

**NAMFISA REGULATORY SANDBOX**

**GUIDANCE NOTE**

**MICROLENDING COHORT**

**Table of Contents**

[1. Purpose 1](#_Toc137723293)

[2. Scope 1](#_Toc137723294)

[3. Definitions 2](#_Toc137723295)

[4. Background 3](#_Toc137723296)

[5. Participation in the Regulatory Sandbox 4](#_Toc137723297)

[6. Confidentiality 4](#_Toc137723298)

[7. Regulatory Sandbox Process 5](#_Toc137723299)

[Stage 1: Regulatory Sandbox Application 5](#_Toc137723300)

[Stage 2: Selection Process 8](#_Toc137723301)

[Stage 3: Testing Agreement 10](#_Toc137723302)

[Stage 4: Testing and Monitoring 12](#_Toc137723303)

[Stage 5: Progress Reports 13](#_Toc137723304)

[Stage 6: Final Progress Report 14](#_Toc137723305)

[Stage 7: Exit Stage 15](#_Toc137723306)

[8. Annexure A 16](#_Toc137723307)

# Purpose

NAMFISA’s Regulatory Sandbox is established to promote: (1) *digital and non-digital financial services innovation*, and (2) *financial inclusion*.

The Regulatory Sandbox is tailored to provide a live testing environment of innovative products, services, solutions and business models within set limitations and timeframes. This is to ensure that consumers are protected during the testing phase and to help identify, assess and mitigate any risks that emerge from the innovation in the Non-bank Financial Institutions sector (NBFI). Lessons from the Regulatory Sandbox relating to the Microlending Cohort 2023 will be utilized to ensure that NAMFISA creates a conducive regulatory environment in the Microlending sector. In this regard, the Regulatory Sandbox will improve NAMFISA’s understanding of emerging technologies and ensure that legislative reforms are evidence-based. This is intended to promote innovation and financial inclusion in the NBFI sector and to contribute towards national efforts of creating a transformed financial sector that is safe and inclusive.

This Guidance Note is intended to serve as a guide to the application, selection, testing and exit conditions of the Regulatory Sandbox.

# Scope

This Guidance Note is intended for use by innovators in either preparing to apply and to be tested within the Regulatory Sandbox for the Microlending Cohort. All future revisions of this Guidance Note will be guided by the observations made in the Microlending Cohort and all future cohorts.

# Definitions

For purposes of this Guidance Note:

“Applicant” means a sole proprietor, partnership, corporate entity[[1]](#footnote-1) or trust that has applied for approval to participate in the Regulatory Sandbox;

“B2B” means business-to-business entities or solutions;

“B2C” means business-to-consumer entities or solutions;

“Innovation” means a product, service, solution or business model that is deemed to be a true innovation according to the Innovation Test, and may include substantial improvements of existing products, services, solutions or business models;

“Innovation Test” means the test that is conducted to determine whether the product, service, solution or business model is an entirely new proposal and a true innovation and may include substantial improvements of existing products, services, solutions or business models. Common considerations include how the innovation is different to what is already offered in the market and whether there are any comparable products, services, solutions or business models currently in the market;

“NAMFISA” Namibia Financial Institutions Supervisory Authority;

“NAMFISA Act” means the Namibia Financial Institutions Supervisory Authority Act, 2001(Act No. 3 of 2001);

“NBFIs” Non-Bank Financial Institutions;

“Net Public Benefit Test” means the test done to determine whether the innovation presents a material positive impact on consumers and the public from the business and operations of an NBFI. Common considerations include whether the innovation addresses a current problem for consumers and whether the innovation increases consumer choice, reduces costs, provides better user experience or enhances efficiency;

“Participant” means an Applicant that has been approved to participate in the Regulatory Sandbox;

“Regulatory Sandbox” means the NAMFISA Regulatory Sandbox as a tailored regulatory environment where live tests of innovative products, services, solutions and business models are conducted within a well-defined space and duration; and

“Testing Agreement” means the agreement concluded between the Participant and NAMFISA that contains the safeguard conditions that the Participant must comply with in the Regulatory Sandbox.

# Background

NAMFISA’s vision is to have a safe, stable and fair financial system contributing to the economic development of Namibia in which consumers are protected. In line with the Namibia Financial Services Sector Strategy’s key focused area on financial inclusion, NAMFISA established the Regulatory Sandbox to, on a limited scale, conduct live tests of innovative products, services, solutions and business models. This will support innovations within the microlending sector and later the NBFIs sector. This Guidance Note is applicable to all Applicants and Participants in the Regulatory Sandbox.

