In recent years, state financial regulators have been making changes to modernize and enhance the regulation of nonbank financial services companies. Collectively, the regulators’ efforts are known as CSBS Vision 2020. This is a progress report on actions taken to date and a look ahead.

**Role of State Regulators in Nonbank Regulation**

State regulators are the primary regulatory authority for nonbanks — numbering more than 23,000 nationwide -- such as mortgage lenders, money transmitters, debt collectors and consumer finance companies.

The job of state regulators is to make sure that consumers have broad, safe access to credit and other financial services, chiefly by ensuring the safety and soundness of the financial system while protecting consumers from bad actors and big mistakes. The regulators oversee nonbanks by licensing entities in one or more states and supervising them through examinations. Many fintechs operate in this space.

State regulators have devoted considerable attention to nonbanks because they represent a significant growth sector in financial services. Also, the convergence of technology and financial services has challenged and encouraged regulators to take a fresh look at regulatory requirements and processes.

CSBS Vision 2020
In 2017, state regulators made it CSBS policy to move towards an integrated, 50-state system of licensing and supervision for nonbanks. Vision 2020 represents their plan to bring more harmonization into the multistate experience as a means for regulatory efficiency and better supervision. State regulators will preserve how they protect the financial system and consumers but address inefficiencies in current licensing and regulatory processes.

What follows is a list of key Vision 2020 initiatives, along with status updates:

**Seek industry input from fintech firms.** In 2017, CSBS formed a Fintech Industry Advisory Panel of 33 companies. The panel divided into two groups focusing on lending and payments, devoting more than 100 hours to meetings that identified pain points in the multistate experience. A smaller group discussed community banking and innovation. In February 2019, CSBS announced that it had accepted 14 recommendations from the panel, largely in the areas of forging common definitions and practices, increasing transparency and expanding the use of common technology among all state regulators.

Among the regulator commitments:

- Develop a model law for money services business (MSBs)
- Create a Call Report for consumer finance
- Develop resources and tools for navigating state licensing and regulatory requirements
- Develop a new technology offering for multistate examinations
- Expand the use of the Nationwide Multistate Licensing System (NMLS) to more of the nonbank industry

CSBS and the states are now focused on actions that implement the recommendations and advance the goals of Vision 2020.

**Develop a next generation technology platform.** CSBS is overhauling the NMLS, which state regulators use to license more than 23,000 nonbank companies. The new
system will leverage data to triage applicants based on risk. Thus, the new system will enable regulators to speed lower-risk applicants through the licensing process, while focusing regulators on higher-risk applicants. This shift will enhance the quality of supervision and improve regulatory efficiency.

**Harmonize multistate supervision.** CSBS is developing a State Examination System (SES) that will be an end-to-end exam management system for regulators and the companies they supervise. SES will standardize exam processes, support more seamless collaboration, and help regulators triage companies for examinations based on risk. A prototype was demonstrated at the NMLS annual conference in February. Concurrent with SES development, a one company-one exam pilot is underway, in which a company is going through a single exam to meet the exam requirements of multiple states.

**Empower state departments.** To improve the expertise of state regulatory staff to examine nonbanks, states are identifying best practices and updating supervisory approaches. Meanwhile, CSBS is conducting the most sweeping training program in CSBS history, focusing on cybersecurity, with more than 250 examiners trained to date. And last year, CSBS deployed a new Online Accreditation System for states to validate improved performance. To speed information exchanges with fintech firms, in 2018 all states identified an Innovation Contact within their departments.

**Encourage banks to provide banking services to nonbanks.** In 2016, CSBS developed a white paper on the market impacts of de-risking on MSBs, and clarified that strong regulatory regimes exist to protect banks against BSA/AML risk. In 2018, in congressional testimony CSBS updated a House committee on de-risking and the need for banks to better support the banking needs of MSBs. In 2017, CSBS developed a BSA/AML self-assessment tool to help banks more effectively assess and manage their BSA/AML risks. In 2018, CSBS developed a similar tool for MSBs.

**Improve third-party supervision.** In 2018, the House Financial Services Committee voted 56-0 to approve an amendment to the Bank Service Company Examinations Act,
aimed at improving regulatory coordination among federal and state regulators regarding third-party service providers. CSBS is working to move the bill through the current session of Congress.

Looking Ahead

What can you expect in the months ahead?

**Model payments law.** In February, CSBS began seeking public comments to a model law. A working group of state regulators will review the comments and develop standards for state licensing and regulation of MSBs. As the work proceeds, there will be more opportunities to comment.

**State licensing resources.** The CSBS fintech panel urged the states to provide more tools to help companies better understand licensing and regulatory requirements as well as more easily navigate the licensing process. Two tools are now in development: an online repository of state licensing guidance, which will be available on csbs.org, and a license wizard to enable applicants to quickly identify licensing options based on their business model.

**State Examination System (SES).** CSBS presented prototypes of SES at the NMLS conference in February. We continue to gather user and regulator feedback. Next step: a pilot that tests the new service.

**Cybersecurity training.** Our program is now ongoing, with the goal of training more than 700 examiners in all 50 states.

**Enhancing MSB supervision.** We are developing a new accreditation program that will support best practices in MSB supervision.

**Building Support for H.R. 241.** CSBS has worked with Congress to develop legislation to support federal-state coordination in supervising the third-party service providers of
banks. We are continuing to build congressional support for this bill.

In our next update, we will report on how these initiatives are progressing.

As we move ahead, we have discovered that Vision 2020 represents more than specific initiatives to modernize nonbank regulation. Vision 2020 also has become a regulatory mindset among state commissioners, who are looking at more of their department’s functions with multistate harmonization in mind. And it is safe to say that this mindset will last well beyond the turn of the calendar.