# Examining De-Risking and Its Effect on Access to Financial Services

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Good morning, Chairman Luetkemeyer, Ranking Member Clay, and Members of the Subcommittee.

My name is Bryan Schneider. I am the Secretary of the Illinois Department of Financial and Professional Regulation. It is my pleasure to testify today on behalf of the Conference of State Bank Supervisors.

I want to thank Chairman Luetkemeyer and the Subcommittee for its work over many years on this issue. State regulators are locally focused and locally accountable. We have seen the consequences of de-risking for our banks, their customers and the communities they serve.

State regulators charter and supervise 78 percent of the nation's banks. We also are the primary regulators of more than 23,000 non-depository financial services providers, including money services businesses – known as MSBs. Data collected through our nationwide licensing system – NMLS – shows that MSBs were on pace to handle over $1 trillion in transactions during 2017.

As a banking regulator, I expect state-chartered banks in Illinois to understand the risks of their customers and to effectively manage those risks. I do not expect, nor require, my supervised banks to reject entire classes of legally operating businesses. As a regulator of a broad range of MSBs, I see first-hand the challenges these companies can face in getting and maintaining banking relationships.

Indiscriminate de-risking – a practice that eliminates MSB bank accounts – not only weakens access to financial services but actually makes enforcing the Bank Secrecy Act more difficult. It also becomes a public safety issue.

I am aware of de-risking, both in Illinois and across the nation. I hear stories about how legitimate MSBs physically carry large amounts of cash because they have no other means of money transmission – a dangerous practice. Just last year, an MSB in Seattle was robbed of nearly $130,000 in cash that it was keeping in an in-store safe instead of a bank account.

Two years ago, my own agency identified an MSB whose agent transported $686,000 in cash to Jordan after its credit union accounts were closed.

Today I want to emphasize the commitment state regulators have to responsible and efficient MSB oversight. I also will share some of the solutions we have developed to give regulators, industry and consumers greater

visibility into the existing, emerging and evolving risks for MSBs.

Virtually all states have a comprehensive and rigorous licensing, reporting and examination process in place for MSBs. If an MSB is found to be out of compliance or in violation of these requirements, it is subject to enforcement action. And in extreme cases, this can include revoking its license. Enforcement actions, as well as licensing information, are available to the public on our consumer website. And indeed, there were nearly three million visitors to the site last year.

This week, CSBS released a Self-Assessment Tool for MSBs intended to reduce uncertainty surrounding BSA/AML compliance, increase transparency and address de-risking. CSBS launched a similar tool for banks early last year.

In October, the CSBS Task Force that I chair created a Fintech Industry Advisory Panel made up of companies from the payments and money transmission, lending and community banking sectors. The panel solicits industry input to help states modernize regulatory regimes, identify friction points in licensing and multi-state regulation and discuss solutions.

Right now, CSBS is building a new technology platform designed to transform state examinations, helping states respond to increasingly borderless financial markets.

State regulators also are working together to find more efficient ways to regulate MSBs. Last week, several states, including Illinois, announced a multi-state agreement that standardizes the licensing process for MSBs. Under the agreement, if one state reviews key elements of state licensing for a money transmitter – including BSA compliance – then other participating states will accept that work. This effort to streamline the MSB licensing process is a great example of state-driven initiative and experimentation.

Thank you for the opportunity to testify today. I look forward to answering your questions.

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