SPEECHES

Managing Risk Through Networked Supervision

May 20, 2021
|
Download PDF
Share:

*Remarks delivered by **Melanie Hall**, Montana Commissioner of Banking and Financial Institutions and CSBS Board of Directors Chair, at the State-Federal Supervisory Forum, May 20, 2021*

I am honored to open today's session by speaking about CSBS's priorities for the coming years. I'd like to start by thanking the CSBS staff for this amazing event and all of you for joining us today. I'd also like to recognize Kevin Hagler for his incredible work in steering CSBS during unprecedented times. Kevin said yesterday that the pandemic revealed the resiliency of the state system. It also revealed the importance of people like Kevin who had the foresight in 2019 to encourage the state system to create a long-term strategic plan. That plan was critical during the pandemic. It allowed us to react to the circumstances at hand while continuing to focus on the future.

That's why earlier this year the CSBS Board of Directors announced several priorities to advance a concept that we call Networked Supervision. What is Networked Supervision? It's the idea that by building stronger connections between regulators using technology, data and people, the state system can continue to respond to the needs of an ever growing and innovative economy. The result will be a more uniform, efficient system that preserves states' authority to make laws governing financial services for their citizens.

What is Networked Supervision? It's the idea that by building stronger connections between regulators using technology, data and people, the state system can continue to respond to the needs of an ever growing and innovative economy. The result will be a more uniform, efficient system that preserves states' authority to make laws governing financial services for their citizens.

Melanie Hall, CSBS Chair

Here's an example of how Networked Supervision works. Our new One Company, One Exam program allows states to coordinate a single annual exam for large multistate companies. By streamlining these exams, the states are freeing up resources for greater risk analysis while reducing burden on the companies we regulate. Last year we piloted this program in the MSB space. Our goal in 2021 is to perform 75 of these exams – we've already completed 13 in the first quarter. We are now applying what we've learned to the mortgage industry. This year, we'll pilot a joint, multistate exam for a large, complex mortgage company. Success in this space will result in

large multi-state companies receiving only one exam a year.

Other state system priorities include: using technology to ensure more uniformity in licensing standards, coordinating cyber exams, and engaging with industry to better understand the current pain points in the system. State commissioners are also working to raise the bar by creating model prudential standards for state-regulated non-depository mortgage servicers.

These are big goals. But, as I often tell my six-year-old daughter: “We can do hard things. How do we know? Because we’ve done them before.” The state system has proven, time and again, to be a bastion of resiliency, adaptability and innovation.

These are big goals. But, as I often tell my six-year-old daughter: “We can do hard things. How do we know? Because we've done them before.” The state system has proven, time and again, to be a bastion of resiliency, adaptability and innovation.

Melanie Hall, CSBS Chair

Although CSBS and the states are busy working on ambitious goals, we are also focused on both traditional and new risks that we see in the financial system as a whole. I am a lover of analogies. And although the Montana banking commissioner should probably have a great farm or ranch analogy, I am still a Mississippi girl at heart. When I think about risk, I go back to my days on the Gulf Coast. And the risks that I felt as a child with my toes in the warm sand: jellyfish, stingrays, sharks.

Over the years, I have put those risks into perspective in the world in which we assess risk now. So, when I think about jellyfish…I think about the risks that come and go. Although they might really sting, they almost never kill ya unless there are enough of them. This, to me, is the growing concentration and consolidation risk in both depository and non-depository financial services.

As we all know, the best way to manage concentration and consolidation risk, and jellyfish risk for that matter, is to assess all the conditions and then stay out of the water when conditions aren’t trending in your favor. It doesn’t mean you should never swim. It simply means that you should monitor where you are and manage the risk accordingly. Ensuring that we are raising a red flag when we see concerning consolidation and concentration is something regulators must do.

Next, the stingrays…FACT: if you shuffle your feet in the sand, you will almost never get popped by one. But, if you get too excited and forget to do the things you know you should do, they hurt immensely. To me, the stingrays of the financial world show up when there are internal or external breaches in people doing the things they know they should do, but for some reason, don’t – whether that’s an internal controls misstep or inconsistent cyber practices. These risks can be almost entirely avoided by maintaining strong and consistent practices but they can be very costly. It’s the job of regulators to make sure the policies are appropriate and then to work with companies when there are inevitable missteps.

Last, the sharks…sometimes you are just unlucky. But sometimes you are making a conscious decision to do dangerous things like swim at dusk while wearing sparkly jewelry. The sharks of today are numerous…fintechs that are swimming faster than everyone else, cyber criminals both domestic and foreign, and pandemics that come out of nowhere to shut down the beach. Sharks can be deadly and sometimes it feels like there is nothing we can do to mitigate the risk. But, a knowledgeable management team with a strong strategic plan and risk mitigation practices will go a long way towards keeping everyone – including us regulators – safe.

What else can we do to manage risk? First, as I discussed, continue to strengthen state and federal regulation by increasing connections through Networked Supervision. Second, encourage a diverse perspective of opinions...demographic, professional and regulatory. As I prepared to take the Chair, I looked at the CSBS Board and tried to make appointments that would reflect today's financial services world and represent consumers from all walks of life. Career examiners, former industry leaders, a couple lawyers (we all know that a few go a long way) and a former NFL football player. My hope is that this Board can help us meet the future in a way that honors the dual banking system and the economy as a whole.

What does all of this mean for our federal partners? We ask you to stand with us and to support the state system in achieving our goals. We ask for your continued partnership on initiatives that create consistency among the agencies. We ask for transparency in communication. And we commit to doing the same as we all focus on protecting our financial system and the consumers it serves.

What does all of this mean for our federal partners? We ask you to stand with us and to support the state system in achieving our goals. We ask for your continued partnership on initiatives that create consistency among the agencies. We ask for transparency in communication. And we commit to doing the same as we all focus on protecting our financial system and the consumers it serves.

Melanie Hall, CSBS Chair

Finally, it would be impossible for me to finish a speech about the future without acknowledging the past. Just over 10 years ago, I started my career as the banking commissioner in Montana. It was January 2011. Two-thirds of Montana's 64 state-chartered banks were under some sort of enforcement action. Two of those were on the FDIC's six-month projected failure list. What I knew about banking regulation could fit in a very small pocket. I was fortunate that day - and for the 10 years since - to be surrounded by amazing colleagues, peers and bankers who never once hesitated to share their knowledge and their wisdom with me.

Experienced and hardworking fellow Commissioners who supported me when I needed encouragement and guidance, and federal partners who were willing to both teach and listen. Plus, the very best team a Commissioner could ask for in Montana. I also could not have done any of this without the support of incredibly good (and patient) staff at CSBS, and I am honored to be the Chair of this tremendously important organization.

What have the past 10 years taught me? We absolutely can do hard things if we have the support of the people around us and if we are willing to both teach and learn. How do we know? Because we've done them before. So, I ask each of you, my state and federal colleagues, to please support CSBS and the states as we reach for our goal of a better system of financial regulation for the citizens of our states and for the companies that serve them. Thank you again for being here with us today.