



BANK OF PAPUA NEW GUINEA

BPNG Regulatory Sandbox

Launch Notification

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Introduction

The rapid emergence of FinTech is creating new possibilities to advance financial inclusion by leveraging innovative technologies to overcome barriers that have excluded many in PNG from accessing and participating in financial services. It is within this context that the Bank of Papua New Guinea (“BPNG”) is actively encouraging the experimentation and development of new ideas that can drive financial inclusion and a stronger national financial system.

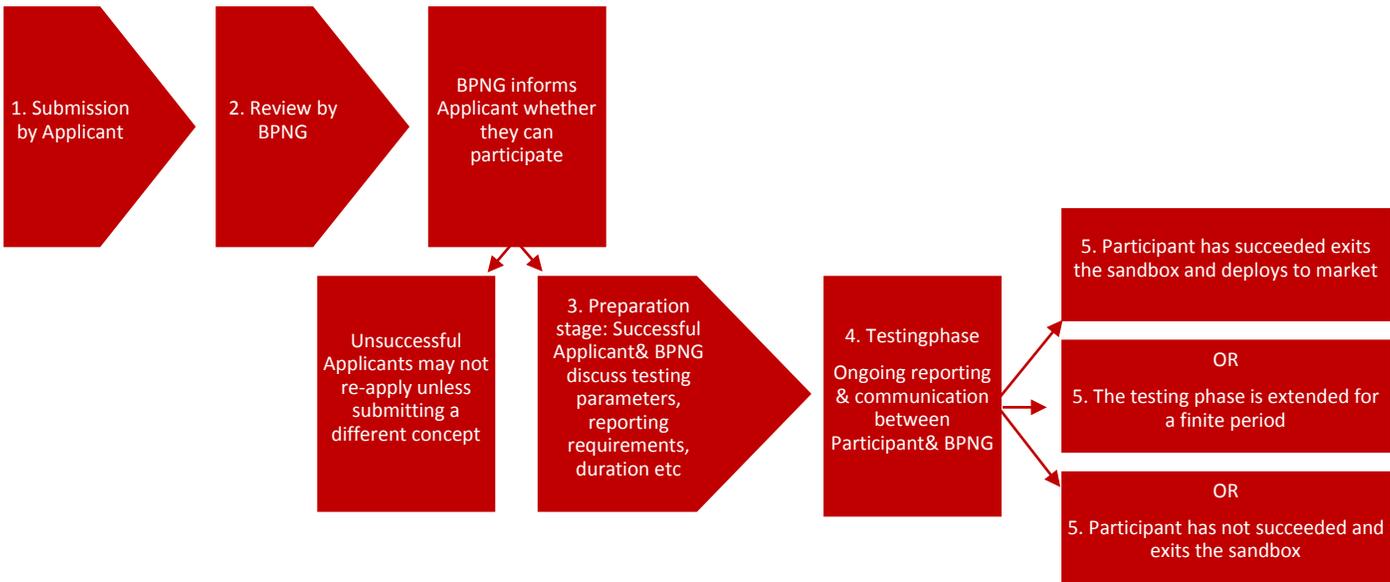
Accordingly, BPNG has launched the BPNG Regulatory Sandbox (“Sandbox”). The Sandbox will enable new ideas to be tested and developed for commercial deployment while ensuring that any potential risks to the market and to consumers are identified and resolved at an early stage. The Sandbox process will therefore create a more efficient way to test and deploy new ideas while also helping both Participants and the Bank to better understand whether their proposed innovation complies with legal and regulatory requirements, or whether those requirements may need to be adjusted so as to enable such opportunities while also ensuring certainty before an innovative idea is fully taken into the market.

The Sandbox will be open to both established financial institutions as well as FinTech players and those from non-financial sectors from within PNG and overseas to test innovative products or services that meet certain established criteria.

The salient features of the Sandbox are set out in this document, including an overview of the process from entry to exit, eligibility and entry criteria, the safeguards required to ensure stability and soundness of the financial system, as well as the expected roles of both Sandbox participants and of BPNG.

The Sandbox Process

An overview of the Sandbox process is shown here. A description of each phase follows.



Phase 1: Submission by Applicant

As per criteria and guidelines set out within this document, submissions are made by an Applicant (this could be an individual, group or corporate entity) to BPNG. Prospective Applicants are advised to read the terms of reference, included in this document.

