



State regulators are critical to fintech oversight

Jul 19, 2019

This piece originally ran in the [American Banker](#) and is authored by Charlie Clark, director of the Washington State Department of Financial Institutions. He is also chairman of the Conference of State Bank Supervisors' non-depository supervisory committee.

Fintech regulation is getting a lot of scrutiny lately, especially as large, well-known entities want to enter the emerging industry.

Just a couple of weeks ago, I testified before a House Financial Services Committee task force as chair of the Conference of State Bank Supervisors (CSBS) committee to discuss the role of state regulators in fintech oversight.

While Congress and others may know how we supervise the 79% of the nation's banks that are state-chartered, there have been a lot of questions about how we license and enforce compliance for fintech companies. That is because the current intersection between financial services and technology has accelerated change in the industry.

We've been asked if we have the time and resources to regulate [Silicon Valley fintech](#) companies with multi-state money transmitter licenses, whether states have the ability to share information and whether we need new laws.

My answer is simple: yes. As the primary supervisors of nondepository financial companies, including fintech, state regulators are very aware that the speed of change due to fast-moving technology means we must advance with it.

As a result, we are working closely with each other and with fintech firms to have a [strong network system](#) of state regulation that functions efficiently, with strong consumer protections and allows fintech firms to scale rapidly.

Here is how it works: Regardless of what we call a nonbank entity, our licensing and regulation of it does not change because like every industry we supervise, fintech regulation is activities-based.

Whether someone goes to a storefront or uses an app, money transmission is money transmission. Similarly, lending is lending. States don't regulate a company differently just because it calls itself "fintech" and operates via a cellphone.

We look beyond labels and marketing to understand the underlying activity and how it fits within state laws and regulations. And most often, a fintech company's activities fit squarely within the existing state framework. Our role as gatekeepers to financial services is to make sure transactions are made safely by sound companies that deal fairly and honestly with consumers, and protect their data.

We've been doing this for a while. My own department oversees more than 17,000 state-licensed, nondepository entities and individuals. I've been with the agency as fintechs have emerged — even before they were called fintechs.

We licensed electronic money transmitters when they were web-based and adapted when they moved to apps. Our agency has made sure to stay a step ahead of these new business models and ensure consumers are protected.

As fintech continues to evolve, so does state regulation. We began looking into how to strengthen our system a number of years ago. In 2017, we formally committed to Vision 2020, a set of initiatives designed to harmonize and strengthen multistate supervision.

State regulators, with industry participation, are leveraging technology and data to create a more networked system of state regulation that functions more efficiently, with strong consumer protections. Our long-standing practice of coordinating with federal agencies allows us to assist with their public policy and financial stability objectives.

As a part of Vision 2020, state regulators have gathered industry input from fintech firms on how to [streamline regulation nationwide](#) while maintaining strong consumer protections and local accountability. Some of the resulting initiatives are: a model state law for money transmitters; a pilot program that streamlines the multistate exam process; and new resources and tools for companies to more easily navigate state licensing and regulatory requirements.

We also are making improvements to the Nationwide Multistate Licensing System, which began as a comprehensive system of licensing and registration of all state-licensed mortgage companies and mortgage loan originators. But today, it is also used by states to license a broader range of nonbank financial services providers, including money services businesses, consumer finance lenders and debt collectors.

Last year, the NMLS licensed 24,000 companies. Through NMLS, we track nonbank activity and produce quarterly reports on money services businesses and mortgage lenders.

The states are building off the success of NMLS by developing a new technology platform called the State Examination System that we plan to launch later this year. This secure, end-to-end technology platform will integrate with NMLS and be the first nationwide system to bring regulators and companies into the same technology space for examinations. Doing so will foster greater transparency throughout supervisory processes.

The system will improve collaboration while reducing redundancy and burden. Essentially, most aspects of an exam will occur digitally through the State Examination System.

CSBS has been working with Congress for a few years on legislation that would improve bank third-party supervision by integrating the states into the Bank Services Company Act. The House Financial Services Committee unanimously approved the Bank Services Company Coordination Act in the 115th Congress, and we are hoping to see the current version, HR 241, advance.

We also are prioritizing cybersecurity training through a sweeping program that will train 1,000 examiners in both the bank and nonbank space at no cost to the states by the end of 2019.

State regulators have expertise, data and real-time insight into how fintech companies are interacting with consumers and functioning in the marketplace. We are strengthening our oversight of the fintech industry by working together, ensuring transparency, eliminating redundancy and providing support in compliance exams to make sure our nation's financial system works — no matter what the activity is called.

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