

THE NATIONAL PAYMENT SYSTEMS REGULATORY SANDBOX FRAMEWORK, 2021

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1. Introduction

In order to support technology-enabled innovation in the financial services space, Bank of Uganda (BOU) has deemed it pertinent to ensure new, more flexible ways of engaging with the financial services industry. One of the options being the use of a Regulatory Sandbox Framework established pursuant to section 16 of the National Payment Systems Act, 2020.

The Regulatory Sandbox Framework is a tailored regulatory environment for conducting limited scale, live tests of new, innovative products, services, solutions, delivery channels, or business models in a controlled environment, with regulatory oversight, subject to appropriate conditions and safeguards. This would enable BOU stay abreast of innovations while promoting safe, reliable and efficient payment systems to foster innovation without compromising on the delivery of its mandate.

The National Payment Systems Policy Framework among others highlights the broadening of access to payment systems as a key objective. Under this objective, the Bank aims to promote electronic payments and financial innovations in general.

Drawing on emerging global best practices, BOU seeks to position the Regulatory Sandbox as a tool for facilitating innovation and advancing BOU's goal to promote effective competition, embrace new technology, encourage financial inclusion and improve customer experience, with a view to engendering public confidence in the financial system.

This Framework sets forth the eligibility, application, safeguard and testing requirements for applicants interested in live testing of innovative products, services, solutions, delivery channels, or business models in the Regulatory Sandbox. The Regulatory Sandbox Application Form is attached as **Annex A**.

2. Objectives

The objectives of the regulatory sandbox framework are -

- (a) to increase the potential for innovative business models that advance financial inclusion;
- (b) to increase competition and quality of services, widen consumer choice and lower costs;
- (c) to institute appropriate consumer protection safeguards in innovative products and services;
- (d) to clearly define the roles and responsibilities of stakeholders and the operations of the Regulatory Sandbox for the payment systems industry;
- (e) to create an enabling environment for innovators to test their solutions in a controlled environment without compromising safety for consumers and of the overall payment system;
- (f) to provide an avenue for regulatory engagement with Fintech firms in the payment space, while contributing to economic growth;
- (g) to reduce time-to-market for innovative products, services, and business models; and
- (h) to enable BOU collect information that can be used to draft guidelines, improve existing laws, regulations or issue new laws and regulations for new technologies, stay updated with the latest innovation in the sector, and mitigate any risks.

3. Scope

- (1) The framework is open to -
 - (a) innovators whose proposed solution involves a different technology or an existing technology being applied differently which are currently not covered under existing regulations and require an amendment to the existing regulations; or
 - (b) innovators whose proposed solution involves a digital business model that is not currently covered whether explicitly or implicitly under the regulations and requires issuance of new regulations and licenses for those solutions.
- (2) The framework is not open to innovators proposing -
 - (a) solutions that add little or no material value to similar solutions already deployed in the payment system industry in Uganda unless it involves a different technology or an existing technology being applied differently;
 - (b) technologies that are not at sufficient stage of maturity or development. The sandbox is not an accelerator or an incubator; or
 - (c) to test products, services or solutions that are not sufficiently developed.
- (3) The sandbox cannot be used to circumvent existing laws and regulations and is therefore not suitable for a proposed product, service or solution that is already appropriately addressed under prevailing laws and regulations.