Applicants should make their submission either online or in person to the BPNG Sandbox Committee using document 'BPNG Regulatory Sandbox Application Form' which is available at the BPNG website.

All Applicant proposals, ideas and submissions will be formally referred to as the 'solution/concept' for simplicity.

Phase 2: Review by BPNG and Informing of Outcome

Submissions are reviewed by the Sandbox Committee against the principles and evaluation criteria set out within this document. While BPNG will endeavor to review each submission within two weeks of submission, Applicant advisement may take longer if there is a high volume of submissions.

If eligibility criteria are met, the Applicant will be contacted by BPNG to set up a formal interview and discuss relevant next steps for entry into the Sandbox based upon the type of solution/ concept being proposed.

BPNG will also inform Applicants if they have been unsuccessful, or if the Applicant's solution/concept has merit but cannot enter the Sandbox process due to extraordinary constraints such as full capacity.

Phase 3: Preparation and Acceptance Documentation

Successful Applicants will then liaise with BPNG over a period of time to agree upon the specifics of the approach and Sandbox entry, including target milestones, timeline, points of contact, and testing parameters, including scale and key performance metrics, as well as agreed reporting and monitoring arrangements (see below), and how success will be clearly identified and established.

Successful Applicants will be required to submit a formal proposal incorporating the above to BPNG for BPNG's review and approval. The proposal should also set out how the proposed technology and internal control procedures are reliable and fit for purpose.

Once agreed upon by both the Successful Applicant and BPNG, BPNG will issue a letter of acceptance to be signed by both BPNG and the Successful Applicant. This letter will document the terms and conditions under which the Applicant may enter the Sandbox.

It will be a requirement of all Sandbox Participants that they commit to commercial establishment of the solution in PNG within 9-12 months of successful graduation from the Sandbox.

Phase 4: Testing

All Sandbox testing periods will be time-bound, as agreed upon during the preparation stage and on a case-by-case basis. Sandbox testing is typically 9 months, although if BPNG agrees, a Participant may be able to exit the Sandbox sooner, i.e. in the instance that support for a solution/concept is overwhelmingly compelling. Longer testing durations are also possible and will be considered on a case-by-case basis.

Once testing begins, it must be undertaken within strict test parameters, measures and safeguards as agreed with BPNG (see consumer protection guidelines below). Regular reporting of tests and progress continues throughout the testing stage - sample default testing standards.

At the conclusion of the testing stage, a formal report on outcomes and proposed way ahead should be presented to BPNG.

Phase 5: Extending or Exiting the Sandbox

If both BPNG and the Sandbox Participant agree that the intended test outcomes were achieved, BPNG will then address next steps for market participation such as initiating necessary regulatory amendments and/ or exemptions.

BPNG may consider using tools such as “no action” or “comfort letters” as are often used by other jurisdictions. The objective is to provide additional comfort to the Sandbox entity that they will not be subject to disciplinary action for an unexpected regulatory breach – however, this tool will be limited to specific circumstances, i.e. where the state of the broader regulatory landscape is recognized as requiring modification, for instance to respond to new technologies.

Upon successful graduation from the Sandbox, the Applicant is contractually required to establish commercial deployment of the solution in PNG within 9-12 months.

If the solution is judged to have been unsuccessful, the Participant will not be permitted to undertake any further testing but may re-apply to the Sandbox in future, as advised by BPNG (and will be subject to further BPNG review).

BPNG will retain discretion as to the granting of extensions if a Sandbox Applicant can demonstrate a strong case as to why further testing is necessary. In this instance, a Participant should be required to demonstrate how an extension can enable them to meet key milestones or KPIs to reach a conclusion. Extensions must be for a finite period (to be determined by BPNG on a case-by-case basis but will likely be for a period of 1-3 months).

There may be circumstances where the business model or technology tested requires an exemption or regulatory adjustment from another regulatory body. Typically, this issue should have been captured in the entry documentation processes and should form a part of the initial agreement between BPNG and the Sandbox entrant. Such additional requirements will then be expected to be taken up as part of the testing and development process or, if agreed, upon exiting of the Sandbox.

In the event, that such requirements become apparent during the Sandbox period, the Participant will be encouraged to inform the respective regulatory body of their work. BPNG will provide support within the Sandbox process, and will be consultative as required, but cannot commit to outcomes from other regulatory organisations not brought into the process prior to commencement of the Sandbox agreement.

