6 reasons why sandboxes are an underrated EU policy instrument

When launching their business on the market, startups often struggle with legislation. Because they disrupt business models with new solutions, it can be complex for them to comply with regulations that are not adapted to them. However, some regulatory burdens could be mitigated with the use of regulatory sandboxes. The use of sandboxes for Fintech startups in the UK has proven itself very useful both for startups and regulators. At Allied for Startups, we argue that sandboxes can be used more frequently as a tool for innovation and better policy-making.

What is a sandbox?
A sandbox is a coordinated way for entrepreneurs to collaborate with regulators while developing a groundbreaking new product or service. Regulatory sandboxes are testing grounds for new business models that are not covered by current regulation or currently supervised by regulatory institutions. They enable startups and other innovative companies to test new services or products without harming consumers or investors, and therefore, promote effective competition.

Why should sandboxes be used at EU level?

Regulatory sandboxes reduce the cost of innovation for startups and eliminate barriers to market entry. Working closely with regulatory authorities gives startups the opportunity to develop innovative business models while keeping consumers in mind and mitigating risks by implementing appropriate safeguards. According to the UK's Financial Conduct Authority (FCA) which designed its own regulatory sandbox programme, companies use sandboxes to assess commercial uptake and viability: testing in a live environment is an opportunity to understand how receptive consumers are to different pricing strategies, communication channels and to new technologies themselves.

In addition, testing in sandboxes has facilitated access to finance for innovators. A report from the FCA indicates that the oversight of the regulatory authority in the sandbox process provides a degree of reassurance to investors. On the other hand, the increased regulatory certainty participation enables companies to develop more rigorous policies and processes.

Used at the EU level, regulatory sandboxes could help the legislative process. Sandboxes can help to address cross-border issues which need to be tackled at the EU level rather than at the national one. As facilitators of the necessary dialogue between market participants and regulators, sandboxes will allow EU regulators to collect important
insights before deciding if further regulatory action is needed. It will also help them to strike the right regulatory balance between facilitating innovation and mitigating risks.

**A two-way street: advantages for entrepreneurs and regulators alike**

The role of regulatory authorities in EU policy making has increased over the past years. With the General Data Protection Regulation, legislation concerning consumer protection or online platforms - new regulatory bodies emerge and existing one's receive new competences. Regulators often lack resources, expertise or legal certainty which in turn delays urgently needed guidance for companies. Regulatory sandboxes create a safe haven for regulators and entrepreneurs alike, to determine how rules should be interpreted or applied.

**Regulatory sandboxes create a space to promote innovation in the EU and encourage innovation in sectors that have been lacking competition.** Regulatory sandboxes are already considered to be useful to apprehend areas such as artificial intelligence, data, municipal services and automated transport. Sectors where sandboxes are used frequently these days are fintech and blockchain. For example, in the UK, FCA sandboxes enable new innovative financial services to emerge such as Luno - an app enabling you buy bitcoin and ethereum powered by blockchain technology. Another example is Laka - an alternative bike insurance where the consumer pays at the end of the month, based on the exact cost of claims settled during that period.

**In conclusion, regulatory sandboxes will benefit innovation and consumers in the short and long term.** Startups have the potential to challenge any business model. Regulatory sandboxes can facilitate them to scale more easily by giving them a safe space to test their solution in coordination with regulators. Using sandboxes at the EU level can reduce the time and cost of getting innovative ideas to the Single Market. This will result in quicker access to new services or products for consumers while keeping them safe. This is why startups could be the prime beneficiaries of regulatory sandboxes at EU level. This, in turn, would have positive externalities for the economy and society at large.

Allied for Startups

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*Allied for Startups* is a worldwide network of over 40 advocacy organisations focused on improving the policy environment for startups. We are working together to create a consensus on policies that can positively impact startups and grow digital entrepreneurship and digital economy at large. Our mission is to ensure that the voices of startups are heard in government.