4. Type of applicants

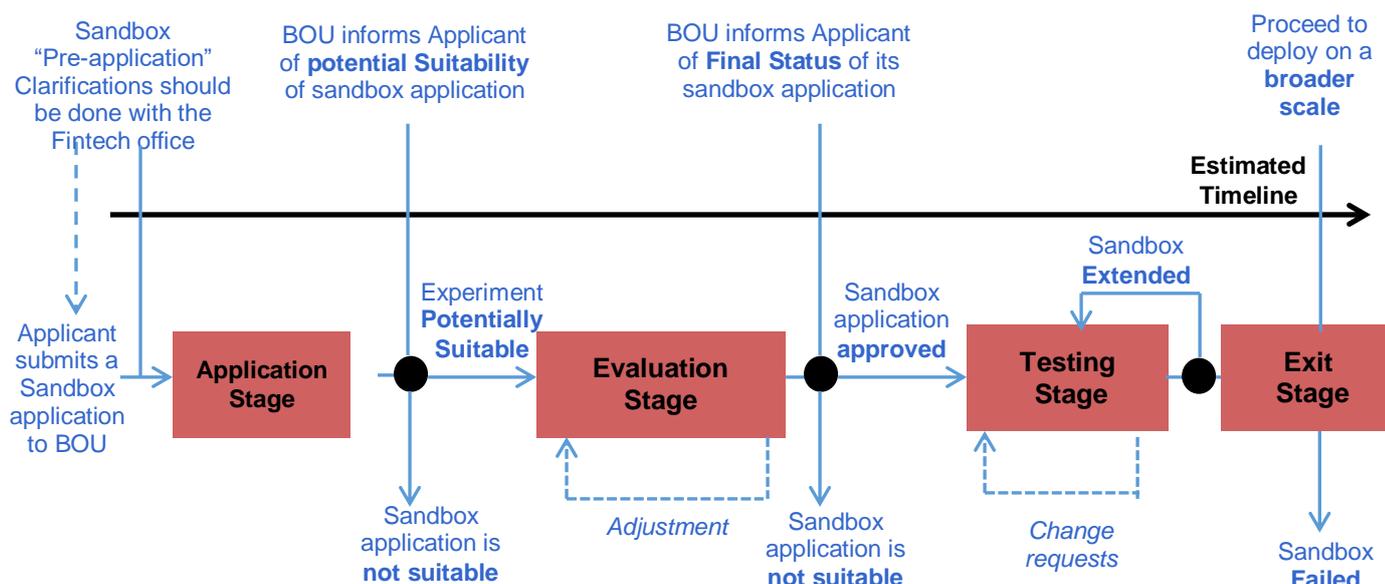
Applicants are categorised as follows -

- (a) Innovators already licensed by BOU under the National Payment System Act.
- (b) Non-licensed local Fintechs or start-ups developing a new Fintech solution with a view to deploying it in Uganda. Access to the Sandbox may be through one of the following options -
 - (i) partnering with institutions licensed by BOU. In this scenario, the party accountable to BOU for the content of the application and execution of the testing will be the licensed institution; or
 - (ii) applying directly to BOU.
- (c) Non-licensed international Fintech. As a general rule, innovators not registered in Uganda are not allowed to operate in Uganda and cannot apply directly to enter the Sandbox. Access to the Sandbox can therefore be granted indirectly through a partnership agreement between the international innovator and an institution licensed by BOU. In this case the latter will be the applicant to the Sandbox and will remain responsible for the submission of the application, the testing and any associated risks.

5. Application and approval process

- (1) The applicant should ensure that the objective (clause 2), scope (Clause 3) and criteria as provided for in the regulation 3 of the National Payment Systems (Sandbox) Regulations, 2021 are satisfied before submitting the application to BOU. The application shall be submitted to the office of the Director National Payment Systems Department.

- (2) The diagram below summarises the application and approval process.



6. Consultation with the Fintech office

- (1) An applicant who wishes to operate a sandbox shall seek regulatory clarification or advice from the Fintech office at BOU prior to submission of an application. The request for clarification or advice may be emailed to: fintechoffice@bou.or.ug
- (2) The Fintech office shall respond to the applicant's request within five (5) working days.

7. Lifecycle of sandbox

The life cycle of the sandbox is composed of four stages -

- (a) application;
- (b) evaluation;
- (c) testing; and
- (d) exit.

