

Regulatory Sandbox Necessity

Why AI TrustTrade Requires a Controlled Testing Environment
NS Solution Corp | BSP TRISD Technical Review | November 2025

Executive Summary

Why Sandbox is Essential for AI TrustTrade

AI TrustTrade represents a novel financial model that does not fit within existing Philippine regulatory categories. As a Marketplace-Embedded Financial Service (MEFS), it combines elements of e-money issuance, payment processing, and marketplace operations in a way that requires new regulatory thinking.

A regulatory sandbox is not just beneficial but essential to allow AI TrustTrade to demonstrate its low-risk profile, validate consumer protection mechanisms, and enable regulators to develop appropriate permanent regulations based on empirical evidence rather than assumptions.

Without a sandbox, AI TrustTrade faces a catch-22: we cannot launch without regulatory clarity, but regulators cannot provide clarity without seeing the model in operation.

1. Four Core Reasons Sandbox is Necessary

1

No Existing Regulatory Category

Challenge: AI TrustTrade doesn't fit EMI (too restrictive, P100M capital requirement) or ROPPS (doesn't cover escrow/dispute classifications).

Solution: Sandbox allows testing under proposed "MEFS" framework while permanent regulations are developed.

Benefit: Prevents forcing a square peg into round hole regulatory compliance that either stifles innovation or creates gaps in oversight.

2

Novel Innovation Requires Validation

Innovation: First platform combining AI trust scoring, mandatory escrow, micro-insurance, and embedded wallet in Philippines.

Unknown: Will AI verification reduce disputes? Does escrow eliminate fraud? Can unbanked users adopt digital wallets?

Sandbox Value: Test hypotheses with real users in controlled environment before nationwide rollout.

3

Consumer Protection Validation

Claims: Platform provides superior consumer protection through escrow, AI verification, dispute resolution, and insurance.

Need to Prove: Do these mechanisms work in practice? Are dispute resolution times acceptable? Do users understand protections?

Sandbox Outcome: Empirical data on fraud rates, dispute resolution times, user satisfaction to validate or refine protections.

4

Risk Profile Demonstration

Hypothesis: Closed-loop system has lower systemic risk than general-purpose e-money, justifying lower capital requirements (P20M vs P100M).

Need to Prove: Limited transaction scope, mandatory escrow, and wallet caps actually reduce money laundering and fraud risks.

Sandbox Benefit: Generate data showing actual risk vs. theoretical risk to inform proportionate regulation.

2. The Regulatory Gap: Why AI TrustTrade Doesn't Fit

AI TrustTrade Fails Between Existing Categories

Traditional EMI

- General-purpose e-money
- P2P transfers enabled
- Merchant payments allowed
- P100M capital required
- High systemic risk

X AI TrustTrade is NOT this

AI TrustTrade (MEFS)

- Service-specific payments
- P2P transfers disabled
- Mandatory escrow
- Proposed P20M capital
- Lower systemic risk

NEW CATEGORY NEEDED

Traditional ROPPS

- Payment routing only
- No fund holding
- No dispute resolution
- P10M capital
- Doesn't cover escrow

X Too narrow for AI TrustTrade

3. Proposed Sandbox Parameters

Parameter	Sandbox Limit	Rationale
Duration	12 months (+ optional 6-month extension)	Sufficient time to gather meaningful data across multiple transaction cycles and validate all features
User Limit	10,000 users (5,000 providers + 5,000 consumers)	Large enough for statistical significance, small enough to manage risks; allows testing network effects
Geographic Scope	Metro Manila and Cebu City only	Major urban centers with high gig economy activity; manageable for pilot operations and regulator oversight
Per-Transaction Limit	P20,000 maximum	Covers 95%+ of typical service transactions while limiting individual exposure; reduces money laundering risk
Per-User Monthly Limit	P100,000	Prevents platform from being used for high-value transfers; appropriate for service marketplace use case
Platform Aggregate Limit	P100 million per month	Aligns with 10,000 user cap; limits systemic exposure; about P1.2B annual GMV (manageable pilot scale)
Wallet Balance Limit	P50,000 per user	Prevents platform from becoming de facto bank; encourages regular withdrawals; reduces float risk
Service Categories	127 pre-defined categories (home services, repairs, tutoring, freelance work)	Excludes high-risk services (medical procedures, financial advice, real estate); maintains closed-loop integrity

