SPEECHES

John Ryan - Achieving Networked Supervision

February 23, 2021
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Hello, I would like to start by thanking all of you for attending the first virtual NMLS conference. As Albert Forkner just noted, this year marks the largest attendance for this event and shows the power of technology to connect us.

I want you to consider this as I speak: Just 10 years ago, bringing 1,000 people together for a four-day video conference would have sounded improbable. That's because a decade ago, technology was in a different place. Zoom and Apple's Face Time were just being introduced. If you were like me, you probably still had a Blackberry.

The transformational growth and impact of technology is just as evident in the financial entities that states supervise.

Consider the growth of money transmitter companies - or MSBs - in the last few decades. Throughout the 1990s, 64 new MSBs were formed in the United States. In the next 10 years, new MSB entrants almost doubled to 122 new companies. That pace was maintained in the next decade with another 133 new entrants.

The ***number*** of nonbank financial companies is not the only thing growing. So is the ***scale*** of their operations. Data from our 2019 MSB Call Report shows that 73% of all money transmitters operate in 10 or more states. I am sure our 2020 report will show that pace has continued.

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It is the same story in the mortgage industry. NMLS data shows that in 2012, there were 223 mortgage companies licensed in 20 or more states. By 2019, this number had risen to 378 companies, and almost 39,000 mortgage loan originators had three or more state licenses.

The mortgage industry provides the most significant example of market share growth for nonbanks. Ten years ago, you probably went to your bank for a mortgage. Today, you are just as likely to go to a nonbank mortgage company and complete most of the process online.

Just this past year, we saw a surge of mortgage loan originator applicants. A total of 85,000 new originators signed up to take the NMLS licensing test, twice the number from the year before. Meanwhile, mortgage loan originator applications were up 74% over 2019 and mortgage loan originator renewals set a record. Could you imagine if we had to process those numbers without technologies such as NMLS?

Technology is constantly changing every sector of financial services. And it is changing how states regulate these service providers. State regulators are focusing on how technology can make us ever better and more effective.

How can we create a system that serves us for the next 10 years? How can we best regulate the nonbank industry as it crosses state borders and increases market share? This strategy has led us toward an integrated and empowered state system that we are calling **Networked Supervision**.

Today, I am pleased to share how Networked Supervision will change the future of regulation. I will share the trajectory that led states to this vision. I will share how Network Supervision strengthens financial regulation through cooperative federalism. And I will outline what the CSBS Board is committing states to do this year for Networked Supervision.

A Vision for the Future of our Regulatory System

So, what is Networked Supervision? Simply put, we are retiring the siloed system of the past for a nationwide federated system of state licensing and supervision. This system is only possible when leveraged with technology. But it is also only achievable through agreed upon standards and cooperative agreements. Some of our networked objectives may require changes in law. But, thus far, it seems that most can be achieved through cooperative efforts, leadership and, frankly, a new mindset.

As you know, state regulators have operated as a loose network for decades, but there have been information gaps that have prevented fully applying our collective knowledge. By harnessing technology, states are filling those gaps and collaborating more closely than ever to create a network effect in state regulation. This does not take away each state's sovereignty. Rather, it unifies their work and knowledge. We are building the regulatory system of the future - one that will create unmatched levels of efficiency and effectiveness.

Early benefits of the network include streamlined licensing and supervision for nonbank companies. But this is just the beginning. This new system has the potential to transform regulation as we know it. More sophisticated data analysis will mean improvements in identifying risk and working together across state lines - and with federal counterparts - to strengthen and streamline regulation.

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The benefits will be significant for everyone involved. Working together as one network, states will be able to increase efficiencies and focus on high-risk entities. Financial institutions will have more efficient regulation and an improved user experience, including more coordinated exams with more timely results and lower compliance costs. Consumers will gain from a process that provides more transparency and accountability -- and more risk focused and robust supervision.

Here is an example. Last year when we met for this conference in San Francisco, we announced the national launch of the State Examination System, a platform developed by the states in consultation with industry and operated by CSBS. SES is a nationwide technology platform that allows state examiners to collect information from supervised institutions securely and perform key aspects of formal examinations - without onsite visits. And to think, we didn't even know that weeks later we would be forced to work from home due to the pandemic.

But there is more to SES than the convenience of collecting information and performing off-site examinations. The platform allows states to share their information with each other. It also allows them to share consumer

complaints with each other and track those complaints to look for trends and developing risks. Eventually, consumers will be able to make their claims directly into a portal. So, SES reduces regulatory burdens and helps consumers be better protected. This level of coordination only benefits state and local economies.

