

# Call for Input: Cross-Sector Sandbox

May 2019

## How to respond

We are asking for comments on this report by **30th August 2019**.

**You can send them to us in writing to:**

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# 1 Introduction

The financial landscape is changing. Technologies such as Artificial Intelligence (AI) and Distributed Ledger Technology (DLT) are affecting the way consumers, firms and regulators interact. Access to, and usage of, data is fundamental, underpinning both products and services. These changes prompt us to think about how we respond as a regulator to ensure financial markets can benefit from such innovation, while advancing our statutory objectives of market integrity, consumer protection and competition.

These changes are not unique to financial services, and are happening in many sectors from utilities, to transport and healthcare. We are also aware of the increasing fluidity with which products and services are being offered across different sectors through such new technology. Markets and corporations are often global, DLT is supporting new decentralised business models, and access to large, relevant data sets is critical in designing and fine-tuning products.

Regulators in different sectors are faced with similar challenges and common questions arise: does the use of the cloud and public data sets increase the potential for consumer harm to spread between traditional economic sectors? Are firms able to deliver innovative products and services to markets with sufficient regulatory certainty? Are there hidden barriers to entry that regulators could address through closer working and more effective collaboration, so both regulators and innovative firms have the information and tools needed to support market entry?

## Study

In October 2018, the FCA successfully bid for funding from the Department for Business, Energy and Industrial Strategy's (BEIS) Regulators' Pioneer Fund<sup>1</sup> to conduct a 6-month study into how a cross-sector sandbox involving multiple regulatory agencies could be established. We see this as a potential mechanism for regulators to collaborate to address some of the issues arising as a result of emerging technologies. This would build on pre-existing collaboration through Memorandums of Understanding (MoUs) and fora such as the UK Regulators Network (UKRN) and the Regulators Innovation Network (RIN).

To conduct the study, we engaged with a range of regulators and a small group of firms to get an understanding of the wider innovation landscape and whether there could be a need for a cross-sectoral sandbox. This engagement included hosting bilateral meetings with 7 other regulators<sup>2</sup> to discuss the concept and sending follow-up surveys to get an understanding of their approaches to innovation. We also engaged with regulators more broadly by presenting the concept at fora such as the UKRN Annual Meeting and the RIN.

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1 The FCA received a grant from the £10m Regulators' Pioneer Fund launched by The Department for Business, Energy and Industrial Strategy (BEIS) and administered by Innovate UK. The fund enables UK regulators to develop innovation-enabling approaches to emerging technologies and unlock the long-term economic opportunities identified in the government's modern Industrial Strategy. For more information see: <https://www.gov.uk/government/news/projects-lay-the-groundwork-for-a-future-of-robotlawyers-and-flying-cars>

2 We engaged with regulators who we identified as most likely to be relevant and able to contribute to our work within the short timeframe available. These included; Civil Aviation Authority (CAA), Gambling Commission (GC), Information Commissioner's Office (ICO), Ofcom, Ofgem, Ofwat, Prudential Regulation Authority (PRA). However, we were, and are, happy to discuss the concept with any regulator or stakeholder which is why we are issuing this Call for Input.

From this initial engagement, it is clear that while the concept of a cross-sector sandbox has some promise, further work is needed to better understand the scale of interest and need before an operating model or design could be created. This call for input gives an overview of why we conducted this work, highlights what a sandbox is and, using case studies, explains the opportunities and challenges a cross-sectoral sandbox could pose for firms and regulators.

### **Who should read this paper**

Given the cross-sectorial nature of this proposal, this Call for Input will be of interest to a very wide range of firms, regulators and consumers, including:

- FCA regulated firms that (intend to) use emerging technologies to facilitate business models spanning at least one other regulator
- Any firms that are subject to a UK regulatory authority and consider diversifying their business model into the financial services sector
- Governmental bodies, policy makers and Think Tanks
- Regulators and other authoritative bodies
- Consumers and consumer organisations

### **Next steps**

We are inviting views on this concept **until 30 August 2019** and, to help with the discussion, have put some questions on page 16. As a part of this call for input, we may also meet (or hold telephone calls) with stakeholders.