This Guidance Note sets out all stages of the Regulatory Sandbox process, as listed below:

1. Stage 1: Regulatory Sandbox Application
2. Stage 2: Selection Process
3. Stage 3: Testing Agreement
4. Stage 4: Testing and Monitoring
5. Stage 5: Progress Reports
6. Stage 6: Final Progress Report
7. Stage 7: Exit Stage

All required information regarding the application process is included at the end of this Guidance Note as Annexure A. All documentation referred to in Annexure A may be downloaded from the NAMFISA website at [www.namfisa.com.na/regulatory-sandbox/](http://www.namfisa.com.na/regulatory-sandbox/) .

# Participation in the Regulatory Sandbox

NAMFISA aims to provide a conducive regulatory environment for a diverse range of products, services, solutions, business models and emerging technologies that have the potential to promote digital or non-digital financial innovation and financial inclusion within the first cohort of the microlending industry. Participation in the Regulatory Sandbox is subject to the submission of an application and subsequent approval by NAMFISA.

NAMFISA reserves the right to determine on a case-by-case basis whether the proposed innovation may be tested in the Regulatory Sandbox. NAMFISA’s decision as to whether an innovation may be tested in the Regulatory Sandbox is final.

Special status is not given to a successful participant once they successfully exit the Regulatory Sandbox and actively participate in the broader market, nor is there any guarantee from NAMFISA that the participant will succeed in the broader market after testing in the Sandbox has been completed. In this regard, at the point of entry into the Regulatory Sandbox, participants must show how they intend to deploy the innovation in the event of a successful test.

# Confidentiality

Non-public information received from an Applicant and/or Participant regarding any stage of the Regulatory Sandbox process is treated as confidential information and proprietary to the Applicant and/or Participant. NAMFISA will not disclose such information to third parties, unless required to do so by law or allowed in writing to do so by the Applicant and/or Participant.

NAMFISA may keep internal records of all information and documentation received during the Regulatory Sandbox process for future internal use and reference. All information and documentation, reports and results are treated by NAMFISA as confidential, unless otherwise agreed with the Applicant and/or Participant in writing.

NAMFISA may disclose data on the number and types of entities that have applied to participate in the Regulatory Sandbox, the number of entities that were either successfully admitted to the Regulatory Sandbox testing environment or denied entry, and the number of entities whose tests were either successful or unsuccessful.

The Applicant and/or Participant is also responsible to take the necessary measures to ensure that their intellectual property is protected.

# Regulatory Sandbox Process

## Stage 1: Regulatory Sandbox Application

The Regulatory Sandbox follows a cohort system. The first cohort is for microlending entities in relation to B2B and B2C solutions. An Applicant may apply to test in the Regulatory Sandbox during specified periods as determined and communicated by NAMFISA. The Regulatory Sandbox application form may be downloaded from the Regulatory Sandbox portal on the NAMFISA website by following this link: www.namfisa.com.na/regulatory-sandbox/. A duly completed and signed application form together with all supporting documentation, as outlined below, must be submitted via email to regulatory.sandbox@namfisa.com.na .

Microlending entities in relation to B2B and B2C solutions may apply to test in the NAMFISA Regulatory Sandbox if:

* + 1. The microlending entity is a start-up that wishes to operate in the NBFIs sector with its innovation, but does not meet certain requirements under current legislation;
		2. The microlending entity is already registered with NAMFISA or another regulatory body in Namibia and is launching a new innovation that achieves the objectives of the Regulatory Sandbox, but does not meet certain requirements under current legislation;
		3. The existing or start-up entity, on a B2B basis and in collaboration with an existing NBFI, launches an innovation that achieves the objectives of the Regulatory Sandbox. However, the existing or start-up entity does not meet certain requirements under current legislation or the business model of the existing or start-up entity is not provided for under existing legislation; or
		4. The entity is requested by NAMFISA to participate in the Regulatory Sandbox to test its innovation.

Information and Documents required for Application:

The following information and documentation is required to apply for admission to the Regulatory Sandbox:

1. A completed application form inclusive of all annexures and supporting documentation (as described in Annexure A to this document);
2. A business plan that includes the following:
	* + 1. Financial projections and viability;
			2. An explanation about a problem that exists in the market that the proposed innovation is intended to address and how it is going to be addressed;
			3. Potential benefits of the proposed innovation to consumers;
			4. An explanation of identified limitations in the current legislation that hampers the launching of the innovation in the market;
			5. An explanation regarding how the obstacles or shortcomings identified in b) above will be overcome based on how the innovation is developed;
			6. A description of comparable services or activities, if any, of the innovation that are already available in the market;
			7. Explain whether the innovation meets the five Regulatory Sandbox requirements and six eligibility criteria as set out in Stage 2 below;
			8. Confirmation that the innovation is fully developed and ready to be tested;
			9. Proof that the associated non-refundable application fee of N$500 has been paid to NAMFISA by the Applicant together with the submission of the Application Form;