4. Sandbox Success Criteria & Graduation Requirements

To graduate from sandbox and qualify for permanent MEFS license, AI TrustTrade must demonstrate measurable success across multiple dimensions:

5,000+

Active Users (Monthly Transactions)

P30M+

Monthly Transaction Value (GMV)

<5%

Dispute Rate (Of All Transactions)

95%+

Disputes Resolved Within 7 Days

>40

Net Promoter Score (Consumers)

>40

Net Promoter Score (Providers)

99.5%+

Platform Uptime (Availability)

100%

AML/CFT Compliance (STR Filing)

0

Major Data Breaches (Security Incidents)

5. 12-Month Sandbox Implementation Timeline

Month 1-3	Phase 1: MVP Development & Initial Testing Activities: Finalize platform development, complete security audits, establish trust account with BPI, integrate payment gateways (PayMongo, GCash, PayMaya), conduct internal testing Deliverable: Fully functional platform ready for limited user onboarding Users: 0 → 500 (invite-only beta testers)
Month 4-6	Phase 2: Alpha Launch & Early Adoption Activities: Public launch in Metro Manila and Cebu, TESDA partnership activation, marketing campaigns, user onboarding support, first dispute resolutions Deliverable: Proven transaction flow, initial consumer protection data Users: 500 → 3,000 Reporting: First monthly report to SEC/BSP
Month 7-9	Phase 3: Beta Expansion & Optimization Activities: Scale to 10,000 user cap, activate all 127 service categories, introduce micro-insurance, optimize AI trust scoring based on data, refine dispute resolution processes Deliverable: Statistical significance for all success metrics Users: 3,000 → 10,000 (sandbox limit reached) Reporting: Quarterly comprehensive report to regulators
Month 10-12	Phase 4: Full Pilot & Graduation Preparation Activities: Operate at full sandbox capacity, collect final success metrics, conduct user satisfaction surveys, prepare permanent license application, external audit, regulatory evaluation Deliverable: Comprehensive sandbox exit report with all success criteria data Users: 10,000 (sustained at cap) Outcome: Decision on permanent MEFS license application

6. Sandbox Risk Mitigation & Safety Mechanisms

Risk 1: User Fund Protection During Pilot

Concern: What if platform fails during sandbox?

Protection:

- Separate trust account (P40M capacity) legally segregated from operating funds
- Cannot be used for platform expenses even during sandbox
- BPI trust account bankruptcy-remote (user funds protected even if platform closes)
- Platform insurance: P50M coverage for trust account
- Orderly wind-down plan: All user funds returned within 30 days if sandbox discontinued

Risk 2: Consumer Harm from Untested Model

Concern: What if consumer protections don't work as expected?

Safeguards:

- Mandatory escrow on 100% of transactions (consumers never at risk of non-delivery without recourse)
- Insurance coverage up to P50,000 per transaction for verified fraud
- 7-day dispute resolution with platform-funded refunds if resolution delayed
- Transaction limits (P20K max) reduce individual exposure
- Real-time consumer support during sandbox (5-person team)
- Weekly consumer feedback surveys to identify issues early

Risk 3: Money Laundering / Fraud Attempts

Concern: Could platform be used for illicit activities during sandbox?

Controls:

- Full AML/CFT compliance from day one (not waived during sandbox)
- Tiered KYC (Tier 1 required for 50K+ cumulative transactions)
- Sanctions screening (OFAC, UN lists) on all users
- Transaction purpose specificity (every peso tied to service contract)
- P2P transfers disabled (eliminates major money laundering vector)
- Automatic STR filing for suspicious patterns
- Monthly AML reports to BSP during sandbox

Risk 4: Technical Failures / Cyber Attacks

Concern: What if platform experiences downtime or security breach?

