



Contacts:

**Kelly Griffith**, Executive Director, [Center for Economic Integrity](#) (520) 250-4416

**Cynthia Zwick**, Executive Director, [Wildfire](#) (602) 604-0640

**Ellen Sue Katz**, Executive Director, [William E. Morris Institute for Justice](#) (602) 252-3432

**For Immediate Release**

## **Arizona Fintech Regulatory Sandbox – An Opportunity Lost**

**“Toddlers play in sandboxes. Adults play by the rules.”**

– *Maria T. Vullo, Superintendent of NY Dept. of Financial Services*

**TUCSON** (February 07, 2019) – A bill passed by the House Commerce Committee to expand the Arizona Attorney General’s secretly run “sandbox,” which allows financial services companies to operate without a license to test an “innovative” product or service, will further erode consumer protections and limit transparency.

The Arizona Fintech Regulatory Sandbox Law, signed by Arizona Governor Doug Ducey in March 2018 and launched last August, makes secret all information provided by sandbox applicants and gives the Arizona Attorney General’s office complete control over all decisions. In its first six months, only three companies have been approved and one is a “money transmitter.” None of their products are on the market.

House Bill 2177, which passed along party lines on Feb. 5, contains “technical” amendments which:

- Allow an increased number of consumer “testers,” despite the program being in operation for only six months and having no track record
- Remove the requirement for consumers testing Money Transmitter transactions to be Arizona residents
- Remove requirements to manage records in conformance with federal law, and to operate in conformance with requirements of the Arizona Corporation Commission
- Specify the Attorney General “alone” enforces the program, conflating oversight with approval by the same elected official
- By amendment, allow companies to enter the sandbox without otherwise being required to be licensed

“The bill *could* have been a vehicle for correcting problems with the sandbox law,” said Ellen Katz, Executive Director of the Morris Institute for Justice. “Among the most important is transparency. The Attorney General has denied Public Records requests for information on protections and requirements he makes of the companies in the sandbox. There is very little information posted on the Attorney General’s website to inform the public about their rights or protections for sandbox companies. The law’s exemption from the public records requests should be removed so the public can find out what is going on.”

Representatives who voted “No”, all Democrat, clearly sympathized with points made by speakers in opposition to the bill, who urged lawmakers to:

- Maintain the cap on the number of consumer testers (now up to 17,500 per product or service)
- Remove Auto Title Lenders from the scope of the sandbox, which were added at the last minute last year, and who can make predatory asset-based loans in the sandbox. There is no “innovation” that would make vehicle-secured loans costing up to 204 percent interest beneficial for consumers.
- Add safety and soundness requirements of the Money Transmitter law, in order to protect consumers, for example from the risks now widely seen to be associated with cryptocurrency exchanges.
- Remove the unnecessary word “alone” from authorization for the Attorney General to enforce the law.

“The Attorney General already has extraordinary authority under the sandbox law, and it should not be expanded by HB 2177, particularly before it has a chance to work in its current structure,” said Mary Ryan, Board President of the Center for Economic Integrity. “Only the Attorney General decides whether a product or service is “innovative” and eligible for the sandbox with no public input and no public documentation. Only the Attorney General decides if a company can enter the sandbox and there is no appeal for his decisions. The Attorney General does not even ask applicants if their product will benefit consumers.”

The [Arizonans for Responsible Lending](#) coalition opposed the sandbox bill in 2018 as undermining consumer protections and creating duplicative regulatory agencies.

“Greater transparency is needed in the sandbox, the borders of which should not be expanded. HB 2177 provided the Commerce committee an opportunity to better protect consumers, which was not taken,” stated Cynthia Zwick, Executive Director of Wildfire (formerly the Arizona Community Action Association). “The legislature should vote no on a bigger sandbox, since the Attorney General has yet to demonstrate that his new sandbox works to benefit and protect consumers and ensure fair competition with companies licensed by the Arizona Department of Financial Institutions.”

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