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फोन: ५७९६४४/५/६
एक्स्टेन्सन: १३५४
E-mail : psdept@nrb.org.np
Web : www.nrb.org.np

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सूचना

सम्पूर्ण सरोकारवाला व्यक्ति तथा निकायहरु ।

विषय :- राय/सुझाव उपलब्ध गराईदिने बारे ।

यस बैंकबाट Regulatory Sandbox सञ्चालन गर्ने प्रयोजनको लागि तयार गरिएको “Guidelines on the Regulatory Sandbox” को मस्यौदा बैंकको वेबसाइट www.nrb.org.np मा राखिएको व्यहोरा अनुरोध गर्दछु । उक्त मस्यौदा उपर कुनै राय/सुझाव भएमा २०८२ भदौ १५ भित्र यस विभागको ईमेल psdnic@nrb.org.np मा उपलब्ध गराई दिनुहुन अनुरोध छ ।

कार्यकारी निर्देशक

Guidelines on the Regulatory Sandbox



Nepal Rastra Bank
Payment Systems Department

Definition of Terms

1. For the purpose of these Guidelines the following definitions are provided:

1.1 **“Applicant”** means the party interested in being a Participant in the Sandbox as indicated through the submission of an application form. The Applicant could be an authorized and regulated financial institution or A Fintech Company, either on its own or in collaboration with another regulated financial institution.

1.2 **“Fintech”** means financial technology or technological innovation utilized in the provision of financial products and services.

1.3 **“Fintech Company”** means a company other than a regulated financial institution that leveraging technology to create innovative models, applications, processes, or products that significantly enhance the delivery and reach of financial services and products

1.4 **“Participant”** means any institution authorized by the Nepal Rastra Bank (NRB) to participate in the Regulatory Sandbox. The term “Participants” shall be construed accordingly.

1.5 **“Licensed Entity”** means a licensed or registered Financial Institution (Bank and Non-Bank) which is subject to regulation and supervision by the NRB and any relevant regulations. The term “Licensed Entities” shall be construed accordingly.

1.6 **“Regulatory Sandbox” or “Sandbox”** means a controlled and supervised testing environment in which participating institutions may test their products, services, or solutions under defined parameters and subject to the requirements of these Guidelines.

1.7 **“Financial product or service”** means any product or service regulated by the NRB.

1.8 **“Cohort”** means a structured sandbox cycle initiated by the Bank, based on specific innovation theme, within which the selected participants are permitted to test their financial products, services, or solutions. The Bank may invite applications for a limited number of thematic cohorts annually, subject to predefined eligibility, scope and timelines.

1. Introduction

1.1 Rapid diffusion of technology, expanding access to internet connectivity¹, nation-wide adoption of smartphones², and lowering trend of cost of internet connectivity³ have created opportunities for financial technology (Fintech) start-ups keen to offer innovative financial products, services, and solutions. As in many jurisdictions across the globe, these institutions require support and an enabling research and development environment.

1.2 In this regard, the Nepal Rastra Bank (NRB) has undertaken to encourage innovations in the financial services sector, by facilitating the controlled testing of new and innovative products and technologies to foster responsible innovation and deepen ongoing financial inclusion efforts.

1.3 As part of the process, the NRB has decided to establish a Regulatory Sandbox ('Regulatory Sandbox' or 'the Sandbox') to provide a regulatory environment that is conducive for the development and deployment of innovative technology-enabled solutions in the financial sector. This initiative has been made for the implementation of Pillar 4, Objective 2, Strategy 2, Action (2) of NRB's Fourth Strategic Plan, 2022-2026.

1.4 The Regulatory Sandbox is a controlled and supervised testing environment that enables participating institutions to test their products, services or solutions subject to the requirements under these Guidelines and promotes evidence-based/ results-driven assessment of new and emerging financial innovations before they are commercially launched.

1.5 To facilitate the establishment of the Regulatory Sandbox, these Guidelines are being issued in accordance with Section 4, 5, and 79 of the Nepal Rastra Bank Act, 2002; Section 45 of the Payment and Settlement Act, 2019; and Section 12 of Foreign Exchange Regulation Act, 1962.