Amount of application fee: **N$500 (non-refundable)**

Reference: **sndbx231 followed by business name**

Bank Name: **Standard Bank Namibia**

Account Name: **Namibia Financial Institutions Supervisory Authority**

Account Number: **241440351**

Branch Name: **Gustav Voigts Centre**

Branch Code: **082772**

Universal Branch Code: **087373**

Type of Account: **Current Account**

Account Currency: **NAD**

Swift Code: **SBNMNANX**

* + - 1. The number of consumers needed as live participants for testing. The Applicant may engage with NAMFISA to request additional time to build up a customer base, but will only be allowed to start testing once the number of consumers is confirmed and captured in the Testing Agreement;
			2. Potential risks that may arise during testing;
			3. Proposed safeguards and risk mitigation measures relating to the potential risks identified above in k); and
			4. Submit a copy of your complaints resolution process.
1. A comprehensive exit strategy inclusive of the following:
2. In the event of an unsuccessful test, explain how operations will be wound up; and
3. In the event of a successful test, explain how you intend to deploy the innovation in the market.
4. Any other relevant details considered important or necessary to disclose.

If the Applicant intends to conduct more than one activity within the Regulatory Sandbox, separate applications should be made for each specific activity.

If an application is incomplete or contains information that lacks clarity, the Applicant will be allowed to provide the missing information or clarity to NAMFISA but within a specified timeframe. The completeness and clarity of the information provided in the application form will determine the time that NAMFISA will take to review the application.

If the Applicant is successful, NAMFISA will issue a letter of approval to participate in the Regulatory Sandbox to the Applicant. Any decision by NAMFISA to deny an Applicant entry into the Regulatory Sandbox will be supported by written reasons.

Any enquiry in relation to the application process may be submitted via email to regulatory.sandbox@namfisa.com.na.

## Stage 2: Selection Process

NAMFISA will strictly apply two key measures at the selection stage to assess the viability of the Innovation of every Applicant that applies- for admission to the Regulatory Sandbox testing environment. These measures are the *five**Regulatory Sandbox requirements* and the *six eligibility criteria*.

**Table 1: Five Regulatory Sandbox Requirements**

|  |  |
| --- | --- |
| **Principle** | **Consideration** |
| 1. Duration
 | The Innovation’s level of maturity must not be long-term. |
| 1. Complexity
 | The Innovation must not have a complex business model. |
| 1. Liquidity
 | The Innovation should not be illiquid in nature, should it ever have to be dissolved. |
| 1. Reversible arrangements
 | An Innovation that cannot be easily reversed is not allowed, should it ever have to be discontinued or amended.  |
| 1. Consumer profile
 | The Innovation should be targeted and suitable for certain consumer groups. |

**Table 2: Six Eligibility Criteria**

|  |  |
| --- | --- |
| **Principle** | **Consideration** |
| 1. Innovation in the marketplace or only seen before in a less efficient form
 | The Innovation must be unique and not replicating what already exists in the market, but may include substantial improvements of existing products, services solutions and business models. An Innovation Test will be conducted to determine the uniqueness of the Innovation for the purpose of determining whether it is a genuine Innovation.  |
| 1. Innovation providing improvements in accessibility and efficiency in service delivery
 | The Innovation must provide identifiable benefits to consumers. To this end a net public benefit test[[2]](#footnote-2) will be conducted to determine whether the innovation provides the improvements.  |
| 1. Capacity to begin Regulatory Sandbox testing and proof of payment of application fee
 | The Innovator has submitted a successful application, has all the necessary tools to commence testing and has paid the required application fee of N$500.  |
| 1. Identification of legislative limitations
 | This is necessary to demonstrate that without a Regulatory Sandbox, the Innovation can be hampered from being rolled out in the market due to legislative limitations. |
| 1. Number of consumers needed as participants for testing
 | This is to ensure that exposure is limited to a specific number of consumers, to demonstrate actual performance indicators and limit possible risks to consumers. |
| 1. Provide insight to the regulator
 | There must be proof that the Innovation provides insight to NAMFISA as a mutual knowledge sharing experience. |

## Stage 3: Testing Agreement

Once a Participant is admitted to the Regulatory Sandbox, on a case-by-case basis, the parameters to be tested and key performance indicators will be determined based on the proposed Innovation. The Participant is not allowed to commence with operations prior to the signing of the Testing Agreement by the Participant and NAMFISA.

