

# WHAT YOU NEED TO KNOW ABOUT THE CBN FRAMEWORK FOR REGULATORY SANDBOX OPERATION



In June 2020, the Central Bank of Nigeria (CBN) released the exposure draft of its Framework for Regulatory Sandbox Operations which set out the rules, processes and guidelines for participation in the CBN regulatory sandbox in a bid to get stakeholder input ahead of its adoption. Following the exposure, on the 13th of January 2021, the Apex Bank published the final version of the Framework which establishes the CBN regulatory sandbox - a controlled facility where fintech developers/innovators can test new and innovative services under the Supervision of CBN. This will enable safe and reliable deployment of innovative fintech solutions without compromising the integrity of the financial system or the experience of the consumers.



## WHAT IS A SANDBOX?

In simple terms a sandbox is an isolated, safe, testing environment where developers/innovators can test new programmes or software applications under a system that promptly identifies and quarantines malware or other zero-day vulnerabilities without compromising the host

device(s). These tests are typically conducted prior to go-live.

## WHAT ARE THE OBJECTIVES OF THE CBN REGULATORY SANDBOX?

The Apex Bank, has recognized that the introduction of the CBN regulatory sandbox will:

1. Reduce time to market for innovative products by allowing developers and the CBN to simultaneously monitor the pre go-live product testing in the sandbox thereby shortening approval timeline.
2. Ensure customer protection safeguards as prescribed by CBN are adhered to;
3. Promote adequate regulation and an enabling environment for innovation without compromising consumer safety;
4. Encourage innovative solutions that will advance financial inclusion; competition and ultimately lower cost to consumer;
5. Define the roles of different stakeholders within the sandbox ecosystem and the bigger payment systems industry.
6. Provide a communal environment for continuous engagement between fintech innovators/developers and the CBN.

## WHO IS ELIGIBLE TO PARTICIPATE?

The Sandbox application process is open to both existing CBN licensees (financial institutions regulated by the CBN) and other

Nigerian Companies or Enterprises not regulated by the CBN but who wish to test innovative payment products deemed acceptable by the CBN. Innovators whose proposed solution involves technologies which are not covered under existing CBN regulations may also apply to the CBN for special consideration to participate.

Apart from the Applicant's eligibility the underlisted are additional criteria for selection to participate:

1. The product or service must be innovative and show potential to improve efficiency, security and quality of services in the overall financial market or enhance risk management amongst financial institutions;
2. The proposed project must fall within prescribed value and volume for effective risk management and mitigation;
3. The product or service must clearly demonstrate usefulness and functionality;
4. The applicant must have all resources required for testing in the sandbox;
5. The applicant must have a business plan showing how the product is to be deployed to market after testing is completed.



#### **HOW DO I APPLY TO PARTICIPATE IN THE CBN REGULATORY SANDBOX?**

CBN will make a call for applications once in each calendar year via its website and local newspapers. The advertisement will include

minimum eligibility criteria, interested participants are to address their application to the Director, Payments System Management Department and submit same through the CBN official email address: [sandbox@centralbankofnigeria.gov.ng](mailto:sandbox@centralbankofnigeria.gov.ng).

Successful applicants will be issued a letter of approval within 45days from close of application. Upon the issuance of the letter of approval, the applicant is required to comply with all necessary documentary filings prescribed in the framework. Upon entry into the Sandbox, Applicants are additionally required to comply with the operational and reporting requirement prescribed in the framework.

#### **CAN CBN WITHDRAW OR REVIEW AN APPROVAL TO PARTICIPATE AFTER IT IS GRANTED?**

At any time before the end of the prescribed testing period, CBN may review or withdraw an approval granted to any participant who:

1. Fails to comply with prescribed safeguards;
2. Submits misleading information conceals or fails to disclose material information;
3. Contravenes any applicable law which impacts directly on applicants integrity or reputation;
4. Goes into liquidation;
5. Breaches data security or confidentiality requirement;
6. Compromises consumer safety;
7. Fails to address identified risks, technical flaws or vulnerabilities.

Before withdrawing its approval, CBN will give the defaulting Participant 45days prior notice and the opportunity to respond to the grounds of the withdrawal. In cases where delay is deemed detrimental to consumers or the Financial System generally, CBN may proceed to withdraw the approval without notice. Once an approval is withdrawn, the affected

Participant must immediately implement its planned exit from the Sandbox and desist from promoting or taking its product/service to market. It must also comply with other obligations imposed by CBN regarding disposal of confidential information and mandatory post-exit reporting.



#### **WHAT RISK ASSESSMENT SAFEGUARDS MUST BE ADHERED TO WHILE IN THE SANDBOX?**

Whilst in the Sandbox, Participants are required to promptly identify all potential risks to consumers, financial institutions or the financial systems generally and to develop appropriate safeguards to respond to/address the risks in ways that demonstrate;- sound financial practices, fair and equal treatment of all consumers, compliance with anti-money laundry regulations, preserves confidentiality of consumer information and encourages healthy competition amongst similar financial products or services

#### **HOW MANY APPLICANTS MAY BE ADMITTED TO THE SANDBOX AT THE SAMETIME?**

The number of applicants admitted will be pre-determined by the CBN based on available resources and capacity at the given time. Each group of innovators admitted into the Sandbox at a given time will be referred to as a "Cohort". It is expected that CBN will admit one cohort per calendar year. Selection will be

based on the Sandbox's strategic objectives and CBN's prescribed eligibility criteria.

#### **WHAT HAPPENS AT THE END OF THE TESTING PERIOD?**

When a Participant has completed its product testing in the Sandbox, the result will be benchmarked against the product objectives and the CBN will determine whether the product or service is suitable to be deployed to the market. Deployment could be direct by the Participant to the market or by licensing the product to another firm to take to market or taken to market in partnership with other CBN regulated firms. Where CBN deems the test as failed either on account of sub-optimal output or unintended negative consequence on the public CBN will prohibit the deployment of the product. A participant may on its own elect to discontinue testing in the sandbox in such case it shall seek the consent of the CBN which may be granted subject to satisfactory performance of all prescribed regulatory obligations. For successfully tested products, participants may proceed to apply for the requisite license to deploy the Product. CBN will typically support successful participants in addressing risks and vulnerabilities detected during the testing phase.

#### **ARE THERE CIRCUMSTANCES UNDER WHICH EXTENSION OF TIME FOR TESTING MAY BE GRANTED TO A PARTICIPANT?**

Typically, applications from participants would indicate proposed testing timeline. Each cohort however will generally run for 6 months. Where a participant feels that it is expedient to extend the testing period, an application shall be made to the CBN at least 30 days before the end of the initial testing timeline stating the additional time required and the reason for the application. CBN will not permit frivolous or protracted extensions. Where a general positive outcome has been recorded and extension is only required to respond adequately to risks or vulnerabilities

identified during initial testing CBN will be most inclined to grant the requested extension.

### **HOW WILL THE CBN REGULATORY SANDBOX DRIVE PRODUCT INNOVATION AND FINANCIAL INCLUSION?**

The CBN sandbox provides the needed anchored support for fintech innovators by reducing the cost and time to completion of new products, more importantly the sandbox will be a major repository for market data whilst also providing the regulator with wider coverage and more intimate interaction with innovators and their products. It is expected that the regulatory sandbox will provide a good foundation for the wider adoption of open banking systems in Nigeria.

### **HOW TO GET STARTED**

Do you need more about the CBN Regulatory Sandbox? Our Finance and Technovation team is available to support you. You may contact our team on: Email: [info@dealhqpartners.com](mailto:info@dealhqpartners.com)  
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