Why States Need A Model Payments Law

Jun 06

By Robin Wiessmann, Pennsylvania Department of Banking and Securities Secretary and Immediate Past Chairman of the CSBS Non-Depository Supervisory Committee

In recent years, we have seen a sharp rise in nationally licensed money transmitters. Though each state generally uses the same framework for money transmission laws, each statute has its own unique definitions and requirements for money transfers. States also might interpret and implement laws differently, even when the statutory language is the same.

This leads to confusion in the industry. Over the course of decades, these differences have created 51 unique regulatory regimes and resource duplication for the states.

To give you an idea of scope, consider that there are more than 500 money transmitters across the country. While a majority are licensed in only one state, there are now 71 money transmitters that have licenses in 40 or more states, an increase of 92% since 2015 and 153% since 2012. These nationally operating companies were responsible for $1.1 trillion of transactions in 2018, or 80% of the $1.39 trillion industry.

Searching for a Solution

State regulators can help the situation by reconsidering how money transmitters are licensed and supervised. Through CSBS, we are working on a model law for states that would enable money transmitters to build national scale more easily, improve supervision, and ensure consumer protections.

As chair of CSBS's Non-Depository Supervisory Committee, I was directly involved in searching for a solution. The CSBS Fintech Industry Advisory Panel, comprised of 33 fintech firms, earlier this year called on states to align around common definitions and requirements. We listened closely to the feedback they received to better understand the litany of statutory and interpretive divergences. Together, we determined that a model law will provide an effective foundation for a state regulatory system.

Model Payment Law

A model payments law will address the growth in nationally licensed money transmitters. On average, states have seen a 68% increase in money transmitter licenses, increasing from 68 licenses in 2015 to 116 licenses today. With shared jurisdiction, requirements will be streamlined between states to address the risks we face together.

With a model law, we have an opportunity to make supervision more efficient by implementing common standards across state lines. These actions will better support start-ups and enable national scale, while continuing to protect consumers and the financial system.

As CSBS Chairman and South Dakota Division of Banking Commissioner Bret Afdahl recently said, it is important that we get this right. CSBS is committed to transparency and engagement from the industry, consumer groups and other stakeholders.

Now, we move to the next step: Drafting a model law for my fellow regulators to consider.

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