If you are interested in meeting with us please write to the address given on page 2 or email [CrossSectorSandbox@fca.org.uk](mailto:CrossSectorSandbox@fca.org.uk). Following the closure of the Call for Input, we will analyse the responses and decide on whether it is most appropriate for us to continue the discussion or whether we should hand over our findings to BEIS.

## 2 Cross-sectoral sandbox concept

Technology is changing business models across all markets. We are increasingly seeing firms that want to test products and services based on technologies such as AI and DLT, that are also being explored in other markets. Similarly, the emergence of big data is also changing business models with firms in most markets increasingly using big data sets. These changes mean that, in addition to the traditional ways of working, regulators are increasingly being challenged to explore what the emergence of these technologies and the impact of big data may mean for their sector.

Big data also brings its own challenges as there are concerns about the extent of competition within the Big Tech firms,<sup>3</sup> chiefly those with significant market power in the fields of data analytics, data storage and/or those which possess significant proprietary data assets. If all sectors are using the same service providers and data are increasingly being used in all sectors, then there is a potential for harm across all sectors. This highlights the need for regulators to be aware of emerging trends and approaches to innovation in other sectors.

It is not just emerging technologies and new concepts that need to be tested. We are also seeing established firms in one regulated sector seeking to diversify and offer services in another regulated sector. There may be many reasons for this, including the cross-cutting nature of the business model, the fact the business wishes to exploit a competitive advantage in a new arena, or that a technology is also well-suited to applications in other sectors.

Ensuring innovation can flourish in a way that protects consumers and users of markets, and promotes competition is a desire shared by multiple regulators; particularly as many regulators have some regard to competition in their role. However, regulators have different specific remits and tools available to them, and approach innovation in different ways.

We feel these developments suggest we and other regulators should be considering innovative ways to work together more effectively. Regulators do already routinely work together. At the FCA, for instance we have bilateral MoUs with several regulators including financial regulators, the Advertising Standard Agency (ASA), Competition and Markets Authority (CMA) and Information Commissioners Office (ICO). These MoU's set out the frameworks and arrangements for co-operation and allow us to share relevant information in specific circumstances. Additionally, there are fora such as the UKRN and the RIN for regulators to discuss multilaterally some of the cross-cutting issues – however, there is currently no practical mechanism in the UK for multiple regulators to collaborate to actively explore these challenges in conjunction with industry. Nor is there a framework in place to help firms navigate the different requirements of regulators.

This is the starting point for the concept of a cross-sectoral sandbox - a single-point-of-entry sandbox for firms to test innovative propositions with multiple UK regulators, in a controlled environment. This could allow regulators to work together in a practical

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<sup>3</sup> HM Treasury, "Tech giants do not face enough competition – reducing consumer choice and innovation," <https://www.gov.uk/government/news/tech-giants-do-not-face-enough-competition-reducing-consumer-choice-and-innovation>

way to gain a shared understanding of new technologies, and provide a line of sight on emerging trends in different markets. As well as it being a potentially effective way for regulators to collaborate, such a sandbox might also allow firms to more easily engage with relevant regulators to improve confidence that their concepts are compliant in different regulatory contexts. This could involve live testing of new products in a controlled environment with simultaneous oversight from multiple regulators.

### **Operating model**

From speaking with other regulators as part of this study, we have seen that most regulators rely on private sector investment and competition to stimulate innovation in their markets. Most regulators have however recently established innovation units and some are expanding the capabilities of these through the Regulators Pioneer Fund. Many regulators also have competition remits and objectives, and even where there is not a competition objective they often still have to have regard to it. A framework which fosters innovation and allows new, innovative initiatives to enter the market, has the potential to support this objective.

We envision a cross-sectoral sandbox that could ultimately provide a mechanism for firms to test products, services or ideas across multiple regulators. It would also create a forum for regulators to share practical understandings and lessons learned from overseeing emerging technologies and innovative business models.

While regulators may be able to put a framework in place for a future cross-sectoral sandbox, any testing framework would need to have regard to the different legislation that underpins each sector, for example an assessment of the compatibility of different regulators' regimes and remits. This would also need to consider the types of tools available to regulators in other sectors to help facilitate testing. We have not done that assessment as part of this early-stage study, so we cannot propose a potential operating model at this stage.