8. Application stage

- (1) Upon submission of the application, BOU shall review the application and inform the applicant of its potential suitability for a sandbox within ten days from the date of the application.
- (2) In reviewing the application, BOU shall consider four key criteria -
 - (a) genuine innovation;
 - (b) consumer benefits and safeguards;
 - (c) readiness for testing; and
 - (d) exit plan.
- (3) For purposes of a genuine innovation, the innovation must demonstrate one of the following in its proposed solution -

- (a) significantly differs from existing offerings in Uganda;
 - (b) offers a new use for existing technologies deployed in Uganda; or
 - (c) represents a significant scale-up in existing technologies deployed in Uganda.
- (4) For purposes of consumer benefits and safeguards , the applicant must produce sufficient evidence showing that -
- (a) the innovation proposed offers an identifiable and direct benefit (e.g. improving security or quality of service) or indirect benefits to consumers (e.g. increasing competition);
 - (b) it has adequately identified and addressed any risks for consumers and markets resulting from its proposed innovation; and
 - (c) it has put in place a suitable mitigation plan to manage those risks and ensure protection to consumers throughout the testing.
- (5) For purposes of readiness for testing, the applicant shall produce a well-developed testing plan that at a minimum contains -
- (a) timelines for execution including milestones;
 - (b) reporting schedule stating the format and content (e.g. key performance indicators) of the report that will be submitted to BOU throughout the testing; and
 - (c) clear methodology of the testing and controls required.
- (6) For purposes of the exit plan, the applicant shall include a description of the future development and deployment of the solution tested, including an explanation of -
- (a) how it intends to deploy the product, service or solution on a commercial scale in Uganda should the testing be successful;
 - (b) how it intends to ensure that consumers do not suffer a detriment as a result of unsuccessful testing; and
 - (c) how it intends to ensure that consumers do not suffer a detriment as a result of the test being discontinued at the request of BOU or the applicant.
- (7) If the application is deemed to meet the above eligibility criteria, the applicant shall be informed that the application has progressed to the evaluation stage.

9. Evaluation stage

- (1) Under the evaluation stage which is estimated to take fifty days to complete, BOU shall -
- (a) establish the customer safeguards to be deployed by the applicant;
 - (b) establish the reporting requirements to be complied with by the applicant; and
 - (c) determine whether or not to issue the applicant a letter of approval.
- (2) For purposes of (1)(a), customer safeguards are a set of prohibitions, limitations and conditions that BOU shall require the applicant to put in place in order to provide adequate customer protection throughout the test. The minimum requirements for customer safeguards are –
- (a) a clear statement informing customers that they are participating in the test;
 - (b) a clear statement indicating that the company and the product is permitted under the sandbox framework;
 - (c) limitations on the number and type of consumers that will participate in the test;

- (d) limitations on the type and size of transactions;
 - (e) restriction or prohibition to hold or control customer money or financial assets;
 - (f) to obtain consumers' prior written consent to their participation in the test;
 - (g) to include prominent statements in some or all communications to consumers informing them of their participation in the test;
 - (h) to carry out system penetration simulations;
 - (i) extra requirements related to the prevention of anti-money laundering and financing of terrorism;
 - (j) to clarify the risks of the product in case it is a high risk product;
 - (k) to safeguard customers against losses through provision of extra capital, ring-fencing funds, guarantees, insurance or any other mechanisms as shall be agreed with BOU to ensure redress to consumers should the test result in consumers suffering a financial detriment;
 - (l) extra requirements related to the handling and protection of consumer data;
 - (m) reporting requirements to be added to those proposed by the innovator to ensure a robust risk identification and management during the testing exercise; or
 - (n) requirements to have customer service to handle complaints and suggestions by customers.
- (3) For purposes of (1)(b), the applicant shall –
- (a) submit interim reports to BOU on the progress of the test, which includes the following -
 - (i) key performance indicators, key milestones and statistical information;
 - (ii) issues arising as observed from fraud or operational incident reports;
 - (iii) an updated risk register including possibility and treatment of any emerging risk(s);
 - (iv) details on any audits conducted and where applicable, submission of signed audit reports;
 - (v) customer satisfaction report, including complaints, if any;
 - (vi) a detailed log of operational or technical incidents, if any, and steps taken to address the same; and
 - (vii) any other information as requested by BOU.
 - (b) submit a final report to BOU within 30 calendar days from the expiry of the testing period containing the following -
 - (i) key outcomes, key performance indicators against agreed measures for the success or failure of the test and findings of the test;
 - (ii) a full account of all incident reports and resolution of customer complaints;
 - (iii) in the case of a failed or unsuccessful test, lessons learnt from the test and how the applicant intends to wind down the test; and
 - (iv) any other information as requested by BOU.
 - (c) Have the Chief Executive Officer confirm both the interim and final reports of the applicant.
- (4) For an applicant that has been accepted into the sandbox, BOU shall issue a letter of approval that in summary will -
- (a) confirm that the application has been accepted and specifying the period of time of the testing;
 - (b) include a brief description of the innovation to be tested;

