AUSTRALIAN BANKERS' ASSOCIATION INC.
Strong banks – strong Australia

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Ms Shellie Davis
Senior Adviser, Financial System Division
The Treasury
Langton Crescent
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By email sandbox@treasury.gov.au

Dear Ms Davis

Enhanced Regulatory Sandbox

The Australian Bankers' Association (**ABA**) appreciates the opportunity to provide comments on the consultation on *Enhanced Regulatory Sandbox* (**the consultation**).

With the active participation of its members, the ABA provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services. The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

The Government's enhanced regulatory sandbox includes a longer testing time, and for an increased range of products and services than ASIC's existing sandbox that has been in operation since 2016.

As we stated in our previous submission to ASIC on its regulatory sandbox, the banking industry supports initiatives which encourage further innovation provided they are accessible to all businesses, whether they be established financial institutions or new entrants. The ABA's members also believe the regulatory framework that applies to emerging products and business models should be carefully calibrated to protect the interests of consumers and investors as well as the stability of the financial system.

Limiting sandbox eligibility

The ABA's members' main concern with the enhanced regulatory sandbox proposed by Treasury is that like the existing ASIC sandbox, it limits collaboration between new players and banks given it is not available to existing Australian financial services (**AFS**) licence holders. This is at odds with other sandboxes in the UK and Singapore which provide access to existing licence holders to test innovative products and services.

The ABA believes that all businesses would benefit from being able to test proposed services within the sandbox, and where necessary, adapt their services at a lower cost. Preventing access to the sandbox for existing AFS licensees could, in some cases, reduce their incentive to does not increase the incentive to innovate and does not increase the efficiency with which innovation can be brought to market, leading to which could lead to slower or less innovation overall and fewer choices for consumers.

For example, AFS licensees may be looking to test innovative services for which their current licence does not facilitate. Without access to the sandbox, introducing such a service is a much lengthier process, and one which could impose onerous or uncertain regulatory impacts to its licence which can hamper the speed of innovation. Arguably, existing AFS licensees testing new products or services in the sandbox poses less of a risk to consumers than an entity with no licence at all.

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Similarly, limiting sandbox eligibility to new entrants only would not facilitate the development of agile partnerships with existing AFS licensees. Partnerships between established financial institutions and new businesses enable new entrants to access the distribution networks of established firms and strengthen their access to capital.

The UK sandbox is a good example. Despite being open to existing licensees, the majority of participants have still been start-ups – but allowing existing licensees to participate has meant led to some innovative partnerships. For example, the HSBC/Pariti technology app for smart saving. By partnering with existing licence holders, innovative sandbox tests have the potential to reach consumers more rapidly.

Approval rather than notification

ASIC differs from other regulators in its "white list" approach to new entrants. That is, under the existing and proposed enhanced sandbox, ASIC is simply notified of new participants rather than required to undertake an approval process of individual products and services tested within the sandbox. Both the UK and Singaporean regulators undertake a review of applications and we believe there is merit to this approach for ASIC to have final oversight before testing begins, particularly given the sandbox is now going to be extended to testing of actual new products rather than distribution of existing products, including in significant new areas such as superannuation and insurance with higher limits.

We support ASIC's continued power to end testing and eligibility in the enhanced regulatory sandbox.

Extending sandbox length to two years

The enhanced regulatory sandbox extends the eligibility for sandbox participation to two years, which appears long compared to similar initiatives conducted by regulators in other jurisdictions. In Singapore, time limits are granted on a case-by-case basis. In the United Kindgom, no maximum time limit specified, however, the FCA's guidance on default standards suggests that it considers three to six months to be an appropriate duration.

Two years appears to be a significantly long period of time to test a service – it would seem that after well before this point a sandbox participant should be ready to apply for a full licence if they wish to continue doing business. If the desire is to have a longer period for certain products of a longer-term nature, such as superannuation and insurance, this longer 24 month period should be limited to these product types.

The ABA would prefer the sandbox be limited to one year and that participants only be exempt for as long as necessary to do initial market testing. Participants could ask for a further one-year extension, conditional on ASIC's review of impacts up to that point and an assessment that an additional 12 months is actually necessary for testing, which could be the case for longer-term natured products such as superannuation and life insurance.

Expanding products and services eligible to be tested in the sandbox

The ABA supports introducing flexibility in the sandbox to expand its eligibility over time to include new financial services and products. However, we believe this should be done in consultation with industry to ensure the full ramifications on customers and the financial system are understood by regulators.

A fintech liaison group convened by ASIC, similar to that proposed on regtech in their Report 543: Response to feedback on REP 523 ASIC's Innovation Hub and our approach to regulatory technology would be an ideal group to consult in a coordinated and timely fashion.

The ABA supports expanding sandbox eligibility to include superannuation and insurance products within the sandbox environment. We would note, however, that the exposure limits of $40,000 and $300,000 respectively are significantly larger than the $10,000 limit for retail customers testing other products and services. Coupled with the importance of these products to customers' financial health, we believe that only sophisticated customers who understand and can withstand the possibility of losing

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their money should be eligible to test these products in the sandbox environment and not the general public.

Yours sincerely

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