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CENTRAL BANK OF OMAN



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Central Bank of Oman Fintech Regulatory Sandbox Framework

Introduction

The vast changes that technology has been making to the way financial services are provided engendered significant economic growth through financial development, inclusion and efficiency. However, each technological transformation comes with risks as well as opportunities. As a regulatory authority of the financial sector in Oman, the Central Bank of Oman (CBO) is concerned with harnessing such opportunities for innovation while mitigating the accompanying risks. A Fintech Regulatory Sandbox is a common and worldwide-used approach to achieve this objective. The CBO Fintech Regulatory Sandbox (FRS) targets cultivating advanced and innovative products, services and business models in the domestic financial services industry. The FRS is a closed testing environment in which the CBO will grant certain *regulatory exemptions* for participants¹ that have Fintech² solution applications entering the FRS, thus allowing them to live test their banking, payments and other financial services solutions on volunteer customers in order to prove their viability. Such testing is live in the sense that it will include actual volunteer customers yet with limitations on their numbers, the

¹ We use the term throughout the framework “participants” for applicants accepted into the FRS to conduct the agreed-upon testing of their Fintech solution

² An innovative way of providing a financial service utilizing modern technology



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volumes and values of operations as well as on the way some operations are conducted. As an entrant to the CBO FRS, the participant will be able to prove the validity of their product/service and eligibility for full-deployment while being supervised and advised by the CBO. This experience will allow the CBO to introduce agile regulatory frameworks and other strategic initiatives to foster innovation in the Omani financial sector while maintaining financial stability and ensuring high standards for consumer protection.

Eligibility

Applications to the CBO Sandbox are open to both local and foreign³ non-licensed innovators, Fintech companies and start-ups as well as existing licensed firms operating in the local financial markets (banks, payment service providers, money exchange establishments, finance and leasing companies, industry associates) per CBO regulations. The proposed Fintech ideas must be of an activity that is covered by the CBO mandate and jurisdiction (for example: banking activities and payments solutions). Applicants must have/obtain a Commercial Registration (through the Minister of Commerce, Industry and Investment Promotion), a valid bank account with a bank operating in Oman and must fulfil the CBO Fit & Proper criteria (as per Section B in the application form).

³ Foreign companies must be compliant with the Foreign Investment Law in Oman



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For consideration for admission to the CBO Sandbox, applications must at minimum demonstrate the following:

- a) A strong case of genuine value-addition to the Omani market and its consumers such as an innovative product/service, reduction in cost of existing products/services, enhancement of security and widening scope of access for specific customer groups
- b) A clear business case and model that includes sustainable funding and financial plan fit for both live testing period and full-scale implementation of the Fintech idea
- c) The readiness of the product/service to be implemented in Oman and/or a real need to test the idea on real but small customer group before full-scale deployment. The product/service must have already undergone essential testing such as stress testing, data security tests and penetration and vulnerability test, and the results of such tests must be included in the application. Specifics regarding the maximum number of customers to take part in the live testing and values of financial transactions are decided by the CBO on a case-by-case basis.
- d) Available resources that can be utilized by the time of an approval by the CBO to enter the Sandbox
- e) A viable exit from the Sandbox plan which specifies the full procedure of a smooth transition and exit from the Sandbox as well as how the regulatory



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requirements which were excepted during the Sandbox live testing period may be met if the live testing was successful

- f) Comprehensive assessment of potential risks and intended mitigation including an emergency exit plan if live testing fails or cancelled due to non-compliance. Such assessment must provide customer protection safeguards plans with necessary guarantees and compensation.
- g) A robust and fair customer compensation scheme that is agreeable by volunteer customers. The scheme must take into consideration and cover all types of risks and failure scenarios including loss of funds, failure of adequate service delivery, failure of compliance with necessary customer safeguards etc. This scheme must be specified in the agreement between the FRS participant and the volunteer customer and disputes in this regard may be presented at a court of law in Oman.
- h) Precise set of Key Performance Indicators and success criteria which will be used during the live testing period and in progress reports identified below
- i) Eligibility for deployment in Oman and at full scale after a successful exit from the Sandbox
- j) Compatibility with the current payments and banking infrastructure

The idea presented should have passed all hurdles except for regulatory ones, which the Sandbox can exempt for the live testing period. The Sandbox may not be utilized to circumvent necessary regulations i.e. Know Your Customer (KYC),



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Cyber security, Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) regulations.

