
CROSS-BORDER TESTING: LESSONS LEARNED

The Global Financial Innovation Network reflects on the cross-border testing pilot



THE CENTRAL BANK OF HUNGARY



FOREWORD

Overview from the workstream members

Cross-border testing initiative

The Global Financial Innovation Network (“GFIN” or “Network”) was created to provide a more efficient way for innovative firms to interact with regulators, helping them navigate between countries as they look to scale and test new ideas. It also created a new means of co-operation between financial services regulators to work on innovation-related topics, sharing different experiences and approaches.

One of the early priorities for GFIN has been the development of cross-border testing, previously known as the “global sandbox” concept. Of the 50 GFIN members and observers, 17 regulators joined this workstream committed to developing a framework to facilitate this new type of regulatory cooperation and support for firms.

As a new initiative, we were looking for firms as part of the pilot who could be flexible and agile in their participation, and who could provide GFIN regulators with feedback on their experience. Through their participation, firms would benefit from the opportunity to test and compete in the regulated space, and their tests would help inform the future work of the Network.

Results of cross-border testing

After the initial screening of 44 applications, GFIN announced in April 2019 that we would continue to work with eight firms to develop testing plans for their cross-border trials. At this time, we are unable to take forward any of the eight firms to begin testing as the firms did not develop a testing plan that satisfies each jurisdiction’s criteria (e.g. the firm’s business is still in development and not ready to test; lacking formal partnerships). GFIN is exploring how we might be able to assist these firms in other ways, either outside the GFIN framework or inviting them to re-engage with the Network when they are closer to being ready to test.

Lessons learned and next steps

The cross-border testing pilot provided GFIN members with valuable experience and feedback which will help us continue to evolve the framework for future cohorts and ensure that firms are ready for testing.

In October 2019, GFIN met in Montreal to reflect on the pilot and consider the future of cross-border testing, including how processes and structure should change as a result of our experience. In the year since we launched the cross-border testing pilot we’ve continued to hear that industry is enthusiastic about the support and coordinated services GFIN could provide. Members agreed there is merit in continuing our work on cross-border testing given market demand and the chance for further regulatory learning and collaboration. The EY Fintech Australia Census 2019 highlighted access to international markets and expansion continues to be an important issue for firms, including among developed economies. At the same time, global fintech investment was at an all-time high in 2018 increasing 120% from \$50.8 billion USD in 2017 to \$111.8 billion USD. Anecdotally, GFIN members continue to have conversations at the domestic level with firms who are strongly supportive of regulators finding more efficient ways to provide coordinated services.

For these reasons, GFIN is committed to developing further the framework of cross-border testing and is now launching several solutions as part of cross-border testing 1.0, or the post-pilot phase. The Network is launching these new solutions ahead of the planned opening of applications for a new cohort in H1 2020.

As part of the Network’s commitment to having an open dialogue with industry, the GFIN has prepared the “Cross-border testing: lessons learned” report to reflect on the pilot period from January 2019, including our achievements and the challenges we have faced. The report also includes next steps and solutions to improve cross-border testing for the next phase. We are excited to implement these solutions, continue supporting firms and create an environment to allow the testing and scaling of new technologies in multiple jurisdictions.

REFLECTIONS

The pilot process

The beginning

In early 2018, the UK Financial Conduct Authority (“FCA”) consulted on the idea of creating a “global sandbox,” in response to regulators around the world having to adapt to the pace of innovation and technological change. At the same time, there were a growing number of innovative firms with propositions transcending jurisdictional boundaries who were looking to expand. The key objectives of the global sandbox were to support innovative firms looking to test ideas in more than one jurisdiction and to promote coordination and collaboration between regulators on key emerging trends.

Coinciding with the launch of the Global Financial Innovation Network in January 2019, the GFIN launched the pilot phase of cross-border testing with the following objectives:

- Explore how regulators could collaborate and facilitate cross-border experimentation in multiple jurisdictions, in real time;
- Explore how pilot tests would function and what type of demand there might be from firms to work with regulators in this way; and
- Learn lessons and make changes to the process, to ensure success of the final testing model.

“What is cross-border testing?” – How it worked in practice

In launching the cross-border testing pilot, participating regulators assumed that the concept of “cross-border testing” was self-explanatory. We envisaged that firms would all be looking to trial a single solution in multiple markets, or a business model which has inherent cross-border applications (i.e. international remittances). In making this assumption instead of providing a specific definition of cross-border testing, we saw several different interpretations of what “cross-border testing” meant to firms.

Among the 44 applications received, we saw a wide range of innovative firms and different interpretations of “cross-border testing”. As noted in April, we had a high number of applications from firms with RegTech and cryptoasset related business models. Among the RegTech propositions, several of the firms were looking at different applications of AI and machine learning to help firms with their required AML/KYC checks. Within the various crypto applications, a number of firms were looking at tokenization solutions for the securities market.