- (c) list the sandbox tools deployed;
 - (d) list the permissions granted and any limitation applicable to them;
 - (e) list the customer safeguards agreed at the evaluation stage including the treatment of customers after BOU withdraws the letter of approval in 9(4)(g);
 - (f) outline the content and frequency of the reports to be submitted by the applicant to BOU during the testing stage;
 - (g) explain that BOU reserves the right to suspend the test and withdraw the letter of approval should it become aware of a breach of the conditions and limitations contained in the letter of approval, or if it becomes aware of consumer detriment; and
 - (h) confirm that the letter of approval can be used by an applicant in their interaction with other financial services firms to certify that they have been permitted by BOU or authorized to carry out a test in the sandbox environment.
- (5) The BOU shall publish on its website a list of innovations being tested on the sandbox.

10. Testing stage

- (1) Once the applicant has received the letter of approval, the applicant shall proceed with its testing plan as detailed during the evaluation stage and in accordance with the terms contained in the letter of approval.
- (2) A participant shall complete testing their innovation in the sandbox environment within a period of six (6) months from receipt of the letter of approval. This period may be extended for a further maximum period of six months at the discretion of BOU.
- (3) During the testing stage the participant shall provide BOU with the results of their monitoring activity as stated in their letter of approval.
- (4) At any point during the testing stage, BOU may raise questions to the participant based on the progress made and results of the testing exercise.
- (5) In cases where BOU believes that the participant has failed to adhere to the terms of the letter of approval, BOU may request the participant to temporarily discontinue the test until the matters in question are fully clarified.
- (6) In cases where BOU finds indications of potential or actual consumer detriment BOU may ask the participant to terminate its testing exercise and present an exit plan that may include a remediation plan. In this case, BOU will communicate to the participant that its letter of approval has been revoked.
- (7) Similarly, the participant may encounter unexpected technical or non-technical difficulties beyond their control that may lead them to suspend the test until these are fully resolved. In these exceptional circumstances the participant may submit a written request for an extension of the testing stage.
- (8) At the end of the testing period the participant shall submit a final report to BOU in line with clause 9(3) (b).

11. Exit stage

Upon expiry of the testing period, BOU may –

- (a) grant the participant a license to operate in Uganda subject to compliance with existing legal and regulatory requirements;
- (b) issue new regulations, guidelines or notices based on insights gained from the sandbox test; or
- (c) prohibit the participant from deploying the innovation in Uganda under prevailing legal and regulatory requirements.

12. Fees

Applicants to the regulatory sandbox shall pay a non-refundable fee of **Uganda Shillings One Million**.

Annex A
Application Form

Thank you for your interest in BOU’s Regulatory Sandbox. The Regulatory Sandbox is intended to allow for testing of innovative products, solutions and services that have the potential to deepen or broaden the financial sector.

Eligible firms may participate in the Regulatory Sandbox if they meet the criteria set in this Framework. This application form is intended to assist BOU in understanding your innovative product, solution or service and to help BOU determine whether you qualify for participation in the Regulatory Sandbox.

The completed application form, along with all required supporting documentation, must be submitted to BOU. If BOU has questions or require additional information, BOU will contact you within fourteen working days.