Applications for Previously Sandboxed Innovations from other Jurisdictions

Prospective Applicants who have successfully tested a solution/concept through a Sandbox in another jurisdiction and who can demonstrate the potential of the solution/concept and benefit to PNG may be considered for a fast-tracked Sandbox process. This measure is to recognise that such Applicants have already satisfied the criteria to participate in another Sandbox and have exited successfully which will be viewed favourably.

Applicants who fall into this category should inform BPNG about their previous Sandbox experience when submitting their application and will be considered for a fast-tracked process on a case-by-case basis.

This will also help to establish the foundation for a Pacific-wide arrangement whereby a successful exit from the BPNG Sandbox could qualify as a solution for fast-tracking into another Pacific market, helping to nurture a thriving environment for innovation in the region.

Applying to the Sandbox

Applicants should study the below guidelines as well as refer to the document 'BPNG Regulatory Sandbox Instructions & Application Form'.

Eligibility

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

- Authorised financial institutions already active in PNG, already subject to regulatory review by BPNG
- 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
- The Sandbox will welcome participation from non-financial sector players developing solutions that can accelerate inclusion, in recognition of the cross-cutting benefits of financial services with industries such as technology, telecommunications and healthcare
- 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
- Overseas FinTech developers, such as start-ups and other entities domiciled outside PNG that have that have developed or are developing solutions/concepts outside traditional business models that may represent new possibilities.

Entry Criteria and Principles

The main criterion that must be demonstrated by prospective Applicants is that their solution/ concept will bring a potential social and/or economic benefit for PNG, with a preference for solutions/ concepts that play a role in accelerating financial inclusion.

Examples might include:

- A compelling and interoperable digital ID solution that is user-friendly, scalable and affordable, and responds to the specific characteristics of the PNG context;
- Solutions that can affordably and pragmatically reach and enable remote and rural areas;
- New, affordable products or services that address the needs of specific excluded and underserved customer communities or segments;
- Ways to address compliance and risk management barriers that currently prevent participation in the micro-finance and/or mainstream banking ecosystem (i.e. lack of ID/digital ID prohibits customer due diligence processes).

BPNG welcomes submissions from a range of prospective Applicants. Instead of requiring adherence to strict criteria, which may dissuade some from considering Sandbox participation, BPNG invites prospective Applicants to demonstrate in their submission how their solution/ concept addresses the following principles:

- **Adequate Research:** Applicants must be able to demonstrate that they have undertaken sufficient research and invested appropriate resources in the development of the new solution to date. Applicants are expected to submit a business plan or business model which sets out relevant detail. This should include research to verify that their concept has potential for commercialisation.
- **Consumer Protection:** Applicants must be able to demonstrate they are able to put in place appropriate safeguards to protect customers during the testing phase. Further detail is set out under ‘Consumer Protection’, below.
- **Customer Benefit:** Applicants must be able to explain how their solution/ concept offers identifiable benefits to customers, directly and/or indirectly, for example, customer research showing broader access, lower costs, or improved customer experience, efficiency, or quality of product. Benefits need to be supported with quantifiable estimates and performance metrics that can be demonstrated as part of the Sandbox process.
- **Local Deployment Capability and Intent:** Successful Sandbox graduates are required to deploy their solution/ concept in the PNG market within 12 months of exiting the Sandbox. Applicants should detail their ability to deploy the solution/concept. Applicants may consider setting out an iterative approach to deployment, where their solution/ concept is refined based on prototyping, testing and analysing to ensure that it is appropriate and realistic for PNG.

