



# Overview of the Bank of Tanzania (Fintech Regulatory Sandbox) Regulations, 2023

## Introduction

Regulators worldwide are swiftly responding to the rapidly evolving landscape of financial technology (fintech). However, new or emerging financial products, services, or delivery channels may not fully comply with existing regulatory requirements. To address this issue, the Bank of Tanzania, the core financial regulator in Tanzania, has introduced fintech regulatory sandbox regulations. These regulations aim to provide a controlled environment where entities can test their fintech innovations under relaxed regulatory conditions, within defined parameters and timeframes agreed upon with the regulators. This article provides an overview of the Bank of Tanzania (Fintech Regulatory Sandbox) Regulations, 2023 which are yet to be published as law.

## The Regulations

The Bank of Tanzania (Fintech Regulatory Sandbox) Regulations, 2023 (**the Regulations**) apply specifically to financial service providers licensed by the Bank of Tanzania, fintech companies collaborating with licensed financial service providers, and fintech companies intending to offer solutions to financial services regulated by the Bank of Tanzania. The main objectives of these regulations, as stated in Regulation 4, are:

- Enabling the testing and deployment of fintech innovations in a live environment within specified parameters and timeframes.
- Increasing the potential for innovative business models that enhance financial deepening and inclusion.
- Ensuring appropriate consumer protection safeguards for innovative products and services.
- Defining the roles and responsibilities of parties involved in sandbox operations.
- Enabling the Bank of Tanzania to collect information to improve existing legal and regulatory frameworks for innovative financial solutions.
- Assisting fintech innovators in transitioning from the relaxed sandbox environment to the regulated environment.

## Responsibilities of the Bank of Tanzania

In implementing these regulations, the Bank of Tanzania has several responsibilities. These include:



- Ensuring the objectives of the regulatory sandbox are fully achieved.
- Evaluating applications for sandbox operations.
- Monitoring sandbox operations.
- Monitoring the implementation of participants' testing plans and taking necessary actions, if required.
- Applying appropriate action for non-compliance when necessary.

Regarding the protection of intellectual property, as per Regulation 6 of the Regulations, the Bank of Tanzania is obligated to accept applications from applicants whose innovative financial products and services are duly verified and registered by the authority responsible for protecting intellectual property rights. To protect intellectual property, applicants are required not to disclose the technical specifications of their innovations.

## The Application Procedure

According to Regulation 7, the Bank of Tanzania may invite qualified applicants to participate in the regulatory sandbox at its discretion. An applicant interested in participating in the sandbox must submit an application form in the prescribed format within **thirty (30) days** from the date of the invitation. The application should include a financial solution risk profile indicating potential risks, causes, effects, and control measures, as well as supporting documents that substantiate the information provided in the application form. The Bank will acknowledge receipt of the application within five working days after submission.

An applicant seeking approval from the Bank of Tanzania to participate in the sandbox must demonstrate the following:

- A financial solution that utilizes new or emerging technology or existing technology in an innovative manner.
- A financial solution that bridges a market gap, opens up new opportunities, or improves accessibility, usage, efficiency, security, and quality of financial services.
- Adequacy and appropriateness of the assessment conducted on the usefulness and functionality of the financial solution.
- The necessary resources, including financial resources and expertise, to support testing in the sandbox and mitigate potential risks and losses.
- A realistic business plan for deploying the financial solution on a commercial scale after exiting the sandbox.
- Significant risks associated with the financial solution.
- Key Performance Indicators or other metrics for monitoring the progress of the testing.



- Credibility and integrity.
- An acceptable exit and transition strategy after completing the test.
- A plan to deploy the financial solution upon success completion of the test.

After an application is submitted, the Bank of Tanzania evaluates it based on completeness, correctness, and suitability, considering the eligibility requirements. The evaluation also includes assessing whether the proposed financial solution has the potential to enhance financial deepening and inclusion, whether it is genuine, and whether it provides benefits to consumers. The Bank of Tanzania also evaluates measures to safeguard customers, the adequacy of controls for managing potential risks such as money laundering and terrorism financing, the applicant's readiness for testing, the adequacy of the exit plan, and the resources required to test the proposed financial solution.

Regulation 10 provides for notification of evaluation results. Within **forty-five (45) days** after the closure of the application date, the Bank of Tanzania will notify the applicants of the evaluation results through a letter of acceptance. This letter entitles the applicant to test the proposed financial solutions in the sandbox. However, if an application does not meet the criteria, the Bank of Tanzania will provide reasons for rejection. The applicant may re-apply within **thirty (30) days** from the date of rejection.

## **Sandbox Cohort and Testing**

According to Regulation 14, the Bank of Tanzania is required to hold sandbox cohorts. These cohorts involve running one cohort every twelve months, publishing a list of successful applicants on the Bank's website, aligning the sandbox with thematic areas that address market needs, and prioritizing financial solutions that fulfill market needs.