A future operating model would also need to consider the different objectives of each regulator; some are safety critical regulators, others regulate (physical) critical infrastructure, and others oversee intangible services and market integrity.

## 3 The FCA's Sandbox – a use case

### FCA's regulatory sandbox

The FCA recognises that innovation can be a positive driving force for effective competition and therefore carries out a range of work to enable innovation in financial services markets. This includes a direct support function, a dedicated helpline, an advice unit and a regulatory sandbox (the sandbox); these services collectively comprise our Innovate function.

The sandbox allows firms to test innovative products, services and business models in a live market environment, on a small scale, ensuring that appropriate safeguards are in place to protect test participants. It was established following a regulatory sandbox [feasibility report](#) published in November 2015, to support the FCA's objective of promoting effective competition in the interests of consumers, and has evolved and grown significantly since then. We recently announced the firms who have been accepted into our [fifth cohort](#) of the sandbox. Since 2016 we have gained significant valuable experience in operating our sandbox and promoting competition in the interests of financial market consumers.

In the sandbox, we provide tools to firms to enable tests to take place. These tools include:

- Restricted authorisation - to conduct a regulated activity in the UK, a firm must be authorised or registered by us, unless certain exemptions apply. We have a tailored authorisation process for firms accepted into the sandbox. Any authorisation or registration will be restricted to allow firms to test only their ideas as agreed with us.
- Individual guidance - we can explain how we would interpret the requirements in the context of a specific test.
- Informal steers - we can provide views on the potential regulatory implications of an innovative product or business model that is at an early stage of development.
- Waivers - we may be able to waive or modify an unduly burdensome rule, for a test. However, we are not able to waive national or international law.
- No enforcement action letters - for cases where we cannot issue individual guidance or waivers, but believe there is justification in light of the particular circumstances and characteristics of the sandbox test, to issue 'no enforcement action' letters. This means that if the firm deals with us openly, keeps to the agreed testing parameters and treats customers fairly, we accept that unexpected issues may arise but would not expect to take disciplinary action.

We closely oversee tests and set specific safeguards for consumers. Sandbox tests are expected to have a clear objective (e.g. reducing costs to consumers) and to be conducted on a small scale. Firms test their innovations for a limited duration (up to 6 months) with a limited number of customers.

The response to the FCA sandbox has been largely positive. The [FCA sandbox lessons learned report](#), which we published in October 2017 highlights some of the benefits achieved through the sandbox from a financial services perspective. These benefits include:

- reducing time and cost of getting innovative ideas to market
- facilitating access to finance for innovators
- enabling products to be tested and introduced to the market
- ensuring appropriate consumer protection safeguards are built into new products and services

The success of the sandbox has seen the model replicated throughout the world. At least 31 financial services regulatory agencies now have a regulatory sandbox.<sup>4</sup>

We also recently evaluated Innovate's activities to better understand our impact on the firms we support and outcomes for consumers. Our evidence suggests that our work is giving firms the regulatory certainty they need to develop their innovations and deliver them at speed; improving outcomes for consumers; and it is encouraging positive innovation domestically and internationally. We published our findings and shed further light on the work we do through Innovate in April 2019 in [The Impact and Effectiveness of Innovate](#).

However, we recognise that there are aspects of our sandbox which we need to develop to;

- Aid firms to scale up
- Encourage innovation in specific markets
- Help provide a line of sight on emerging trends in different markets

We are building on our sandbox to address some of these development points. For instance, in January 2019 we, along with 35 other financial organisations, launched the [Global Financial Innovation Network \(GFIN\)](#). This is a network of financial organisations who recognise the cross-border, and increasingly-global trends of emerging technologies. As part of the establishment of GFIN we launched a cross-border testing pilot. Across the 17 regulators participating in the pilot, we received 44 unique applications and we and other financial regulators are developing testing plans for 8 of the applications. Through GFIN we are therefore building on our sandbox to gain a line of sight on emerging trends in different jurisdictions, facilitate tests across jurisdictions and to help firms scale up.