2. Purpose of the Guidelines on the Regulatory Sandbox

2.1 These Guidelines on the Regulatory Sandbox provide guidance and requirements for the establishment of and for Participants to operate in the Regulatory Sandbox.

2.2 These Guidelines also seek to encourage the development of evidence-based, result driven responsible innovation in the Nepali market and to foster collaboration between various financial sector entities.

2.3 These Guidelines also aim to foster open and transparent dialogue between the private sector and the NRB.

¹ As per NSO (2023), 38 percent of Nepalese households have access to internet connectivity in Nepal.

² As per NSO (2023), 72.94 percent of the population own a smartphone in Nepal.

³ As per bestbroadbanddeals.co.uk (2023), the cost of per GB data connectivity has reduced from \$2.25 in 2019 to 0.43 in 2023.

3. The Regulatory Sandbox

Objectives

3.1 The Regulatory Sandbox seeks to achieve the following objectives:

- a) promote safe and responsible innovation of financial products or services to enhance access, usage and quality of digital financial services;
- b) enable innovation of fintech to be deployed and tested in a live environment without compromising on safety for consumers and the financial services sector;
- c) encourage collaboration between the traditional financial services ⁴providers and fintech;
- d) promote competition and efficiency in the financial services sector while protecting consumers;
- e) monitor new technologies in the financial sector to ensure appropriate safeguards to manage the risks and contain the consequences of failure;
- f) provide an avenue for regulatory engagement with firms on new and innovative technologies in the financial services space; and
- g) inform financial sector regulation and policy.

Benefits

3.2 The Regulatory Sandbox will enable the following:

- a) the ability to test products and services in a controlled environment;
- b) the introduction of new and innovative technology-enabled products in the financial sector that will deepen financial inclusion efforts;
- c) ability to monitor new technologies in the financial sector to ensure that they do not introduce systemic risk to the financial system;
- d) support in the identification of appropriate consumer protection measures;
- e) provision of avenues for regulatory engagement with firms on new and innovative technologies in the financial services space while contributing to economic growth; and
- f) inform regulatory reforms to meet the changing demands of the financial sector.

Scope

3.3 The Regulatory Sandbox is intended for Fintech innovators specifically, and for innovators in the financial services sector generally, that have already developed their service, product, or business

⁴ For the purpose of these Guidelines, traditional financial services providers are the licensed entities, offering banking and financial services to their customers through conventional channels or via digital channels.

model and are ready to undertake live testing of their products through controlled and monitored market testing.

3.4 The sandbox activities that shall be tested are those that the NRB would be able to oversee in terms of existing legislation and any relevant regulations. Accordingly, all activities to be tested should have appropriate regulatory approval.

3.5 The NRB has included a list of permissible products, services, solutions, and/or technologies for testing under Annex 2 of these Guidelines.

3.6 The NRB will consider entities in the financial services sector including Licensed Entities such as NRB-licensed banks and financial institutions (BFIs), Payment System Operators (PSOs), Payment Service Providers (PSPs), and remittance companies. As far as allowed by the prevailing laws, these guidelines also cover fintech firms that propose to deliver new products, services, or business models pertaining to activities that could fall under the regulatory purview of the NRB.

3.7 Acceptance into the Regulatory Sandbox will not act as a permanent license to operate; or a permission to operate without regulatory oversight or supervision.

Confidentiality

3.8 The NRB shall treat all information availed or submitted by any entity seeking to participate in the Sandbox as confidential, unless the same is already in the public domain. The NRB shall not disclose such information to third parties without the Applicant's or Participant's written consent unless required to do so under any law or court order.

3.9 For the avoidance of doubt, the intellectual property laws of Nepal shall apply.

3.10 In order to provide stakeholders with information on emerging risks and regulation of financial technologies and business models, the NRB may produce reports on anonymized data, regulatory insights and any lessons learnt from the Sandbox.

Target Audience

3.11 The NRB will consider entities in the financial services sector including Licensed Entities such as NRB-licensed BFIs, PSOs, PSPs, remittance companies. Fintech Companies that propose to deliver new products, services, or business models pertaining to activities that could fall under the regulatory purview of the NRB may also apply.