- **Exit Strategy:** Further to demonstrating local deployment capability and intent, Applicants should be able to articulate a clear and detailed exit strategy (including plans for scale-up and deployment). This may be captured in a business plan presented to BPNG. Participants are not expected to be in the Sandbox for periods extending beyond 1 year without providing due reason and applying for an extension.
- **Innovation:** Applicants should be able to show that their proposed solution/ concept is truly innovative or is significantly different from existing offerings, as evidenced by market research showing that there are few or no comparable offerings in the local market. Where a similar solution/ concept does exist in another market, the Applicant may consider submitting a comparison of the key features of the technology or operating methodology of their solution/ concept to demonstrate how their approach does indeed create new social and/or economic opportunities for PNG. Measurable performance indicators for clear assessment are highly encouraged.
- **Regulations and Legislation:** Applicants should ensure they understand the regulations and legislation relating to their solution as of today and be able to specify which legal and regulatory requirements, as currently prescribed, would need to be relaxed by BPNG for the duration of the Sandbox. Applicants should note that if their solution/ concept already complies with existing regulations, it does not need to enter the Sandbox and will not be considered.
- **Reporting Requirements:** Applicants should set out how they propose to report their progress to BPNG throughout the Sandbox process. Further detail is set out under ‘The Role of Sandbox Participants’, below. A clear reporting schedule and timeline is required over the course of the Sandbox participation. Applicants are expected to clearly indicate the key performance indicator metrics that they will report against.
- **Risk Management:** Applicants should set out any potential risks along with appropriate mitigation plans.
- **Testing Plans:** Applicants will be required to set out their testing plans including: envisioned timeline and key milestones, measures for testing success, testing parameters (such as duration, customer/transaction limit, where applicable) and customer segments.

Applicants should refer to the ‘BPNG Sandbox Application Instructions & Application Form’ for full details of criteria and information required as part of a submission. There is no fee to submit an application.

Roles & Responsibilities

All Applicants should read the following roles and responsibility statements, in addition to the information set out in the remainder of this document. By submitting an application, you are deemed to have read and understood these roles and responsibilities and all other requirements and expectations set out in this document.

The Role of BPNG

BPNG will operate the Sandbox in its capacity as the regulator of PNG's financial sector.

BPNG will receive submissions for entry to the Sandbox and evaluate against the criteria and principles set out above.

BPNG will make available the document 'BPNG Sandbox Application Form' on its website. This document contains detailed Applicant instructions and an Applicant self-check assessment form, to guide the process.

BPNG reserves the right to ask for additional information about a Sandbox submission if the supporting research submitted is deemed insufficient.

BPNG will have ultimate discretion over which solutions are selected.

After reviewing the proposed solution/concept to be tested, BPNG will determine which specific legal and regulatory requirements may be relaxed during the Sandbox process, if such a relaxation or exemption is required.

BPNG will have ultimate discretion on the number of Participants in its Sandbox at any given time to ensure that BPNG can provide adequate market oversight, and that Participants can benefit from the necessary level of support from BPNG. If BPNG is unable to accommodate a request for participation but deems the solution/concept to have significant merit, the Applicant will be advised, and a suggested postponed start date will be proposed.

BPNG reserves the right to accept multiple Applicants offering the same or similar solution.

BPNG will approve key performance indicators that will be used to measure progress of the testing process as well as the test parameters for each successful application, including duration of each phase.

BPNG will receive and review regular progress reports from each Sandbox Participant.

BPNG will monitor the Sandbox Participant's compliance with existing regulations as well as those that have been temporarily relaxed.

BPNG reserves the right to modify the Sandbox process if the need arises, for instance to enhance consumer protection or in case BPNG determines that the Participant cannot fulfil requirements or that the solution/concept is unlikely to be achieved.

If BPNG terminates the Sandbox period for a Participant prior to the expiry of the approved testing period, the Applicant has the right to appeal that decision to BPNG; the BPNG Appeals Committee will examine all such cases.

BPNG reserves the right to publish relevant summary information about successful Applicants on its website or any other public information channel.

BPNG may receive volunteer customer complaints about the Applicant's solution, however, BPNG will not provide any formal redress mechanism, neither will it interfere in any legal action.

BPNG will not provide office space or office materials for Applicants or Participants at any point during the process, other than for formal review, presentation or testing requirements, or unless both parties come to a specific arrangement.

The Role of Sandbox Applicants

The Sandbox Applicant will honestly and fully complete their application and be responsible for submitting their application to BPNG.

If more than one party is jointly involved in testing the solution, they may apply jointly to the Sandbox, or with one entity/individual taking a leadership role.

All Applicants must identify a main contact point through which BPNG will communicate with the applying entity. Applicants may use an alias email address (which can be viewed by multiple individuals) but nonetheless designate one key contact person.

The Applicant must address the criteria and guidelines set out by BPNG, including testing plans and parameters (described under 'principles').

The Applicant will respond to any requests from BPNG for further information during the evaluation stage.

