



OFFICIAL PRESS RELEASE

26 November 2019

Alliance for Financial Inclusion (AFI) Pacific Island Regional Initiative (PIRI) Regulatory Sandbox Roadshow

The National Reserve Bank of Tonga (NRBT) in collaboration with the Alliance for Financial Inclusion (AFI), and the Pacific Islands Regional Initiatives (PIRI) is conducting a 2 days roadshow on Regulatory Sandbox commencing from 26th – 27th November 2019. The first day (26th November) will be an internal capacity building and discussions with NRBT staff and the second day will be with relevant stakeholders including government, financial institutions and the private sectors. This regulatory sandbox is a framework set up by financial sector regulators to allow live testing of innovations by private Fintech innovator firms in a controlled environment and if successful, can be introduced as a new Fintech product in Tonga.

Digital financial services (DFS) is one of Tonga's focus areas in its financial inclusion objectives because it is an important vehicle in driving and deepening financial inclusion. There are more DFS agents than bank branches put together here in Tonga. The NRBT as the financial regulator therefore look forward to understand how this Regulatory Sandbox framework will address the incumbent risks of digital finance and new innovations in the delivery of financial services. An example of this risk is the proposed introduction of crypto currencies such as Libra as a global currency. This poses a threat to maintaining adequate level of foreign reserves to facilitate the country's international payments and trade.

Furthermore, in times of rapid technological innovation in the financial market, the current work of the NRBT in modernising our national payment system and the upcoming e-government initiatives, there is a growing need to develop a regulatory framework for emerging business models. More importantly, there is the need to develop regulations that do not unduly slow down the pace of innovation. It also allows regulators to collect important insights before deciding if further regulatory action is necessary. This roadshow would therefore be very helpful to Tonga in terms of:

- a. Providing an enabling regulatory environment for innovative approaches; and
- b. Providing opportunity for our policy staff to be exposed to Fintech innovations and its framework as well as a training opportunity.

Through the sandbox, the regulators, can review prospective applicants subject to the NRBT mandate and requirements of the Tongan laws and regulations. The Regulatory Sandbox is an avenue in which innovators can trial Fintech innovations with regulatory controls to test the market and if it is commercially viable and meets the normal criteria of security, efficiency, reliability, and allows for consumer protection, they then could be licenced in Tonga. Having said that, this roadshow will put Tonga in touch with the global network of Fintech innovations and is an opportunity to learn more of the good practices and solution that Fintechs offer. Fintech for financial inclusion can ensure high quality and access to financial services in Tonga and in the Pacific region.

The NRBT believes that this roadshow will not only provide awareness on fintech innovations but will also help NRBT build its internal regulatory processes to implement and participate in the regional regulatory sandbox. The NRBT will also use this sandbox as an efficient tool to advance our financial inclusion objective on driving up access and usage of affordable financial services by the unbanked particularly in the remote areas and outer islands.

An improvement in Tonga's financial inclusion will contribute to accomplish the Bank's overall objective of stimulating inclusive economic growth and maintaining macroeconomic stability, which leads to a better standard of living for all levels of the community and to reduce poverty.

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