3.12 The NRB will consider innovations that enhance financial services, improve consumer experience with financial products, promotes competition and efficiency, or enhance financial inclusion.

3.13 Applicants may refer to the list of permissible products, services, solutions, and/or technologies under Annex 2 of the Guidelines, based on which Cohort themes may be defined by the NRB.

3.14 The NRB may, to the extent permitted by law and in consultation with relevant financial sector players, temporarily relax or waive some of the existing regulatory requirements, or provide temporary authorizations to entities participating in the Sandbox ('Participants'). Specifically, the NRB may provide the following exemptions to Participants:

- 3.14.1 Licensed Entities: Regulated BFIs; other institutions regulated and/or licensed by the NRB such as PSOs, PSPs, and remittance companies may be granted the following exemptions if admitted to the Sandbox for the duration of testing in the Sandbox: authorization to launch their products or services in the Sandbox, asset maintenance requirement, cash balances provided that the balances are sufficient to meet business and customer-related obligations created during sandbox testing, credit rating, license fees, management experience, minimum liquid assets, minimum paid-up capital, relative size, escrow requirements⁵, among others.
- 3.14.2 New entities: A new Fintech Company that intends to deliver new products, services, or business models pertaining to activities that could fall under the regulatory purview of the NRB may be provided the following exemptions: authorization to launch their products or services in the Sandbox, risk management and outsourcing; minimum liquid assets; cash balances provided that the balances are sufficient to meet business and customer-related obligations created during sandbox testing, management experience; relative size; track record; escrow requirements, among others.
- 3.14.3 The participants (licensed and new entities) shall also be facilitated with the following enablers:
- a. Simplified reporting and disclosure requirements (as per the templates agreed-upon during negotiations of terms and conditions),
 - b. Non-discriminatory and low-cost access to payment infrastructure,
 - c. Temporary waivers related to support center operating hours, dispute management portals, etc.,
 - d. Technology neutrality, enabling new technologies to be tested,
 - e. Marketing and advertisement flexibility provided that the customers are well-informed about the sandbox operation,
 - f. Other cohort/product-specific facilitations, as deemed necessary.

⁵ The escrow requirements-related relaxations shall allow participants to hold fund in their own specified account, without requiring a third party to manage funds or having a separate settlement bank arrangement for providing settlement finality.

Safeguards

3.15 The Sandbox approach aims to provide a safe environment for testing with regards to key risks in the financial sector, including terrorism financing, money laundering, consumer protection, cyber risk, competition, data privacy, and information security, among others.

3.16 An authorized Participant must adhere to the relevant regulations on confidentiality of customer information, Know Your Customer (KYC), Anti Money Laundering (AML), and Countering Financing of Terrorism (CFT) requirements at all times.

3.17 Testing will be limited to customers who have consented to be part of the tests and have been educated about the risks involved by the Participant.

3.18 Given the live nature of the Sandbox, the Participant will be required to implement sufficient safeguards to ensure the protection of the volunteer customers, including resources or measures to compensate for any losses to the customers.

3.19 Applicants must demonstrate capacity and resources, including those necessary to mitigate and control potential risks and losses.

Application, Approval, Testing and Exit Process

3.20 The Sandbox will have four distinct phases:

- i) Application phase,
- ii) Application evaluation phase,
- iii) Testing phase, and
- iv) Evaluation and graduation phase.

3.21 All Applicants must ensure and demonstrate in their applications that they have met all the eligibility criteria set out in Annex 1 of these Guidelines.

Application and Evaluation

3.22 The NRB will assess each application against the requirements outlined in Annex 3 and communicate the decision in writing to the Applicants.

3.23 In the course of the assessment period, the Applicant may make adjustments to the application with the permission of the NRB. This may include changes to the parameters of the intended tests to be conducted in the Sandbox.

3.24 Upon approval, the Applicant will be invited to participate in the Sandbox on terms and conditions stipulated by the NRB related to: i) testing scope, limitations, and duration; ii) metrics or key performance indicators (KPIs); iii) reporting obligations; iv) risk controls and consumer protections; v) any conditions linked to regulatory relief.