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Networked Supervision is designed to not just respond to changes in the industry, but to proactively improve supervisory tools before they are needed. Remember, 10 years ago, we would have been challenged to imagine a four-day video conference for 1,000 people. And we also would have been challenged to imagine that using the same video technology would save lives and our economy by allowing us to be safely distanced during a pandemic and still do our vital work. My point is that we are investing in tools and a system that will reap even far greater benefits than we imagine.

Networked Supervision Follows a Trajectory

Networked Supervision is a significant change from the past in how states have supervised non- depositories - I cannot overemphasize that. But while Networked Supervision is a new strategy, it is not a new trajectory. State supervisors have had a long history of working together.

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In the early 90s, states collaborated on a regional basis to find a path to interstate branching for state-chartered banks. That lead to the Nationwide Cooperative Agreement, which allows a bank headquartered in one state to have branches in another but only have one state regulator. I will confess, it wasn't easy to get there. But the states did, and now we have a seamless system of multi-state bank operations. While our new networked supervision system for nonbanks will not replicate the interstate bank model, it is significantly informed by it.

States launched NMLS in 2008 after recognizing the need for a centralized mortgage licensing system and database. Congress recognized its importance and codified NMLS in the SAFE Act to combat predatory lending and mortgage fraud. Since then, we have added MSBs, consumer finance and debt industries to NMLS. We also publish both the Mortgage Call Report and the MSB industry report.

In 2017 we launched our Vision 2020 with bold goals of harmonizing state regulation with evolving technology. We worked with industry to find pain points and areas that could be improved -- an important and instructive part of the process.

Through Vision 2020, states reduced - by half - the time it takes to receive an MSB license by standardizing the licensing process. We deployed an updated version of the 50-state consumer finance survey that includes a comprehensive catalog of state usury laws.

Multistate harmonization has been a core part of Vision 2020. Networked Supervision builds on these past collaborations and agreements to create a formal network of state supervision.

Networked Supervision is the next logical step as we continue to evolve and strengthen financial regulation. The challenges that come with a changing financial services landscape must be met with an integrated and empowered state system.

Network Supervision strengthens financial regulation through cooperative federalism

The state regulatory system, however, will not be the only beneficiary of Networked Supervision. It is an integrated system of state to state and state to federal regulation.

We know that it takes more than new platforms and increased data to have good supervision. It requires good relationships. State and federal financial regulators must work together to ensure a network of financial supervision through agreements and data sharing.

Remember, the vibrancy of the nonbank financial services sector overseen by state regulators is underpinned by a framework of cooperative federalism. In the field of consumer financial protection regulation, we generally have a system in which federal and state jurisdictions are not independent or mere substitutes but are interdependent and complementary. As I often say, it is not state ***or*** federal, it is state ***and*** federal supervision.

Additional technologies, policies and data analytics empower regulators to better supervise all financial companies -- bank and nonbank alike. The benefits of Networked Supervision will extend to federal regulators in the form of more flexible and real-time data and better risk identification tools.

Steps states are prepared to take this year toward Networked Supervision

Networked Supervision is not just a vision. As I have shared, states already are making a lot of progress towards this strategy. For example, multi-state MSBs are experiencing a quicker licensing process and fewer exams – two key Vision 2020 pilots that became programs last year.

But there is a lot of work ahead of us. As a result, we must prioritize key attainable programs for the next year. Today I am delighted to share the Networked Supervision initiatives that the CSBS Board is calling for states to prioritize in 2021 and beyond.

Starting this year, states will coordinate exams for the MSBs that operate in at least 40 states through the One Company One Exam program. In addition, states will implement a standardized licensing process through the Multi-State MSB Licensing Agreement.

MSBs can also look forward to improvements to NMLS, which CSBS is modernizing. NMLS will have one standard that implements both the MSB model law and Multi-State MSB Licensing Agreement. States will participate in the modernized NMLS by adopting operational and legal standards based on these two initiatives. To help work through this process, CSBS will form an MSB industry advisory group.

It helps to think of Networked Supervision as a series of building blocks. We are going to apply what we have learned with the MSB One Company One Exam program to the mortgage industry this year. We will start with a pilot program of a joint, multistate exam for a mortgage company. CSBS also will finalize and approve model regulatory prudential standards for nonbank mortgage servicers.

The Future

Today I have talked a lot about how the future of state regulation lies in our ability to integrate technology and find new sources and uses of data. Technology will make the system better, faster and more efficient – but we must remember that people, judgement and perspective are even more important. We have a responsibility to make financial regulation work for the future and to remain accountable to consumers and local communities. With technology and a commitment to our federalist structure, all of this is possible.

We look forward to sharing more about Networked Supervision – and working with you - as we create a stronger regulatory system that prepares us for the future. Thank you for joining us this week as we find ways to lean into

technology together.

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