CONTRIBUTION TO GSR-19 – *COMISION DE REGULACION DE COMUNICACIONES*, COLOMBIA

The Communications Regulatory Commission of Colombia (CRC) hereby respectfully contributes the following observations in response to the questions under the theme: "Fast forward digital connectivity for all".

What are the core design principles for collaborative regulation?

Today's regulation has to be flexible, dynamic and simple, as well as promoting competition that drives public policy. It must be driven by information and knowledge on emerging technologies that are rapidly penetrating the market; on economic and legal factors that are changing due to convergence; and on competition, new business models and user behaviour in a digital environment. However, the national regulatory agency (NRA) cannot achieve this on its own, and requires the support of all the actors in the ecosystem in this quest. Thus, a state-of-the-art regulator is shaped by collaboration within the ecosystem allied with the NRA's expertise.

A progressive regulator must:

- Formulate a consensual regulatory agenda cultivated with the sector;
- Design roadmaps to develop strategic projects such as digital connectivity;
- Undertake regulatory impact analysis, with a view to ensuring that regulation has a positive economic and social impact;
- Understand the sector in terms of more than just economic verticals, addressing digitization from a transversal and transformational standpoint;
- Enhance regulation by simplifying the rules applied on the basis of the views of actors within the sector.

The digital ecosystem has a cross-cutting impact across all sectors. Therefore, collaborative regulation displays an extra feature: it is no longer enough to include the traditional players from within a sector. An intersectoral coordination mechanism becomes imperative if we are to attempt to regulate the challenges of the digital world.

What benchmarks for regulatory excellence and market performance can form the basis for a digital infrastructure regulation?

The regulator has to understand and identify its role in the face of the behaviour of markets undergoing digital transformation. A key instance of this is analysis of two-sided or multi-sided markets.

A two-sided market occurs when an organization acts as a platform selling two different products to two groups of consumers, whereby the demand from one group of consumers depends on the demand from the other, and vice versa. Thus, the demands on both sides of the market are interrelated through indirect network effects that are recognized and internalized by the organization. They may be divided into two types: transactional and non-transactional. The former are also known as sales platforms (e.g. Uber or Amazon), while the latter are known as advertising platforms (e.g. Google). Transactional markets correspond to platforms that connect potential sellers, on one side, and potential buyers, on the other, with the aim of setting up one of more direct transactions between them over the platform. These transactions are materialized through

the exchange of money (or occasionally data instead of money) for goods and services. In non-transactional markets, unlike with sales platforms, there is no direct transaction between the groups of users on the platform.

In order to be able to identify the two-sided nature of a market, it is necessary to identify and gauge the indirect network externalities (market actions such as, for example, offers, promotions, restrictions, prices, etc.) that connect the demands on the two sides of the market, and determine whether the externality is found in both or in only one single direction, and also whether the effect is positive (beneficial) or negative (detrimental) and how significant these effects are. The three stages of analysis are:

- Identifying the two-/multi-sided market;
- Defining the relevant market;
- Analysing competition.

The next step is to follow up by monitoring the impact of OTTs on traditional services, detecting to what extent there may be perfect substitution.

What new regulatory tools and approaches are at hand for enabling digital experimentation?

To foster digital experimentation, the principal trend worldwide is towards implementation of models like the regulatory sandbox, which enables business models and innovations to be tested in a more lenient regulatory framework for a specified period. During this time, the impact on the consumer is measured so as to determine whether the regulations in question can be relaxed. Cases in the finance domain may be found in countries like the United Kingdom and Singapore, and the Republic of Korea offers an interesting case in the area of telecommunications.

In Colombia, the financial regulator set up the Sandbox (*la Arenera*) which "facilitates innovation of products, technologies or business models in a controlled environment and in real time. Here, supervised or unsupervised entities will be making forays into financial innovation, where involvement of the regulatory or supervisory framework is required to test products, technologies or business models". [1]

For its part, CRC in Colombia is exploring the possibility of holding a regulatory sandbox for topics related to connectivity and users.

Nevertheless, a good deal of caution must be exercised in defining a regulatory sandbox in the ICT domain as the line between simplification and regulatory sandbox is somewhat blurred.

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[1] https://www.colombiafintech.co/novedades/superfinanciera-lanza-sandbox-para-el-desarrollo-de-fintech