3.25 By confirming their intention to participate in the Sandbox on the terms and conditions mentioned in 3.26, the Applicant agrees to be responsible for deploying, operating and meeting the costs of the test to be conducted in the Sandbox, with the NRB providing the appropriate regulatory guidance for the duration of the test.

Testing

3.26 On entering the testing phase, the Applicant will be referred to as a Participant.

3.27 The Participant should be prepared to begin the tests outlined in the approved application as well as any additional conditions set forth by the NRB.

3.28 In the event of a successful application by a Fintech Company that is unable to obtain the required authorizations from the NRB, it must enter into a partnership with a licensed financial services provider in the country prior to the testing stage and full-scale deployment should the test(s) be successful.

For the avoidance of doubt, the Participant should enter into such a partnership with a financial services business before undertaking any tests of the approved product or service.

3.29 The period for testing is limited to a maximum of [6] months, after which the regulatory approval and relaxation received by the Participant will expire.

3.30 Each Participant will be bound to the agreed testing dates not exceeding an initial period of [6] months.

3.31 If the Participant for whatever reason requires an extension to the agreed testing period, this should be communicated in writing to the NRB at least [two] months before the end of the agreed testing period.

3.32 The NRB will consider the application for extension and reserves the right to reject any request for extension.

3.33 The testing period may be extended by a maximum of up to 6 months, if deemed appropriate by the NRB.

3.34 During the testing period, the Participant shall submit periodic reports as required by the NRB within the prescribed timelines.

Revocation of Authorization or Early Exit

3.35 The NRB reserves the right to revoke any authorization for the testing of a financial service or product in the Regulatory Sandbox where a Participant:

- a) has caused significant customer harm;
- b) materially does not comply with the agreed terms and conditions of the testing
- c) fails to develop or implement safeguards;

- d) breaches data security requirements;
- e) is noted to have submitted misleading information or misrepresented to the NRB;
- f) goes into liquidation or has primary license cancelled;
- g) fails to address any technical defects; or
- h) withdraws their product or service voluntarily from the Sandbox.

Obligations of Exiting Participants

3.36 A Participant that is exiting the Sandbox for any reason whatsoever will be required to take the following steps:

- a) **Provide a consumer exit plan.** An exiting Participant must provide a plan to exit the Sandbox as well as transition consumers from the product within a timeframe and manner that is acceptable to the NRB;
- b) **Cease operations.** An exiting Participant must cease operations within a timeframe that is acceptable to the NRB and in line with the agreed consumer exit plan above;
- c) **Submit final data and reports.** An exiting Participant must hand over all data related to the testing, including customer data, to the NRB immediately, and in any case prior to the exit. The NRB will require an exiting Participant to purge or permanently delete any customer data acquired during the period of testing.
- d) **Fulfilment of obligations.** Fulfill all obligations towards customers onboarded during sandbox testing, the payment infrastructure, and other licensed entities with which the Participant has integrated its solutions.
- e) **Final evaluation report.** An exiting Participant must also submit a final evaluation in a form and manner prescribed by the NRB within [60] days of exit from the Sandbox.

Obligations After Testing Period

3.37 Upon the completion of the testing period (including the period of any extension), the Participant will prepare to exit the Sandbox guided by a testing plan approved by the NRB, which shall include plans for an orderly exit without causing disruption to the financial system and prejudice to customers. Additionally, the Participant will follow all obligations stipulated in Section 3.36 above.

3.38 The Participant shall submit all relevant information within prescribed timelines after the completion of testing period. The submitted information shall be reviewed by the NRB to determine the success or failure of the test.

Evaluation after Testing

3.39 After the testing period, the NRB will evaluate the relevant product or service, including: i) operational performance and key performance indicators, ii) suitability for broader market adoption

in Nepal, iii) risks and corresponding consumer protection measures associated with the introduction of the product, and iv) readiness for full licensing or market integration.

