Washington Update

Wyoming Commissioner Albert Forkner
Georgia Commissioner Kevin Hagler
CSBS Non-Depository Counsel Matthew Lambert

MTRA Annual Conference
Jackson, Wyoming
October 4, 2018
Washington’s Focus: Fintech

**U.S. Department of the Treasury**

A Financial System That Creates Economic Opportunities
Nonbank Financials, Fintech, and Innovation

**GAO**

FINANCIAL TECHNOLOGY
Additional Steps by Regulators Could Better Protect Consumers and Aid Regulatory Oversight

**National Journal**

Fintech and fair lending

**Financial Services Committee**

Press Releases
Examining Fintech
Washington, January 25, 2018

**CSBS**

Are fintechs a systemic risk?
Concentration risk, threats to data privacy and the potential for discrimination are among the unintended consequences of letting fintechs and tech giants dabble in financial services without bank-like regulation, an expert says.
Washington’s Focus: Fintech
Common Goals for Regulators and Industry

Vision 2020

Support Innovation and Startups
Allow new, innovative financial services businesses and ideas to grow and flourish.

Enable National Scale
Allow new businesses to expand nationally with as little regulatory friction as necessary.

Strengthen the Financial System
Encourage ideas that improve financial stability, provide access to underbanked communities, and grow local communities.

Uphold Important Consumer Protections
Ensure that new products and services adhere to existing consumer protection law and do not lead to predatory practices.
# Fintech Market Share

<table>
<thead>
<tr>
<th>Sector</th>
<th>Sector Total</th>
<th>Fintech Total</th>
<th>Fintech Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Transmission</td>
<td>$ 684 billion</td>
<td>$ 245 billion</td>
<td>36%</td>
</tr>
<tr>
<td>Payment Instruments</td>
<td>$ 190 billion</td>
<td>$ 3 billion</td>
<td>2%</td>
</tr>
<tr>
<td>Stored Value</td>
<td>$ 229 billion</td>
<td>$ 183 billion</td>
<td>80%</td>
</tr>
<tr>
<td>Check Cashing</td>
<td>$ 17 billion</td>
<td>$ -</td>
<td>0%</td>
</tr>
<tr>
<td>Currency Exchange</td>
<td>$ 4 billion</td>
<td>$ 125 million</td>
<td>3%</td>
</tr>
<tr>
<td>Virtual Currency</td>
<td>$ 12 billion</td>
<td>$ 12 billion</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1.1 trillion</strong></td>
<td><strong>$ 443 billion</strong></td>
<td><strong>44%</strong></td>
</tr>
</tbody>
</table>
Year of Corporate Formation

- 2010s: 133
- 2000s: 123
- 1990s: 64
- 1980s: 26
- 1970s: 10
- 1960s: 7
- 1950s: 3
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
Vision 2020
Fintech Industry Advisory Panel

Formed to identify actionable steps to improve:

• Licensing
• Regulation
• Supervision
• Support for innovation
Supervision

Problem
- Repetitive examinations
- Inefficient use of information
- Inconsistent communication
- Inconsistent offsite planning

Solutions
- Reliance on prior exams
- SES
One Company, One Exam Pilot

Company

On-Site Exam

- Exam Acceptance
- Desk Review
Regulated Activities & Exemptions

Problem

Activities & exemptions are often unclear and inconsistent between states

Solutions

1. Develop & publish 50-state surveys of common exemptions
2. Create uniform or standardized exemptions
## Agent of the Payee

<table>
<thead>
<tr>
<th>State</th>
<th>Recognizes Exemption</th>
<th>Source</th>
<th>Standard of Proof</th>
<th>Predetermination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia</td>
<td>No</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
| North Carolina | Yes               | Statute    | 1. There exists a written agreement between the payee and agent directing the agent to collect and process payments on the payee's behalf.  
2. The payee holds the agent out to the public as accepting payments on the payee's behalf.  
3. Payment is treated as received by the payee upon receipt by the agent. | Required          |
| Texas        | Yes                  | Common Law | 1. Written agreement between the Principal and Agent with actual express authority for the agent to receive and process payments on behalf of the Principal.  
2. The agreement must confirm that the receipt of payment by the Agent is the same as receipt by the Principal itself, extinguishing the Payor’s outstanding payment obligation to the Principal. | Required          |
| Wyoming      | No                   | -          | -                                                                                  | -                 |
Problem

- Definitions inconsistent
- Triggers inconsistent
- Passive investors
- Int’l persons requirements

Solutions

1. Consistent Interpretation
2. NMLS implementation
3. Common interpretations
4. Common information requirements
Permissible investments:
• Inconsistently defined
• Inconsistently calculated
• Inconsistently maintained

Solutions:
• Full legal and financial analysis of current requirements
• Model Law
Accreditation

Sets principles and standards for licensing and supervision program

Evaluates departments that volunteer to become accredited

Encouraging and recognizing high levels of capability and performance agencies.
Cybersecurity

- CSBS will invest $1.5 million in MISTI training through 2019 for hundreds of state examiners
- Commissioners established a board level Cyber Security Risk Task Force to determine CSBS role, priorities, and oversight structure
- Commissioners established the NonBank IT and Cybersecurity Supervision Work Group
- NDSC Model Cyber Law/Reg and Guidance Recommendation
- Industry Awareness Campaign
Summary

• The state system of financial regulation is evolving with financial services as it should

• Industry input has been invaluable

• Next steps will be to address complicated questions, setting us up for 2020 deliverables

• We look forward to our continued work with the industry