Similarly, in October 2018 we launched the Green Fintech Challenge, our first themed Innovate initiative to support innovative products and services that aim to assist in the UK's transition to a greener economy. In April 2019, we announced that 9 firms out of 22 applications had been successful. This Challenge generated more green-related applications than we have received in the four years in which Innovate has been established, highlighting the impact that a regulator identifying an area of priority can have on encouraging participation in innovation activities.

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4 United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA) and Cambridge Centre for Alternative Finance (CCAF), "Early Lessons on Regulatory Innovations to Enable Inclusive FinTech: Innovation Offices, Regulatory Sandboxes, and RegTech," [https://www.unsgsa.org/files/2915/5016/4448/Early\\_Lessons\\_on\\_Regulatory\\_Innovations\\_to\\_Enable\\_Inclusive\\_FinTech.pdf](https://www.unsgsa.org/files/2915/5016/4448/Early_Lessons_on_Regulatory_Innovations_to_Enable_Inclusive_FinTech.pdf)



## 4 Opportunities and challenges

### Opportunities

While a cross-sector sandbox presents its own unique challenges, our experience suggests that there are opportunities to be leveraged especially as technology developments such as the internet of things, big data, and artificial intelligence affect multiple sectors. We believe these developments will result in an increasing number of propositions that could benefit from cross-sectoral testing, and where different regulators would benefit from observing and overseeing these tests. This would also help to ensure that these innovative propositions get to market in a manner which protects consumers and promotes competition across markets.

#### *Shared learnings for regulators*

A cross-sector sandbox could be a useful tool to gather insights and understand new developments in the market, particularly with new and emerging technology. It could allow regulators to see how these technologies are being used in adjacent sectors. For example, in relation to machine learning, we believe that there is lots to learn from other sectors where developments may be more advanced than that of the financial services sector.<sup>5</sup> Understanding how new technologies can be used safely and effectively in one sector, with appropriate consumer safeguards and controls, could be a useful input for other regulators to create evidence-based policy making in their own sectors.

#### *Common themes that need a coherent UK approach*

The use of new technologies requires regulators to develop an understanding in line with other sectors to help ensure a consistent and robust UK approach. This is particularly true of technologies that have the potential to transform different parts of the UK economy; like DLT, or the use of big data. A cross-sector sandbox can allow regulators to share learnings from tests, and create a common or harmonised regulatory and policy approach to the development and implementation of these technologies.

Machine learning may lend itself well to a cross-sector sandbox given the use of large quantities of data required to train machine learning algorithms. The data sets used to train machine learning are often used across multiple sectors, resulting in increased connections between firms and participants in different sectors. By having a cross-sector sandbox and by being able to share the learnings among regulators it would not only help us to get an understanding of how other regulators are approaching these issues but it may also help us to develop a consistent UK approach towards big data.

A cross-sector sandbox could therefore be more than just a practical tool for testing new technologies between different regulators; it could support improved collaboration between regulators through the planning and oversight of live tests. This could lead to different regulators looking at common policy/regulatory matters, and working to overcome these together, by leveraging the expertise of multiple regulatory agencies.

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<sup>5</sup> Equities.com, 'The Financial Sector is Bullish on AI, but Slow to Adopt the Technology,' <https://www.equities.com/news/the-financial-sector-is-bullish-on-ai-but-slow-to-adopt-the-technology>

### ***More efficient and effective process for firms***

For firms, a unique, coordinated, single-point of entry sandbox where they can test innovative ideas in a live environment across multiple regulated sectors may be more cost and time effective and allow firms to explore topics where they may need further clarity. This will encourage regulators to work together to provide the guidance needed in areas where questions may be particularly complex or nuanced; for instance, the use of DLT, or the treatment of cryptoassets as a payment mechanism for utility bills, telecommunication bills or use in the financial services sector. The cross-sector sandbox could provide the framework to help guide firms through different regulatory requirements.

Ultimately, by reducing the time it takes a product to get to market, as well as ensuring products are compliant with multiple regulators at the same time, the cross-sector sandbox might be able to reduce barriers to entry and burden on firms that meet the eligibility criteria for entry. This could enable innovation and deepen competition in multiple sectors.