The type of applications GFIN saw in the pilot varied from firms looking to conduct a genuine cross-border activity to firms looking to one regulator to provide an introduction to another in order to explore market entry. One impact of firms interpreting cross-border testing as introductions to explore market entry was that some firms applied to many more markets than we anticipated. We are continuing to consider whether to prioritise any one of these types of cross-border activity in the first cross-border testing 1.0 cohort.

Given the resource required to conduct simultaneous testing activity in multiple jurisdictions, we anticipate that more of the future tests will be timed sequentially rather than concurrent tests. However, we remain open to the possibility of concurrent testing where firm is ready to test a use case that justifies that approach.



REFLECTIONS

The pilot process

While we received a number of interesting applications, GFIN did not see interest from many firms that were fully operational and ready to test cross-border. For example, there was a noticeable lack of applications from large or international firms. This is possibly due to the relatively short application window (one month), but may also be that the value in taking part was not sufficiently clear. Where firms were not ready to test or eligible for cross-border testing, GFIN members provided applicants with guidance on other means of support.

It became clear during the application process that applicant firms did not have a clear understanding of the scope of participating regulators' authority, i.e. markets regulated or services provided. Without centralised information on the GFIN regulators, firms were unclear as to which regulators they should apply to. Misunderstandings related to authority led to wasted effort on certain applications where regulators did not have oversight over the applicant's proposed activity.

As part of our plans for next steps, GFIN will be doing more to make it clear to firms what GFIN support could look like for their businesses, and we would welcome engagement from industry on this point.

Status of pilot firms

In April 2019, GFIN announced that after an initial screening, members would continue to work with eight firms to develop testing plans for a cross-border trial. Firms that developed a testing plan satisfactory to each jurisdiction's own criteria would take part in the pilot testing phase. Regulators and firms spent the past six months working together to develop joint testing plans. This process involved regular e-mails and calls with participating regulators to allow firms to ask detailed regulatory questions.

At this time, the firms are not yet ready from a GFIN-perspective to launch a full cross-border test. Several of the applicant firms have faced considerable hurdles related to securing the necessary partners outside their home markets. This has particularly been the case for RegTech firms who need to be partnered with a regulated financial services firm in order to participate in a regulator's domestic sandbox.

The struggle for firms to transition from Proof of Concept to Proof of Value, or to demonstrate to industry that their solutions not only work, but may provide more efficient and effective way of doing things, is something we've seen both in the context of cross-border testing and in our wider engagement with RegTech firms. Among GFIN members there are varying mandates around the ability to help facilitate the partnerships for firms. Through our new regulatory compendium (see 'next steps' section of this report) we hope to publicise where regulators are able to provide this type of assistance in order to link firms with the partners they need.

With this in mind, however, we are conscious that regulatory support is only one aspect of firms' broader needs in regards to market entry and expansion. Conducting multiple tests in parallel in multiple jurisdictions is a complex endeavour requiring considerable resources from firms. GFIN is unable to support firms in areas outside our authority (i.e. legal assistance; financial advice), but we have done everything within our authority to get firms ready to test.

Given the need to bring the pilot to a close, GFIN is exploring how we might be able to assist these firms in other ways, either outside the GFIN framework or inviting them to re-engage with the Network when they are closer to being ready to test.

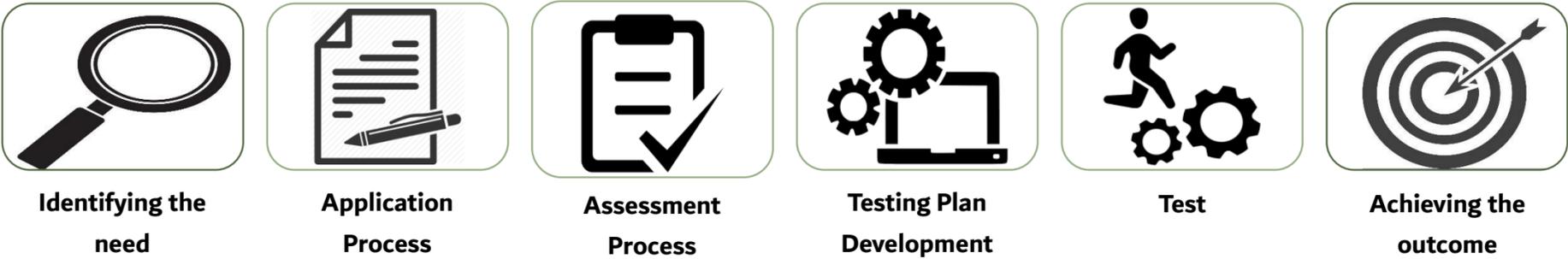


REFLECTIONS

The pilot process

Reflections and Considerations

As we started thinking about how to improve cross-border testing, GFIN members reflected on the different stages of the pilot, considering issues and challenges faced by regulators and firms.



