entry.^{10,11} This removes the “unlicensed stigma” that currently blocks Australian firms from essential infrastructure and partnerships.

Second, dedicated human support is provided throughout testing. Every participant in the UK and Singapore sandboxes is assigned a named case officer with fintech experience who offers real-time guidance and ensures testing data flows directly into the licensing process.¹² This is consistently identified by alumni as the single most valuable feature.

Third, graduation is automatic and progressive. Restrictions are lifted incrementally as milestones are met, with no second application or regulatory cliff. All sandbox data, audits and compliance records are portable.¹³

Fourth, regulatory relief is integrated with broader economic support. Singapore’s Sandbox Plus automatically unlocks grants, talent visas and export assistance.⁹ The UK embeds its sandbox inside a wider fintech growth strategy. Regulatory relief alone is not enough; it must be paired with capital and talent de-risking.¹⁴

Fifth, specialised tracks accelerate testing in high-priority areas. The UK’s 2025 Supercharged Sandbox, Singapore’s Sandbox Express and Hong Kong’s GenA.I. Sandbox have shown that targeted cohorts deliver faster cycles and higher transition rates in specific domains such as AI, payments and tokenisation.

The Review should examine in detail the UK FCA Regulatory Sandbox (including the 2025 Supercharged Sandbox), Singapore’s MAS FinTech Regulatory Sandbox (Sandbox Express and Sandbox Plus), Hong Kong’s HKMA Fintech Supervisory Sandbox (FSS 3.0/3.1 and GenA.I. Sandbox), and the Global Financial Innovation Network for cross-border lessons.

¹⁴ [FCA, Annual Report and Accounts 2024–2025 \(UK fintech strategy\)](#)

Question 13: Should sector or technology-specific regulatory sandboxes be established in Australia? What types of sandboxes should be prioritised?

A principle and function-based approach would future-proof the ERS far better than technology-specific sandboxes. Regulating the economic substance and risk of an activity — rather than the legal wrapper or delivery mechanism — ensures the same obligations apply whether the service is provided by a company, a smart contract, an AI system, or any future structure. Technology-specific sandboxes risk becoming redundant as soon as the technology evolves and can encourage regulatory arbitrage.

Temporary thematic cohorts offer a practical hybrid solution. ASIC could launch 1–2 new cohorts each year, defined by economic function or risk profile rather than technology labels, each with specialist case officers and published eligibility checklists. High-priority functional cohorts could include:

- Activities that pool funds from multiple persons for collective investment or financial return;
- Services that facilitate the transfer of value without requiring a banking licence;
- Services that assess, process or settle insurance claims using automated or novel methods; or
- Services that assess credit risk or make lending decisions using algorithmic or novel methods.

To encourage the appropriate level of risk-taking, greater use could be made of self-certification or independent assessors for entry into these cohorts, combined with post-entry audit and safe-harbour protections. This would maintain tech-neutrality while allowing genuine experimentation.

This model would significantly broaden participation, remain adaptable over time, and align with the functional definitions proposed in Question 5.

Question 14: Are there any other relevant considerations not covered in this consultation that you believe this Review should explore?

The legislation establishing the Enhanced Regulatory Sandbox required a review to be conducted 12 months after the regulations commenced on 1 September 2020. While the delay is understandable given the COVID-19 period, this review is now both timely and necessary.

For the sandbox to remain competitive and effective over time, consideration should be given to a more iterative review process. This could include regular formal evaluations (for example every three years) with structured input from industry, past participants, successful graduates and independent advisors.

Greater transparency would also assist. Publishing anonymised insights on what is working well, where friction points remain, and where improvements are needed would enable faster, evidence-based adjustments and help ensure the regime stays at the cutting edge of innovation.

CLOSING COMMENTS

AFIA is appreciative for the opportunity to contribute. The recommendations in this submission are practical, proportionate, and grounded in the proven experience of the world's leading sandboxes. Implementing them would materially increase participation, graduation rates, and long-term firm survival, while preserving consumer protections and regulatory integrity.

Should you wish to discuss our submission or require additional information, please contact myself or Ben Jordan, Senior Policy Advisor, at Ben.Jordan@afia.asn.au or 0470 595 707.

Yours sincerely



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