### ***Hyper platforms and complex new business models***

A cross-sector sandbox could also help with new, complex business models. In China for instance, we have seen the emergence of the 'hyper platform' model. Alibaba group conducts activity from social commerce platforms, retail and wholesale marketplaces, marketing technology, cloud computing, logistics and financial services (Ant Financial). Other examples include Tencent and Baidu.

Similarly, we are already seeing the ability to book and pay for everyday activities such as train journeys via voice-controlled technology such as Alexa,<sup>6</sup> but the internet of things will inevitably become increasingly embedded into our everyday lives and thus, more connected with other sectors. In 2016, KPMG released their vision for banking in 2030 explaining that banking will be hidden and subsumed within a broader, more digital, connected way of life.<sup>7</sup> This may be more convenient for the consumer but harder for firms to ensure that they are complying with all the relevant regulators.

Such diverse and complex businesses would in the UK span multiple regulators' remits and would present challenges for supervision and oversight. These businesses are predicated on the extensive use of data about consumers, and with the expansion of TechFin firms, new players are entering global financial markets with new tools and expertise at their disposal. Such complex and innovative business initiatives can make it harder for firms to know which is the relevant regulator and regulatory breaches and arbitrage could occur inadvertently.

Having a cross-sector sandbox could help make the process of engaging with relevant regulators easier for firms.

### ***Business models spanning more than one regulator***

A cross-sector sandbox may also support those firms looking to diversify into a new sector. For instance, an incumbent in one sector – with increased access to data and new technologies making innovative propositions easier, could consider a strategic move into an adjacent sector. The French telecommunications company Orange is an example of this, launching Orange Bank in November 2017, a 100% mobile-based offering. Data sets from one context can be valuable in others, and this is likely to drive new business models. We believe such tests could benefit from being overseen simultaneously by more than one regulator to help ensure consistency of understanding and, where appropriate, approach.

6 Virgin Trains, "Virgin Trains on Amazon Alexa," <https://www.virgintrains.co.uk/alexa>

7 KPMG, 'Meet Eva- the future face of the invisible bank' <https://home.kpmg/uk/en/home/insights/2016/10/meet-eva.html>

**Case study: Big data and data portability<sup>8</sup>**

A company that helps consumers to understand what data is held by companies on them, and how they can take control of it explained that the ease of data portability is something which would benefit from a cross-sectoral sandbox particularly as personal data has relevance to most, if not all, sectors. A cross-sector sandbox could provide clearer guidance and a joined-up approach from multiple UK regulators.

***Uncertainty of firms trying to innovate***

From our work, we have heard examples where firms are uncertain about which regulators they might need to engage with due to the complex and novel nature of their initiative. Firms have also explained how there are often unseen barriers to entry and expansion which regulators are not aware of, as they are used to dealing with incumbents and traditional ways of working. These unseen barriers make it harder for firms to engage with regulators. A cross-sector sandbox could help firms navigate this.

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8 All case studies have been written in partnership with the firms.

**Case study: A financial services firm offering automated utility switching<sup>9</sup>**

A financial services firm explained that switching of utility providers is a core component of many marketplace business models. Although the increasing introduction of centralised utility data aggregation allows for more streamlined switching propositions in this rapidly evolving market, they considered that the trend moves towards automated switching (rather than traditional utility switching). Automated switching propositions will present the opportunity for a far simpler customer realisation of utility bill savings, however there are several challenges for the (FCA regulated) financial services firm, should they decide to progress into this new marketplace.

Firstly, creating a slick end to end customer journey and secondly, ensuring good customer outcomes.

Creating a customer journey that feels seamless, simple and easy is challenging in this case, particularly because it would take customers from an (FCA regulated) financial services firm to utility providers, governed by utilities regulators. Aside from the different regulatory frameworks, both firms and regulators might use different technologies or require different logistical nuances. During the course of the journey, regulatory boundaries are being crossed back and forth, for example when customers actively choose and opt in to switch, through to automated switching with a one-click agreement to proceed based on a recommendation they have automatically made.

