

## **The Contribution of Regulatory Sandboxes to the Development of artificial intelligence (AI) Applications in the Financial Sector**

Ruth Plato-Shinar

In recent years, an increasing number of regulators worldwide have introduced “regulatory sandboxes.” A regulatory sandbox provides an experimental environment for the development of innovative products or technologies under the supervision and guidance of the regulator, often accompanied by temporary regulatory relief during the trial period.

Sandboxes are particularly common in the financial sector due to its unique characteristics: stringent regulation on one hand, and rapid technological advancement on the other. With the growing use of artificial intelligence (AI), countries have begun establishing sandboxes to test AI applications in various domains.

Regulatory sandboxes present challenges: they demand substantial regulatory resources, carry the risk of potential hazards emerging during the experiment, may result in a “race to the bottom,” and more. Nonetheless, experience shows that a well-designed sandbox model can mitigate many of these risks, transforming it into a vital tool for promoting innovation.

In 2021, Israel published a legislative proposal to establish regulatory sandboxes in the financial sector. This proposal is a step in the right direction. However, given that it was introduced before the major breakthrough of artificial intelligence in our world, the article calls for updates to align it with the current technological era.