Money Transmission, Fintech, and Non-Bank Regulation

MTRA Annual Conference, September 2017
New York joins common state licensing platform for fintechs

By Lolito Clozel
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More in Fintech regulations, Maria Vullo, CSBS, NYDFS

WASHINGTON — The New York State Department of Financial Services announced Thursday it will allow fintech companies to register through a common platform used by a majority of state regulators, marking another step toward better regulatory coordination that will help states compete with the Office of the Comptroller of the Currency’s fintech charter.

“The success and effectiveness of the [common state licensing] platform is just one more example of the superiority of the state-based financial services regulatory system in protecting consumers and fostering industry innovation,” said Maria T. Vullo, the head of New York’s business regulator.

States move to obviate fintech charter

By Lolito Clozel
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More in Fintech regulations, CSBS, OCC

WASHINGTON — State regulators are offering a sizable carrot in addition to wielding a stick in their battle against the federal fintech charter.

The Conference of State Bank Supervisors announced a raft of initiatives on Wednesday designed to make the state licensing system more attractive to fintech companies, ranging from innovative ideas to improving licensing processes to shorten the time it takes to absorb an application.

States Fire Another Salvo Against National Fintech Charter

Banking regulators group to overhaul its licensing system for nonbank financial firms; move comes after lawsuit against federal agency

States gang up to kill US fintech charter and offer alternative ‘Vision 2020’

Neil Ainger, Writer at CNBC.com
Monday, May 15 2017 | 9:20 AM ET
Fintech
Dominating Regulatory Policy
Fintech is now integrated into daily life

Non-banks perform an important role in financial services -- operating in industries such as mortgages, money transmission, debt, and consumer finance

Many brand themselves as “fintech”-- leveraging tech to create new business models, new delivery channels, automated decisions, and partnerships with traditional banks

Due to this growing reliance on technology…

Investments continue to grow into Fintech companies

Financial regulators are developing improvements for all non-depository licensees
Fintech Nothing New in Money Transmission

Money Transmitter Formation by Decade

- **1900s**: 1, 0%
- **1910s**: 4, 1%
- **1920s**: 6, 2%
- **1930s**: 9, 2%
- **1940s**: 1, 0%
- **1950s**: 4, 2%
- **1960s**: 6, 2%
- **1970s**: 9, 2%
- **1980s**: 26, 7%
- **1990s**: 71, 18%
- **1990 to Present**: [VALUE], [PERCENTAGE]
- **2000s**: 136, 35%
- **2010s**: 136, 35%

Note: Age based on current corporate formation.
Fintech Nothing New in Money Transmission

Number of Agents at Money Transmitters with 25+ Licenses
By 2020, state regulators will adopt an integrated, 50-state licensing and supervisory system, leveraging technology and smart regulatory policy to transform the interaction between industry, regulators and consumers.

Vision 2020 will focus on 6 major initiatives to transform state supervision of non-bank and fintech companies.

“Through Vision 2020, state regulators will transform the licensing process, harmonize supervision, engage fintech companies, assist state banking departments, make it easier for banks to provide services to non-banks, and make supervision more efficient for third parties.”

~ Texas Commissioner Charles G. Cooper
The Path Forward for State Regulation

1. Fintech advisory panel
   - Identify pain points and possible solutions

2. Redesign NMLS
   - Enhance reg-tech to automate multi-state licensing and streamline supervision

3. Harmonize multi-state supervision
   - Adopt best practices and drive towards uniform examinations

4. Assist state banking departments
   - Automate exam process, introduce better analytics, adopt higher standards

5. Enable banks to service non-banks
   - Attack de-risking and dispel uncertainties of regulatory regimes for BSA-AML

6. Improve third-party supervision
   - Support federal legislation that improves state-federal coordination
Fintech Industry Advisory Panel

CSBS advisory panel that provides input that help states to modernize regulatory regimes

The panel will:

- Focus on lending and money transmission
- Identify points of friction in licensing and multi-state regulation
- Discuss a wide array of solutions
- Some states already engaging in dialogue
Six Steps to Success

Redesign Nationwide Multistate Licensing System

CSBS is enhancing NMLS – the common platform for state regulation – to remove points of friction

NMLS 2.0 will apply reg-tech to fintech:

• Transform licensing process thru data/analytics
• Automate vast majority of new applicants
• Enable states to focus more on higher-risk cases
• Upload multi-state information in a single action
• Streamline state regulation on a multi-state basis
• Allow consumers to check on companies
Harmonize Multi-State Supervision

CSBS and the states are working towards improving key aspects of non-bank supervision:

- Enhance uniformity in examinations
- Facilitate best practices
- Identify and report non-bank violations

To further streamline the process, CSBS is:

- Building a new technology platform for state exams – the State Examination System
State Examination System

Vision 2020

Six Steps to Success

- Harmonize Multi-state Supervision
- Uniformity in Exams
- Facilitate Best Practices
- Streamline Supervision within a Common Platform
- Capture and Report Data
- Guided by Regulators and Industry
Vision 2020

Six Steps to Success

2016 Exams

- Concurrent, 6, 2%
- Joint, 56, 19%
- Offsite, 26, 9%
- Independent, 205, 70%
Six Steps to Success

Assist State Banking Departments

CSBS education programs will enable state departments to better regulate banks and non-banks.

CSBS is deploying analytics and stronger standards so departments can:

• Put expertise where it is most needed
• Update supervisory processes
• Compare and learn from other states
Enable Banks to Service Non-Banks

CSBS is stepping up industry awareness campaigns so fintech firms have full access to banking services.

CSBS is:

• Addressing de-risking practices by banks
• Assuring banks that strong regulatory compliance regimes are in place
• Conducting extensive outreach on cybersecurity
Six Steps to Success

Improve Third-Party Supervision

Banks of all sizes work with a variety of third-party service providers (TSPs), including fintechs

CSBS is:

• Supporting federal legislation

• Amendment to Bank Services Company Act

• Would allow state and federal regulators to better coordinate supervision of TSPs

• Produce an easier supervisory experience for fintechs and other non-banks
Questions
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