The key issues can be categorised under four themes: applications; process; ways of working; and firm experience.

- Applications**
 - **Reflection:** GFIN did not receive all of the types of applications we expected.
 - **Consideration:** What kind of firms do we want to apply? Should we be more targeted in our offer?
- Process**
 - **Reflection:** There were a number of challenges related to the way in which the pilot was run.
 - **Consideration:** What can we agree on in order to improve the process for firms and regulators? How can we ensure the initiative and expectations are clear to participating firms?
- Ways of working**
 - **Reflection:** Regulators have varying degrees of flexibility and different styles of approach.
 - **Consideration:** Should we give further consideration to the way in which we work together?
- Firm experience**
 - **Reflection:** In certain cases, siloed regulatory processes impacted firm experience.
 - **Consideration:** How could we improve the user experience of cross-border testing from the firm's perspective?

In order to improve cross-border testing, participating regulators considered what worked and what could be improved in order to evolve our approach and processes based on learnings to date.

- In taking forward the next phase of cross-border testing, GFIN regulators agreed to set clear objectives for what we are doing in order to manage expectations for firms and each other.
- We agreed to define more specifically what we are doing - both for ourselves and for firms (i.e. answering the 'what is cross-border testing?' question).
- As part of defining what GFIN is doing, we need to explain clearly what GFIN is offering to firms. We want to be clear about GFIN's value-add, which among many things is improving the firm experience compared to other options.
- Our proposed solutions assumed that there are some areas where alignment can be achieved and some where it is unlikely in the medium term. As previously communicated, our immediate goal is not policy/legal alignment, and therefore, focus remains on providing efficient ways for innovative firms to interact with regulators.

NEXT STEPS

Cross-border testing 1.0

What's next? – launching new solutions

Since the GFIN meeting in October 2019, regulators have been working on taking forward solutions that will address challenges identified by the pilot. Today we announce the following solutions that will come together as part of the cross-border testing 1.0 framework, or post-pilot structure:

Launching now

GFIN Website

Identified issue	Problem Solved
As it stands, information about GFIN and cross-border testing is hosted on regulators' individual websites and pages. Interested stakeholders are lacking a single source for all information related to GFIN and cross-border testing.	GFIN will now have a single mechanism to communicate with the market through the launch of the GFIN website. In addition to being able to communicate information about cross-border testing more effectively, the new GFIN website will be useful to prospective members and observers who may be interested in learning more about GFIN and to firms who can see how to apply to future cohorts of cross-border testing.

Regulatory Compendium

Identified issue	Problem Solved
Prior to the pilot, there was no single source of information on GFIN members' innovation services or testing requirements. Therefore, it was unclear to a number of firms which regulators could support which activity. This resulted in regulators receiving applications for types of activity they do not support.	As part of the GFIN website, GFIN has produced a publication with information on the types of activity regulators can support. This will improve the application process for regulators and firms by making it clear what is available in terms of support. The publication will also help ensure firms are clear on needs/criteria of participating regulators. We hope that this will mean firms are closer to readiness to test when applying for GFIN support.

NEXT STEPS

Cross-border testing 1.0

In development

Single application form

Identified issue	Problem Solved
<p>One of the key challenges for firms and regulators in the pilot was that firms were asked to submit applications to all the regulators with which they were interested in conducting a test. In some cases this meant that firms submitted as many as 14 applications. On average, the process saw firms filing four to six applications. In many cases, this meant duplication of work setting out their business model and proposed innovation. It also provided a logistical challenge as GFIN members had to circulate all materials received in order to determine whether there was conflicting information in applications sent to different regulators.</p>	<p>Regulators are currently in the process of developing a single online entry form where a firm's selection of jurisdictions/regulators will lead to a set of common questions to collect information relevant to all jurisdictions/regulators as well as a bespoke questionnaire, if needed, that addresses the needs/criteria of the specific regulators. This will remove the requirement for firms to duplicate information across multiple forms and ensure regulators have all the information necessary to assess applications. GFIN will launch this single application form process in H1 2020 when we call for applications for the first post-pilot cohort of firms.</p>

A new cohort in H1 2020

At the Montreal meeting in October 2019, GFIN regulators agreed to open applications for the first formal cohort of participants in the first half of 2020. We will make further announcements about timing in due course.

Following the launch of the website, regulatory compendium and single application form, GFIN members believe that the process will be significantly improved for both regulators and firms. The GFIN would welcome further engagement from industry on how the process could be further improved. Firms can contact us via our website: <https://www.thegfin.com/>



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