In the process of testing in the Regulatory Sandbox, NAMFISA introduces safeguard conditions as part of the key performance indicators. The following safeguard conditions will be included in the Testing Agreement and must be adhered to by the Applicant:

1. **Testing period**: NAMFISA will stipulate the testing period based on the Participant’s Innovation, as some Participants may require a longer testing period before results can be determined. Therefore, the testing period is agreed upon with the Participant beforehand, but should not be longer than two years;
2. **Number of consumers:** Acceptable limits in terms of the number of consumers are determined according to the business plan presented;
3. **Transaction values or volumes[[3]](#footnote-3):** Acceptable limits should be placed on the total amount of transaction values or volumes allowed within the Regulatory Sandbox testing environment. These limits are determined on the basis of the Participant’s Innovation;
4. **Risk identification and mitigation:** It is the responsibility of the Participant to identify risks and propose risk mitigation measures which should be included as supporting documentation to the Application Form;
5. **Full and clear disclosures:** The Participants needs to ensure that they take the necessary steps to inform their consumers that they will be operating in a Regulatory Sandbox testing environment and must disclose all pertinent information to the consumers clearly before signing the loan agreement and when any significant changes occur during testing. The Participant must also ensure that the consumer signs a consent letter[[4]](#footnote-4);
6. **Capital safeguards:** Capital should be adequate, where relevant, for the specific Innovation that will be tested in the Regulatory Sandbox and adequate measures should be taken before commencing testing to ensure that consumers remain protected;
7. **Other safeguards:** Additional safeguards may be applied on a case-by-case basis.

NAMFISA retains the right to require and make additional modifications to the Testing Agreement as deemed necessary by observations from the Regulatory Sandbox testing environment. This is to ensure that the consumers remain protected, that financial viability is maintained and that the objectives of this Guidance Note are met. The Participant may also propose modifications to the Testing Agreement, which must be motivated with reasons in writing for NAMFISA’s consideration.

Failure by the Participant to adhere to the safeguard conditions contained in the Testing Agreement will constitute a violation of the safeguard conditions and will result in the termination of participation in the Regulatory Sandbox testing environment.

## Stage 4: Testing and Monitoring

If a Participant is already registered with NAMFISA, the legal requirements applicable to the existing registration continues to apply during the Regulatory Sandbox testing phase to all activities not tested in the Regulatory Sandbox.

Testing and monitoring is conducted through regular progress reporting by the Participant as prescribed in the Testing Agreement. Although progress reporting may be done digitally or face to face, the right to onsite monitoring remains the discretion of NAMFISA.

A test may be considered a success once the objectives of the Regulatory Sandbox are met and the predetermined key performance indicators identified during Stage 3 and captured in the Testing Agreement are met or exceeded.

A test may be considered unsuccessful if any of the following occurs:

1. If the Participant is in breach of the Testing Agreement;
2. If the Participant does not meet the key performance indicators as agreed; or
3. If the Participant is removed from the Regulatory Sandbox environment for any other reason, regardless of whether or not it was on request by the Participant.

NAMFISA holds the right to remove or suspend a Participant from the Regulatory Sandbox testing environment at any time before the end of the testing period, if the Participant is found guilty of any of the following:

1. The required safeguards and the two key measures as prescribed by NAMFISA in the Testing Agreement are not implemented;
2. False, misleading or inaccurate information is submitted by the Participant;
3. Significant material facts relating to the Innovation is withheld or concealed during any stage of the Regulatory Sandbox process;
4. Any applicable law is contravened;
5. The Participant is in the process of being sequestrated, liquidated or is placed under judicial management or any processes of a similar nature;
6. Data security and confidentiality requirements are breached;
7. Business is conducted in a manner that is considered to be harmful to the consumers, other market participants or the public at large;
8. Failure to effectively address any shortcoming, flaw or vulnerability in the Innovation within a reasonable time; and
9. Any other reason determined by NAMFISA that is sufficiently motivated.

If NAMFISA decides to remove or suspend a Participant from the NAMFISA Regulatory Sandbox at any stage, the decision will be provided in writing with accompanying reasons for the removal or suspension. Prior to making the decision, NAMFISA should offer the Participant an opportunity to be heard.

The Participant, on the other hand, may request to exit the Regulatory Sandbox at any stage of the Regulatory Sandbox process. In that event, the Participant is required to make their request with reasons in writing. Furthermore, the Participant must implement the exit strategy to ensure that consumers are treated fairly throughout the process. If NAMFISA is satisfied with the request and written reasons, the Participant will be removed from the Regulatory Sandbox and the Participant’s exit strategy is implemented, the test will be considered unsuccessful.