3.40 The evaluation may conclude with a **successful graduation**, if the Participant meets the test objectives and other stipulated conditions for successful testing. In the event of minor issues to be resolved before successful graduation from the Sandbox, the Participant may **re-enter the Sandbox** or adjust the model, with the NRB's prior approval. In case the Participant is unable to successfully graduate from the Sandbox after the evaluation, the **Sandbox status will be revoked**.

3.41 After the evaluation has concluded, the NRB will communicate in writing whether the test has been successful along with reasons for the same. The NRB may grant the Participant an extension of a maximum of [6] months to continue or re-initiate the testing in the Sandbox.

3.42 Successful Participants may apply for full licenses or authorizations to launch their products, services, solution, or technology as outlined below:

- a. For licensed entities with products, services, or solutions that can be authorized in accordance with existing regulations, an authorization and regulatory approval shall be granted by the NRB
- b. For new entities with products, services, or solutions covered by existing licensing framework, license shall be granted by the NRB
- c. For other entities, tie-ups with licensed entities shall be fostered and authorizations/ regulatory approvals shall be granted to such licensed entities.

3.43 Successful participants shall follow the transition to full deployment of the tested product or service in the Nepali market as outlined in the testing plan.

4. Governance

4.1 The Sandbox will operate under the oversight of a dedicated inter-departmental working group ('Governing Body'). The Governing Body will convene regularly to oversee the Sandbox, review the results, ensure supervision consistency, and share knowledge. This will help ensure that consistency is applied in application and implementation procedures, while also monitoring the sandbox for the achievement of results.

4.2. The day-to-day functioning of the Sandbox will be overseen by the Payments System Department (PSD) of the NRB. For this purpose, PSD will constitute a Sandbox Committee, which will operate under the supervision of the Director of PSD, NRB.

4.3 The Sandbox Committee will oversee the day-to-day functioning of the Sandbox, including the call for application and application evaluation phase, testing, exit, and evaluation of the products and services being tested.

4.4 The Sandbox Committee may call upon the relevant NRB departments to provide their input depending on the nature and specificity of the products and services being tested in the Sandbox.

4.5 The Sandbox Committee may further appoint or invite any external individual or institution whose skills or professional experience are deemed useful to participate in an advisory capacity, provided that their integrity is ensured and conflicts of interest are avoided.

5. Periodic Evaluation of the Sandbox

5.1. The NRB will appoint external experts to conduct a biannual evaluation of the functioning of the Sandbox and to submit a report on the same.

5.2 Key areas of the evaluation will include analyzing the performance of the firms that participated, assessing the regulatory flexibility provided, and reviewing the impact of the products/services tested within the sandbox.

5.3 The evaluation report will include recommendations for improving future cohorts, refining the Sandbox design and operations, and ensuring better alignment with regulatory goals. The findings laid down in the evaluation report will help determine the success of the Sandbox and inform potential changes or expansions in the future.

5.4 Evaluations may also cover the following subtopics: i) effectiveness in achieving objectives; ii) feedback from participants and consumers; iii) regulatory insights gained; iv) recommendations for improvements and future Sandbox cohorts.

6. Additional Rules and Operational Guidelines

PSD, NRB will have the power to enact and adopt additional rules and operational guidelines related to the Sandbox throughout its lifecycle, including application, selection, testing and exit, as the need may be.

7. Disclosure and Communication

The Bank shall ensure timely disclosure of regulatory sandbox-related information fairly and equitably to all stakeholders. The Bank shall communicate the sandbox process, cohort theme, entry and exit criteria, call for application, list of selected applicants, and others. The Bank shall further publish other relevant documents for the purpose of knowledge transfer, transparency, and collaboration with other international regulatory agencies, without disclosing sensitive proprietary information of participants.

8. Effective date

These Guidelines are effective from _____.

Annex 1: Eligibility Criteria

1. Eligibility Criteria may include but will not be limited to the following:

1.1 **Innovation:** The proposed product or service must be genuinely innovative or offer a new use of existing technologies, evidenced through market research and a comparison of the key features of the Applicant's technology or operating methodology against competitors. The product must fall on the eligible products list.

1.2 **Financial inclusion:** The proposed product or service must have the potential to enhance financial inclusion in Nepal. The Applicant must demonstrate this in their application to the extent possible.

