



BANKING AND FINANCE

Inter-operable Regulatory Sandbox (IoRS): A New Era of Cross-Sectoral FinTech Innovation

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Introduction

India's financial regulatory ecosystem has been steadily evolving to accommodate innovation in banking, securities, insurance, pensions, and international finance. A significant milestone in this journey is the launch of the Inter-operable Regulatory Sandbox (IoRS), a unified framework that allows innovators to test hybrid financial products and services spanning multiple regulatory domains. By creating a single-window testing environment, IoRS eliminates the need for separate engagements with individual regulators, paving the way for efficient compliance and faster innovation.

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Genesis of IoRS

The IoRS was conceived by the Inter-Regulatory Technical Group on FinTech (IRTG on FinTech), constituted under the Financial Stability and Development Council–Sub Committee (FSDC-SC). The IRTG was mandated to address challenges in admitting hybrid products and services into existing sandboxes and to develop a Standard Operating Procedure (SOP) for IoRS to facilitate coordinated testing across regulators. The initiative reflects a collaborative effort between financial sector regulators and key government stakeholders, including the Department of Economic Affairs (DEA) and the Ministry of Electronics and Information Technology (MeitY).

Regulators Involved

The IoRS brings together India's primary financial regulators:

- Reserve Bank of India (RBI): Banking and payment systems.
- Securities and Exchange Board of India (SEBI): Securities markets.
- Insurance Regulatory and Development Authority of India (IRDAI): Insurance products.
- Pension Fund Regulatory and Development Authority (PFRDA): Pension-related innovations (AR role only).
- International Financial Services Centres Authority (IFSCA): Cross-border and international finance at GIFT City IFSC.

How IoRS Works

The framework operates on the principle of a Principal Regulator (PR), which is the authority under whose remit the dominant feature of a product falls. Other regulators act as Associate Regulators (ARs). The dominant feature is assessed based on the type of enhancement to existing financial products and the number and nature of regulatory relaxations requested, with higher weightage assigned to the latter. Applications are submitted through a single-window via the RBI FinTech Department, which conducts a preliminary review before forwarding the application to the PR. Testing is then conducted within the PR's sandbox framework, coordinated with ARs to ensure comprehensive compliance.

Key Features and Benefits

- **Single-window clearance:** One application, multiple regulators.
- **Innovation support:** Testing in areas such as RegTech, SupTech, InsurTech, WealthTech, and cross-border payments.
- **Controlled environment:** Safe testing of products before market launch.
- **Regulatory feedback:** Iterative refinement based on multi-regulator inputs.

- **Faster go-to-market:** Reduced duplication of regulatory engagement.

Eligibility and Participation

The sandbox is open to a wide spectrum of participants, including financial institutions, FinTech companies, RegTech and SupTech providers, start-ups, and innovators. Foreign FinTechs seeking entry into India, as well as Indian FinTechs with global ambitions, are eligible to participate, with IFSCA serving as the PR in such cases. Applications are accepted on-tap throughout the year via email to iors@rbi.org.in using the prescribed form. While there is no general application fee, sandbox-specific fees as determined by the PR may apply. Applications undergo preliminary scrutiny by the RBI FinTech Department, followed by detailed review by the PR in coordination with ARs, with testing conducted according to the PR's sandbox framework. Upon successful completion, entities are required to secure all necessary approvals from the concerned regulators before commercial launch, and successful innovations are publicized through regulatory press releases.

Significance

The IoRS marks a paradigm shift in India's regulatory approach to financial innovation. Unlike siloed sandboxes, IoRS provides:

- Regulatory interoperability across domains.
- Reduced compliance friction for hybrid innovations.
- Enhanced policy coordination among regulators.
- A competitive edge for Indian FinTechs in global markets.

Conclusion

The Inter-operable Regulatory Sandbox is more than a procedural development, it is a foundational reform in India's financial regulatory architecture. By enabling cross-sectoral innovation and coordinated regulatory oversight, it sets the stage for the next phase of India's FinTech growth, aligning the country with global best practices while catering to the unique complexities of its financial system.

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