Process and Stages

Applications for the CBO Sandbox are accepted on a rolling basis and will be open starting December 10, 2020. The first phase will be for Fintechs related to payments solutions. The Sandbox process is as follows:

1) Application:

- Applicants should use the application form (as provided on the CBO website) to fill out all application requirements. This form, along with all other supplemental information, documents and a cover letter stamped and signed by the authorized signatories of the applicant should be sent to the email (sandbox@cbo.gov.om).
- Applicants should pay a fee of RO 200 (non-refundable) to CBO's account with Bank Muscat A/C No. 0423010702880019 after receiving a confirmation of receipt of application from the CBO. The fee payment receipt must be submitted to CBO (same email as above) in order to process the application.
- CBO will assesses the application against the eligibility criteria mentioned in the previous section and shall CBO shall respond to the applicant with initial approval or rejection within 30 days of the submission of the application. The initial approval will specify all other con-



ditions and material required from the applicant for final approval to enter the Sandbox.

- The applicant should be available with all relevant materials to respond to CBO's queries and conditions within 30 days of receiving the initial approval.

2) Approval & Testing Design:

- Once the applicant had satisfied all other requirements and conditions specified during initial approval, the CBO will work with the applicant to finalize the testing plan and the regulatory requirement to be relaxed during live testing.
- The applicant will go through a technical testing of their platform for connection to CBO's payment system. Therefore, the duration of this step will depend on the technical readiness of the Fintech platform and its ability to integrate with CBO's system. Applicants must note that failed technical integration will mean a rejection from entering the Sandbox live testing.
- Once technical testing is successful and the Fintech platform is certified to enter the Sandbox, and once the applicant had satisfied all other requirements and conditions specified by CBO during initial approval, the CBO will grant the applicant a final approval to enter the Sandbox within 15 days.



- The applicant should be ready to commence live testing operations within 15 days of receiving the final approval from CBO. By the end of this period, applicants should have ready all testing scripts, controls, and plane. These 15 days are a grace period in which the applicant may finalize setting up the testing environment.

3) Live Testing:

- Applicants have a minimum of 6 months' worth of live testing period.
- This period is extendable according to testing needs and FRS participants may apply for an extension only after commencing live testing. An extension request must be communicated to the CBO with a justification at minimum 2 months before the initially specified date of live testing end. Such request is subject to approval by the CBO.
- Applicants must specify the target customer group for the live testing, but are not allowed to choose specific individuals
- FRS participants must stick to the original features of their product/service as per the application and approval received from CBO. For any additional features during live testing, the FRS participants must seek approval from CBO.

4) Evaluation of Live Testing:

- A continuous evaluation of the live testing process and progress including regular on-site and off-site examination, surveillance and au-



dit conducted by the CBO on regulatory requirements not under Sandbox exemption

- FRS participants must submit a monthly progress report with a dashboard indicating the performance of the project maximum by 7 days after the end of each month of live testing. Such performance should be measured against the above-mentioned KPIs included in the application
- The monthly report of the 4th month should include an up-to-date tentative exit action plan
- FRS participants must submit a comprehensive evaluation report maximum by 15 days after the end of the live testing period, in which they shall present a strong case as to how the project met its predetermined success criteria
- The final evaluation report should present the “way-forward” for the project which details the full-scale deployment plan of the Fintech according to live testing results

5) Exit:

- After the end of the approved live testing period, the project must stop all live testing activities until the CBO Sandbox taskforce confers and comes up with a recommendation regarding the full-scale deployment of the Fintech



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- Ending of live testing activities should take place according to the testing plan approved by CBO.
- The CBO will not endure liabilities resulting from an unapproved exit from live testing and reserves the right to penalize the Fintech company for such exit unless it was done under limited capacity due to unforeseen challenges. The FRS participant shall assume full liability towards volunteer customers for any failed testing.
- CBO reserves the right to halt or terminate live testing at any point if any risk is not well mitigated or in case of adverse circumstances that may affect customers using the product or service in live testing
- After submission of comprehensive evaluation report, CBO has 30 days to produce a recommendation regarding the full-scale deployment of the Fintech
- Such recommendation will be communicated to the relevant licensing departments within the CBO in case the FRS participant wishes to proceed with full-licensing application and full-deployment of their tested idea

Transparency & Disclosure

CBO reserves the right to publish any relevant information about the Regulatory Sandbox applicants on its website and/or news outlets, including for the purpose



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of knowledge transfer and collaboration with other international regulatory agencies, without revealing any proprietary/intellectual property rights-related information.

FRS participants testing their product/service in the Sandbox should have a clear communication plan with end-users in the live testing during all stages. Information regarding the terms and conditions of the live testing environment as well as risks and liability in case of failure should be part of this communication plan.

Facilitation & Accommodation

Applicants must bear in mind that live testing facilities (physical location, data storage facility etc.) will not be provided by the CBO but by the applicants themselves instead and must be specified in the application under resources.

Other accommodation required from the CBO such as connectivity to the National Payments and Settlements System and/or integration with other financial infrastructure entities must be specified in the application.