1.3 **Need for a Sandbox:** The Applicant must demonstrate that live testing is necessary to achieve the testing objective.

1.4 **Readiness for regulatory testing:** The Applicant must demonstrate well-developed testing plans and sufficient safeguards to protect customers. Key risks of the solution and how they can be mitigated must be separately highlighted.

1.5 **Fit & Proper Requirements:** The Applicant should be in good standing and all key stakeholders (management, ownership, etc.) should be fit and proper.

1.6 **Consumer Benefit:** The Applicant should demonstrate that the proposed products or services offer a benefit to consumers, whether through the product itself or an expanded or more competitive offering.

1.7 **Thematic Eligibility Criteria:** Eligible applications should demonstrate that their proposed product, service or solution is suitable for the cohort theme for which applications have been called by the NRB. The NRB may propose cohort-specific eligibility criteria. The NRB may prescribe additional eligibility criteria for each cohort at the time of making the application announcement.

1.8 **Complete Application:** Eligible applicants must provide complete applications and submit all requested materials. Any errors or omissions will be swiftly addressed in response to NRB inquiries.

Annex 2: Eligible Products and Services List

2. The products and services eligible and non-eligible for Sandbox testing are indicated below:

2.1 Eligible

- APIs
- Mobile money services
- Retail payments
- Money transfer services
- Digital KYC
- Digital identification services
- Smart contracts
- Financial inclusion products
- Cyber security products
- Embedded Finance
- Regulatory technology products
- Any other innovation that is approved by the NRB

2.2 Non-Eligible

- Crypto currency
- Digital currency
- Central bank digital currency
- Online betting, gaming and similar products

Annex 3: Application Requirements

3. The Sandbox application requirements may include the following information in a form and manner that may be prescribed by the NRB.

3.1 A description of how the Applicant has met the Eligibility Criteria described in Annex 1 with supporting evidence.

3.2 Full details of the Applicant's organization, including its governance arrangements, financial standing, technical and business domain expertise; and authorized regulatory status if any under the NRB or any other regulator, including:

- a) License / registration status
- b) Information on key representatives of the firm (leadership, senior management, ownership, etc.) to satisfy fit & proper requirements;
- c) Supporting documentation detailing financial standing demonstrating the readiness to support live testing; and
- d) Any other information as prescribed by the NRB at the time of application announcement.

3.3 Full details of the financial service or product to be experimented on in the Sandbox; covering the following:

- a) Problem statement that the proposed product or services intends to address;
- b) Benefits of the proposed product or service, including from the financial inclusion perspective;
- c) Business model(s), including the target customer and specific use cases. For each use case, provide an end-to-end illustration on how the proposed financial product or service will be made available; and
- d) Technical architecture of the solution, detailing the specific technology and innovative ways in which the technology will be applied.

3.4 Full details of the proposed product, service, or innovation, including a description of the tests to be conducted in the sandbox, including specific testing of the application of technology in the proposed financial service/product, and the preferred length of the testing period not exceeding 6 months.

3.5 Descriptions of the targets and key performance indicators (KPIs), which will be used to determine the success of test.

3.6 Boundary conditions for the Sandbox such as target customer types, customer limits, transaction limits, transaction flows, and so on.

3.7 Details of the applicable legal/regulatory requirements and the relaxation that you are seeking in order to deliver the proposed financial product or service in the sandbox:

3.8 An assessment of the Applicant's readiness for testing which shall include target customer safeguards and testing.

3.9 A description of the target customer communications plan, which must include risk disclosures and material information about the company and the Sandbox.

3.10 A description of information and cyber security; money laundering, terrorism financing, consumer protection and other relevant controls taken by the Applicant to ensure safety of the solution.

3.11 A description of any third-party outsourcing arrangement including the due diligence conducted by the Applicant on the third party to ensure information and cyber security

3.12 An assessment of the exit and transition plan for customers at the end of the testing period or upon early exit, scale-up and deployment strategy, along with an assessment of the timeline and gaps if any in meeting any heightened legal and regulatory requirements after exiting the Sandbox; and

3.13 Any other requirements that the NRB may consider appropriate.