Then, a further challenge will be to demonstrate that they are meeting relevant customer needs in an increasingly automated environment, where they would be reliant on the accuracy of energy provider and meter data. It would also be challenging to navigate the nuances of energy consumption in order to demonstrate realised customer savings vs. anticipated savings; the testing of real life scenarios is key to measure outcomes (likely over a variety of time periods and designing appropriate product monitoring in order to report on this).

The benefits they therefore see of a cross-sector sandbox include increased regulator understanding and awareness of upcoming innovations that would help ensure firms, including theirs, have consistent counsel on best practice in one step rather than multiple engagements (with a variety of different regulators). Firms would also have the opportunity to share challenges and opportunities they are seeing, which could in turn help shape future regulatory developments.

They also think that there is value for each regulator having increased sight of upcoming innovations, avoiding firms inadvertently taking a wrong turn or regulators themselves having to take retrospective action to develop regulation to catch up with cross-industry innovations.

**Challenges**

There are several potential challenges that a prospective cross-sector sandbox could face. Many are like ones faced by the FCA in developing its own regulatory sandbox, others like those experienced by GFIN members when setting up a global testing environment. Other challenges are unique to this potential initiative.

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9 All case studies have been written in partnership with the firms.

### ***Lack of demand***

It is difficult to predict the number of firms who could benefit from a cross-sector sandbox, who would also be in a position where they are ready to test and submit a strong application that meets the eligibility criteria set by participating regulators.

Demand in the FCA's regulatory sandbox continues to be strong with 376 applicants across the first 5 cohorts, of which 135 have been accepted to test their propositions. In addition, we have launched a cross-border testing platform via GFIN where the pilot cohort had 44 applications, of which 8 have progressed to the next phase of developing testing plans.

We have already received several applications that could benefit from closer regulatory cooperation or observation between different agencies. We anticipate demand would increase in the event that a cross-sector testing platform is established. Firms outside the financial services sector may not be aware of regulatory sandboxes, and communication by regulatory agencies may further increase demand and interest.

### ***Misunderstanding about the purpose of a sandbox***

Firms could misunderstand the purpose of a sandbox and mistakenly believe that, if they are testing in the sandbox, they have been approved by the regulator.

Acceptance into the FCA sandbox requires authorisation where a firm is carrying on a regulated activity. However, in the sandbox, firms receive a 'restricted' form of authorisation which is specifically tied to the testing proposal and only valid for the duration of the test. Acceptance into the sandbox does not confer regulatory approval for the firm to operate in the wider market unless/until satisfactory completion of the test. This point would be reinforced through any operating model for a cross-sector sandbox.

Eligibility criteria could help mitigate part of this challenge. We require firms to show a 'need for testing'. This ensures that we only accept those innovative ideas that could benefit from a sandbox test, reducing the number of firms who have no need to test, but would use the trials as a way of gaining a regulatory "seal of approval".

### ***Differing regulatory remits***

Regulators have different mandates and objectives. This could create uncertainty around different aspects of testing; from the types of firms that could apply, to the length and type of testing, and how firms would be able to transition out of the sandbox.

In some cases, regulatory agencies may arrive at different conclusions when looking at the same trial. However, looking at the tests concurrently with other regulators may help mitigate instances of uncertainty as there will inevitably be more discussion on the proposition from multiple perspectives.

### ***Firms don't improve own in-house knowledge***

For a cross-sector sandbox to deliver the objectives of each regulator and ensure that consumers are appropriately protected following the testing phase, firms will need to consider regulatory issues beyond the testing timeframe.

The cross-sector sandbox could help firms, particularly smaller firms that may not have access to legal counsel, to develop their regulatory knowledge and ensure this is applied to their products and services.

However, by providing regulatory feedback, firms may lose the incentive to develop in-house knowledge. This risk would be exacerbated if the firm fails to develop knowledge and appropriate regulatory controls beyond the testing phase – potentially exposing a broader number of consumers to harm during a full market launch.

As part of the trial phase, successful applicants to the FCA's regulatory sandbox must show an understanding of the regulatory framework in which they operate. Ensuring firms do the appropriate due diligence can help us determine whether we would be able to offer support.