Resilience:

- ISO 27001 certification (in progress, required for graduation)
- Quarterly penetration testing by external firm
- 24/7 security monitoring with PagerDuty alerts
- Cyber insurance: P20M coverage
- Incident response plan with 24-hour regulatory notification
- 99.5%+ uptime SLA (sandbox success criterion)

7. International Regulatory Sandbox Best Practices

AI TrustTrade's sandbox proposal is modeled after successful international precedents:

Singapore (MAS Fintech Sandbox) Approach: Test-and-learn environment with clear parameters and graduation criteria Success: 60+ companies tested; many graduated to full licenses Lesson: Sandbox enables proportionate regulation - proven low-risk models get lighter requirements AI TrustTrade Application: Our MEFS model aims for lower capital requirement (P20M) based on demonstrated low-risk profile	UK (FCA Regulatory Sandbox) Approach: Support innovation while ensuring consumer protection through controlled testing Success: 90%+ of participants successfully completed sandbox; many now thriving businesses Lesson: Clear exit criteria and regulator support crucial for success AI TrustTrade Application: We've defined 9 quantitative success criteria with BSP oversight throughout pilot
--	---

8. Benefits to BSP/SEC from Sandbox Approach

Why Sandbox Benefits Regulators (Not Just AI TrustTrade)	
✓ Evidence-Based Regulation: Develop permanent MEFS framework based on actual platform data, not theoretical assumptions or international models that may not fit Philippines	
✓ Risk Mitigation: Test novel model in controlled environment (10,000 users, P100M cap) before allowing nationwide scale - discover issues when stakes are low	
✓ Consumer Protection Validation: Verify escrow + AI + insurance actually reduces fraud and disputes vs. unregulated platforms (hypothesis testing with metrics)	
✓ Innovation Enablement: Support fintech innovation without compromising oversight - "test before you invest" for both regulators and entrepreneurs	
✓ Industry Precedent: Create blueprint for regulating marketplace-embedded finance - multiple future platforms will benefit from this groundbreaking	
✓ Interagency Coordination: Pilot tri-agency model (SEC-BSP-DOLE) for platforms that span multiple regulatory domains - test collaboration before codifying it	
✓ Graduation Optionality: If pilot fails or shows high risk, simply don't grant permanent license - limited downside, significant upside potential	

9. Sandbox Exit Strategy & Graduation Pathways

Clear exit criteria ensure sandbox serves regulatory purpose (test model) while protecting all stakeholders:

Successful Graduation (Target Outcome) Criteria Met: All 9 quantitative + qualitative success criteria achieved Next Steps: <ul style="list-style-type: none">Apply for permanent MEFS license (new category)Increase user cap to 50,000 (Year 2)Expand to nationwide coverage (all major cities)Raise transaction limits to P50K monthlyPlatform aggregate cap: P500M monthlyIntroduce additional financial services (investments, savings)	Extension Needed (Possible Outcome) Situation: Partial success, needs more time/data Next Steps: <ul style="list-style-type: none">Request 6-month sandbox extensionAddress specific regulatory concerns identifiedAdjust parameters (e.g., lower transaction limits if needed)Implement additional controls based on findingsRe-evaluate against success criteria after extension
--	---

Unsuccessful Exit (Contingency Plan)

Criteria: Success criteria not met, high risk demonstrated, consumer harm occurred, or business model not viable

Orderly Wind-Down Process (30 days):

- Day 1-7: Freeze new user registrations, allow existing transactions to complete, notify all users of closure timeline
- Day 8-14: Release all active escrows to providers or refund to consumers, process all pending withdrawals
- Day 15-21: Return all wallet balances to users (bank transfer or GCash), verify zero user funds remaining
- Day 22-30: Final reconciliation, close trust account, submit wind-down report to BSP/SEC, archive data per retention requirements

User Protection: 100% of funds returned within 15 days, platform absorbs any reconciliation discrepancies

10. Conclusion: Sandbox as Regulatory Innovation Tool

<