Successful applicants must commence testing within **one (1) month** from the date of receiving the letter of acceptance. The testing period for the financial solution in the sandbox is limited to **nine (9) months** from the receipt of the letter of acceptance. During the testing phase, participants are obligated to safeguard customers against losses, handle financial consumer complaints, and protect personal and financial data. The Bank may extend the testing period, if necessary, based on positive test results or specific issues or risks identified.

Pursuant to Regulation 17, participants are required to adhere to the conditions provided in the letter of acceptance and any additional conditions imposed by the Bank of Tanzania. Upon completion of the testing period, the Bank will decide whether to allow the financial solution to be introduced in the market. The Bank assesses the performance of the test, risks identified and mitigated, recommendations for appropriate supervision, and the



readiness of the tested financial solution for deployment. If the testing is unsuccessful, the Bank may prohibit the deployment of the financial solution in the market due to agreed test measures, unintended negative consequences, or potential threats to the stability of the financial system.

The Bank of Tanzania has the power under Regulation 20 to revoke approval to participate in the sandbox before the end of the testing period if a participant fails to comply with safeguards, provides false or misleading information, contravenes applicable laws, undergoes liquidation, breaches data security requirements, conducts business detrimental to customers or the public, or fails to address technical defects or vulnerabilities. The Bank must provide the participant with a 30-day notice of its intention to revoke the approval, allowing the participant to show cause why the approval should not be revoked. Immediate revocation is possible if delaying would harm the interests of participants, customers, the financial system, or the public.

Regulation 23 mandatorily require participants to submit interim reports to the Bank every two (2) months, providing key milestones, fraud incidents, identified risks and their treatment plans, customer complaints handling, operational challenges and measures, data protection, and a list of participating customers. A final report must be submitted within **thirty (30) days** after the testing period, indicating the performance of the test, risks identified and mitigated, recommendations for supervision, and readiness for market deployment.

Regulation 25 provides that, participants are responsible for overseeing their operations, gathering information on the test, monitoring compliance with set limits, proposing appropriate regulatory measures, complying with relevant laws, submitting periodic reports, and addressing inquiries from the Bank. They must maintain proper records of financial solution performance, obtain consumer consent, adhere to approved terms and conditions, and seek approval from the Bank of Tanzania for any changes in terms or conditions.

Under Regulation 27, the Bank of Tanzania is mandated to monitor and enforce compliance by participants in the sandbox. If necessary, the Bank may collaborate with other relevant authorities to ensure compliance with the Regulations. Participants are required to furnish the Bank with information as prescribed, to facilitate the proper discharge of its functions and responsibilities under the Regulations.

The Governor of the Bank of Tanzania has the power under Regulation 29 to exempt any person from provisions of the Regulations, subject to appropriate terms and conditions. The Governor may also issue directives, orders, permissions, or authorities relating to the Regulations, either in a general or specific manner. In cases of non-compliance with the



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Regulations, the Bank may take administrative action against the defaulter, which can include non-participation in the sandbox for a period of two (2) years, publication of offender names, or reprimands.

### **Conclusion**

The Bank of Tanzania (Fintec Regulatory Sandbox) Regulations, 2023 provide a framework for testing and deploying fintech innovations in a live environment under a relaxed regulatory regime. These Regulations aim to promote financial innovation, enhance financial deepening and inclusion, ensure consumer protection, and gather information to improve existing legal and regulatory frameworks.

Financial service providers licensed by the Bank of Tanzania, Fintech companies collaborating with licensed Financial Service Providers, and Fintech Companies intending to offer solutions to regulated financial services are subject to these Regulations. The Bank of Tanzania has responsibilities to evaluate applications, monitor sandbox operations, and take appropriate actions for non-compliance.

The application procedure involves demonstrating the innovative nature and potential benefits of the financial solution, as well as meeting eligibility requirements. Successful applicants enter the sandbox and undergo testing for a specified period. The Bank of Tanzania evaluates the performance of the test and decides whether to allow the financial solution to be introduced in the market.

Participants in the sandbox are required to comply with the conditions set by the Bank, safeguard customers, handle complaints, and protect personal and financial data. They must submit interim and final reports, maintain records, obtain consumer consent, and adhere to approved terms and conditions. The Bank of Tanzania monitors compliance and may take action in cases of non-compliance.

Overall, the Bank of Tanzania (Fintec Regulatory Sandbox) Regulations, 2023 provide a controlled environment for fostering innovation in the financial sector while ensuring the protection of consumers and the stability of the financial system.

Not all jurisdictions need a sandbox. Their suitability depends upon the regulatory objectives, the flexibility of the existing regulatory regime, the resources and the types of innovations emerging in the market. We believe they have the potential to speed the regulatory adaptation towards an enabling framework in support of inclusive, innovative finance.