In addition, firms transitioning out of the sandbox must share a report of their findings and next steps. We would not remove restrictions if a firm's knowledge of the regulated market had not developed to a level where they are able to operate without exposing markets and consumers to unacceptable harm. We could introduce similar requirements into a cross-sector sandbox to ensure in-house knowledge is developed, demonstrated and maintained.

## 5 Conclusion

Through this Call for Input we have highlighted why we think there is a need for a cross-sector sandbox or similar mechanism. We have explained that emerging technologies such as AI and DLT are changing business models across all markets. As a result, we are seeing established firms in one sector diversifying into different markets, and all sectors becoming increasingly reliant on big data. As regulators, we need to ensure that we are adapting to these changing market conditions and can respond to support firms, protect consumers and ensure that markets work well. This requires collaboration. While there are already established ways in which regulators work together, we suggest the cross-cutting nature of these technologies and challenges suggest that a new practical way of working between regulators should be established.

There are multiple mechanisms or frameworks which could support a collaborative approach. Based on our experience with the FCA sandbox, we suggest a cross-sector sandbox could be one. It would provide a single-point-of-entry sandbox for firms to test innovative propositions with multiple UK regulators, in a controlled environment. Our experience suggest that this could be a way to help innovation flourish while also ensuring traditional policy aims of ensuring consumer protection and promoting competition are maintained.

We think there are multiple opportunities and benefits of a cross-sector sandbox. These include helping to facilitate small-scale, controlled tests of innovative propositions and helping firms, especially those with complex business models or business models which span more than one sector, navigate the requirements of different regulators. It could also provide shared learnings for regulators as they would have the opportunity to understand how different sectors are responding to different technologies and emerging trends. This could help inform a coherent UK approach to cross-cutting innovations.

However, we also think there could be some challenges with a cross-sector sandbox. This includes a lack of proven demand, a misunderstanding about the purpose of the sandbox and firms not improving their own in-house knowledge. These challenges are also challenges we have faced with our current sandbox and we therefore believe there are ways to mitigate them such as creating eligibility criteria which require firms to show a need for testing to ensure that only those innovative ideas that would benefit from a sandbox test would be accepted and ensuring that firms do due diligence before any test by demonstrating that they understand the regulatory framework where they operate. Additionally, there could also be a challenge around different aspects of the tests as regulators have different remits and therefore regulators may arrive at different conclusions when looking at the same test. However, having more discussions on a proposition can also help ensure that a test is more robust.

Overall, we suggest that a cross-sector sandbox could be a good starting point for the type of practical collaboration that is needed. However, we think further discussion is required. To facilitate further discussion, we are publishing this call for input. We would welcome your views on this by 30 August 2019.

## 6 Call for Input questions

We are publishing this Call for Input to expand and deepen the discussions on whether a cross-sectoral sandbox or similar mechanism is needed to ensure a consistent and efficient approach to emerging technologies. We would welcome views by 30 August 2019.

To help with the discussions we have outlined some questions below:

- Q1:** Are there any instances where a cross-sandbox would have been useful for you?
- Q2:** Are there specific regulators which you would like to see working more closely together?
- Q3:** Looking forward, can you foresee any instances where a cross-sector sandbox would be helpful for you?
- Q4:** Would you use a cross-sector sandbox and if so, which would be the regulators of most interest to you?
- Q5:** What do you see as the main benefits and opportunities to firms or regulated markets of a cross-sector sandbox?
- Q6:** What do you see as the main challenges and risks to firms or regulated markets of a cross-sector sandbox?
- Q7:** What do you see as the main benefits and opportunities to regulators of a cross-sector sandbox?
- Q8:** What do you see as the main challenges and risks to regulators of a cross-sector sandbox?
- Q9:** Is there anything else which might be useful to be aware of for this study?

As a part of this, we may also meet (or hold telephone calls) with stakeholders to discuss the questions included in this Call for Input. This will also inform any future work. If you are interested in meeting with us please write to the address given on page 2 or email [CrossSectorSandbox@fca.org.uk](mailto:CrossSectorSandbox@fca.org.uk).



We have developed this work in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

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