1. General Information

<p>Name of applicant</p> <p>Full names of substantial shareholder, managers and directors</p> <p>Physical address</p> <p>Contact details of applicant</p>	
<p>Website URL (if available; if password protected, please provide relevant access details)</p> <p>Contact person: Name Title Telephone number Email address</p> <p>Is the applicant, affiliated entity, their shareholders or employees involved in a dispute or enforcement action? If yes, please provide details of the dispute.</p> <p>Is the applicant, affiliated entity, their shareholders or employees registered, licensed, or supervised by any other authority or agency in Uganda or other jurisdiction? If yes, please provide names of the regulating authority and the nature of regulated business.</p>	

2. Details of the Sandbox Proposal

Additional information may be provided as supporting documents

<p>Describe your innovative product, solution or service. Attach a business model or project synopsis.</p>	
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<p>Describe the technology or methodology that will be used to offer your product, solution or service.</p> <p>Explain how your product, service, or solution will foster or accelerate the development of the Ugandan payment ecosystem.</p> <p>Identify the type of customers you will target to participate in the Regulatory Sandbox test.</p>	
<p>How do you intend to acquire and engage customers?</p> <p>Identify any other businesses or partners or institutions that you are working with or plan to work with if you are selected to participate in the Regulatory Sandbox.</p> <p>Describe the business strategy or plan to deploy the product, solution or service in the broader Uganda marketplace after exiting the Regulatory Sandbox.</p>	
<p>Explain why your product, solution or service would benefit from participation in the Regulatory Sandbox.</p>	
<p>Identify the specific legal and regulatory requirements prescribed by BOU that would need to be varied or waived in connection with a Regulatory Sandbox test of your product, solution or service, if any</p> <p>If you think your product, solution or service raises new or complex regulatory concerns, please describe.</p> <p>Describe the current stage of development of your product, solution or service. If the product is not sufficiently developed, what is the anticipated development path and timeline for live testing?</p> <p>Describe the key consumer protection, market stability and any other risks associated with your product, solution or service and how you have or intend to address those risks.</p> <p>Describe your plan for exiting from the Regulatory Sandbox.</p>	
<p>If you are successful, what is your plan for offering your product, service or solution on a broader scale within Uganda?</p> <p>If you are unsuccessful, what is your plan for winding down the product or service and addressing consumer</p>	

<p>interests or developing an alternative approach?</p> <p>Briefly describe or attach short biography on your key personnel’s technology or financial industry experience.</p>	
<p>Please describe the source of funds including any venture funding or potential funding, you intend to use to develop and test your product, service, or solution in the Sandbox.</p>	

3. Testing Criteria

<p>Describe the use case that you are proposing to test in the Regulatory Sandbox.</p> <p>Describe in detail the testing program you propose, including:</p> <ul style="list-style-type: none"> (a) test objectives and intended outcomes; (b) test parameters to measure the success of the test objectives or outcomes; (c) control boundaries for the test, including, among others, customer type and number, and transaction size and total exposure limit; (d) customer acquisition plan for the test; (e) customer communication plans and templates, including sample risk disclosures for the live-test; (f) key testing milestones and timelines; (g) anticipated duration; and (h) an exit strategy for customers upon completion or discontinuation of the live test. 	
<p>Describe the proposed control program and safeguards for a live test, including:</p> <ul style="list-style-type: none"> (a) measures to monitor and ensure compliance with the safeguards to be established for the test; (b) measures to mitigate risks and impact to customers arising from any test failures; (c) reliance on other test partners (such as regulated financial institutions) to monitor or mitigate regulatory risks; (d) measures to handle customer inquiries, after-test services and complaints in a fair and effective manner; and (e) any programs for compensating customers who may have suffered damage as a result of participating in the test. 	

I/WE.....
.....

..... declare that all information given in this application and in the attached documents is true and correct.

Dated this day of20.....

Signed
Name
Position
Name
Position

4. Attachments

Please attach:

- Certified copies of all incorporation documents
- Certified list of directors and shareholders
- CVs for substantial shareholders, directors and managers
- Fit and proper person for substantial shareholders, directors and managers
- Testing Plan
- Safeguards Plan (risk management plan)

5. Submission

The application form and any supporting documentation must be submitted to BOU. All application materials will remain confidential, although BOU may disclose data on the number and types of firms that have applied to participate in the sandbox.

If you have questions during the application and review process, you may contact BOU at: Plot 37 - 45 Kampala Road, P.O. Box 7120, Kampala, Uganda.

Email: fintechoffice@bou.or.ug