Applicants are expected to familiarise themselves with relevant regulations, policies and/or directives issued by BPNG including but not limited to:

- Banks and Financial Institutions Act 2000 and Prudential Standard BPS253: Customer Due Diligence Standards (Issued under Section 27 of The Banks and Financial Institutions Act 2000)
- Anti-Money Laundering and Counter Terrorist Financing Act 2015
- National Payments System Act 2013 (No. 10 of 2013, certified on 19 September 2013)
- Criminal Code (Money Laundering and Terrorist Financing) (Amendment) Act 2015 – certified in 2016
- All regulations are available online here: <http://www.parliament.gov.pg/bills-and-legislation> and can be downloaded by searching in the respective year.

The Intellectual Property rights of the technology or service developed by the Applicant before or during the Sandbox period belongs to the Applicant; Applicants must not violate other people's/organisation's intellectual property rights.

Any disputes between the Applicant and their volunteer customers or other companies during the Sandbox

period should be covered within a bilateral contract or understanding between the two parties prior to testing beginning.

All Applicants are required to furnish their own office materials and will not have access to BPNG's offices, other than for formal review, presentation or testing requirements, or unless both parties come to a specific arrangement.

The Role of Sandbox Participants

If accepted into the Sandbox, the Participant will agree to respond to requests for further information by BPNG as deemed relevant to the process by BPNG.

Furthermore, Participants will agree to adhere to the reporting and communication plans agreed with BPNG during the planning stage.

Further to the monitoring and reporting requirements (set out below) should the Participant become aware of any issue or potential risk, the Participant should report this to BPNG immediately rather than waiting to share the update at the next designated phase of reporting to ensure risks are quarantined before becoming a threat to financial system stability and soundness.

Participants must submit regular progress reports to BPNG (at interim periods determined during the planning stage), signed by senior management, according to the pre-designed template provided by BPNG; such reports should also include operational incident reports and mitigation steps implemented.

Participants are responsible for sourcing customers themselves for the purposes of testing their products. The type of customer should be appropriate for the type of innovation and also the type of risks customers might be exposed to.

Upon successful experimentation and on exiting the Sandbox, the Sandbox entity must fully comply with the relevant legal and regulatory requirements.

Upon successful experimentation and on exiting the Sandbox, the product or service must be deployed in PNG within one year from the date of exiting the Sandbox.

Ensure consumer protection (see below) – specifically, Participants must respect the related BPNG regulations about customer data confidentiality; in particular, any volunteer customer data used for regulatory testing must not be used for any other purpose during or after the Sandbox period.

In case of early termination of the Sandbox period by BPNG or by the Participant, the Participant shall fulfil its existing obligations towards its volunteer customers and/or other parties.

All Participants are required to furnish their own office materials and should not expect to have access to BPNG's offices, other than for formal review, presentation or testing requirements, or unless both parties come to a specific arrangement.

Consumer Protection

Those Participants conducting testing must ensure that appropriate customer safeguards are in place.

Customer safeguards will be mutually agreed with BPNG on a case-by-case basis but should draw from the following principles:

- As with clinical trials, Sandbox Participants should be restricted to testing their solutions on consumers who have explicitly given their written permission and consent to be included in any testing of new products and services; in this scenario consumers must be notified of the potential risks they may incur as a Participant of the testing and what degrees of compensation, if any, they may have available to them
- Ensuring consumers have the same rights as any other consumer under current legislation such as the PNG Consumer Affairs Council Act 1993, an Act intended to provide for the regulation of goods and services to consumers and the protection of consumer interests by establishing a Consumer Affairs Council and making provision for its composition, functions and powers and for related purposes
- Ensuring Sandbox Participants adequately disclose the risks to participating customers and that they are aware and fully understand any risks stemming from the testing stage

Reporting and Monitoring Requirements

Sandbox Participants will be required to provide regular reports to BPNG (the frequency of which shall be approved by BPNG during the preparation phase but should be submitted by the Applicant as part of the Applicant's initial submission). Interim reports should contain details including, but not limited to, the following:

- Issues and key resolution actions
- Progress against key milestones – actual versus anticipated
- Progress against key performance indicator metrics – actual versus anticipated
- Operational incidents including new risks and actions taken/to be taken
- Known breaches of original agreement with Regulator

Final reports should be submitted within an agreed set time (to be determined during the preparation stage) and should contain details including:

- A full account of all incidents and resolution of customer complaints
- Key performance indicators against agreed measures for success or failure of the test
- Key testing outcomes
- Test conclusions/findings
- In the case of test failure, lessons learned
- In case of success, plans for commercialisation