## Stage 5: Progress Reports

These reports provide much-needed analyses informing the final regulatory decisions to be made in the next stages of the Regulatory Sandbox process. The Participant is required to submit periodic progress reports to the designated NAMFISA Regulatory Sandbox email address, which must contain full disclosure on the following:

1. Detailed progress made on the key performance indicators that have been identified in the Testing Agreement referred to in Stage 3;
2. Key milestones reached and significant statistical information relevant to testing;
3. Any issues relating to consumer complaints, misconduct or any other matter that must be brought to the attention of NAMFISA;
4. Proposed changes to be made to the organizational structure or business plan of the Participant;
5. Emerging risks identified during testing and the appropriate risk safeguards and mitigation measures required and implemented to mitigate the identified emerging risks;
6. Explanation of the risks identified in the Testing Agreement that materialized;
7. Explanation of how the appropriate risk safeguards and mitigation measures were implemented to mitigate the identified risks in the Testing Agreement;
8. Challenges and issues faced during testing specific to the testing environment and any impact the challenges may have on consumers;
9. How the challenges and issues faced were resolved; and
10. Any other relevant details that must be brought under NAMFISA’s attention.

The frequency of the submission of the progress reports will be determined before the test starts and will be captured in the Testing Agreement referred to in Stage 3. If the Participant fails to submit the progress reports by the stipulated time, it will result in the removal or suspension of the Participant from the Regulatory Sandbox. In the event that the progress report is submitted late, NAMFISA reserves the right to consider the late submission and to take appropriate action.

The progress report on key performance indicators submitted during the testing period enables NAMFISA to assess the benefits and risks of the Innovation and to decide whether to permit the Participant to operate in the market after exit from the Regulatory Sandbox. This periodic assessment of key performance indicators will also help determine regulatory staffing and training necessary to supervise the Participant when they exit the Regulatory Sandbox.

## Stage 6: Final Progress Report

Before a final decision is made on whether or not the testing in the Regulatory Sandbox is successful or unsuccessful, the Participant is required to submit a final progress report once informed to do so by NAMFISA.

The Participant will be granted a specified period of working days to submit their final progress report. The final progress report should include a comprehensive progress review in terms of the testing parameters as set out in the Testing Agreement referred to in Stage 3, inclusive of the following:

1. The final measurement of the key performance indicators;
2. A detailed account of all resolutions of consumer complaints, market conduct or other issues and a thorough account of how the aforesaid issues, be it financial in nature or otherwise, were addressed and resolved;
3. In the event of an unsuccessful test, lessons learned from the experience and the proposed way forward for the Innovation i.e., changes that were informed by the Regulatory Sandbox testing phase or reasons for discontinuing the Innovation; and
4. In the event of a successful test, the Participant’s proposals for deploying the Innovation on a larger scale in the market.

The Participant will also receive a findings report from NAMFISA on their Innovation, which explains whether or not the test result is successful or unsuccessful.

## Stage 7: Exit Stage

Based on the findings from the key performance indicators, if the final progress report is not satisfactory i.e., if the test concluded an unsuccessful result, the Participant will be removed from the Regulatory Sandbox and must cease operations under the conditions of the Testing Agreement.

In the event that the test concluded a successful result, the Participant must apply to NAMFISA for registration as a microlender, if the product, service, solution or business model does adhere to the requirements of the Microlending Act and subordinate legislation.

However, if the product, service, solution or business model does not adhere to the requirements of the Microlending Act and subordinate legislation, NAMFISA may consider or propose amendments to the legislation.

# Annexure A



1. Includes all public companies, private companies and close corporations. [↑](#footnote-ref-1)
2. A general public benefit is defined as a material positive impact on society and the environment as a whole, as benchmarked against a third-party standard, from the business and operations of a non-bank financial institution in this case. Common considerations include whether the innovation addresses a current problem for consumers and whether the Innovation increases consumer choice, reduces costs, provides better user experience or provides enhanced efficiency. [↑](#footnote-ref-2)
3. In determining the case-by-case transaction values or volumes, the business model of the Innovation is the key determinant, with others being the level of financial literacy or education in the target market. This is enforced in order to avoid overexposure that cannot be contained while testing. It is also important to consider the levels of measures against the risks as it provides an understanding on how the model deals with risk factors. This is especially important for consumer protection. [↑](#footnote-ref-3)
4. A letter that must be signed by a consumer to give his/her consent to participate in the Regulatory Sandbox testing environment. [↑](#footnote-ref-4)