

FINTECH INDUSTRY ADVISORY PANEL

Accountability Report

February 2021



CSBS launched [Vision 2020](#) in 2017 to harmonize the multistate licensing and supervisory experience for nonbank financial companies, including fintechs. Much of the work under Vision 2020 has been informed by the [Fintech Industry Advisory Panel](#), a group of fintech companies we convened as part of the initiative. The panel devoted more than 100 hours to meetings that identified and prioritized the challenges facing state-licensed fintechs. In February 2019, CSBS announced that it had accepted many of the [panel's recommendations](#), including those in the areas of creating common definitions and practices, increasing transparency and expanding the use of common technology among all state regulators.

CSBS released periodic [accountability reports](#) as the FIAP recommendations were implemented to ensure transparency. This report is a final readout on the Vision 2020 initiative, summarizing the commitments that have been completed and those that will continue as we work to create a more integrated and empowered state system.

[Vision 2020](#)

State regulators are fulfilling their commitments, including:

- [Harmonized licensing practices in 28 states](#) for money service businesses (MSBs) operating regionally or nationwide, reducing the time from application to approval by more than two-thirds.
- [Initiated One Company, One Exam](#) for nationally operating MSBs to have a single exam that meets the requirements for many states.
- Expanded use of NMLS to license money transmitters in virtually every state.
- Developed a model law for MSB supervision, further harmonizing multistate practices.
- Improved transparency through development of an MSB Call Report (the only one of its kind) and establishing a repository for state regulatory guidances on money transmission and consumer finance laws.
- [Launched the State Examination System \(SES\)](#), a next generation technology platform that enables state regulators to conduct remote examinations and share information, which has proven particularly important during the pandemic. SES also draws on advanced data analytics, enabling regulators to identify high-risk areas for individual companies or a portfolio of firms.
- Published 50-state overviews of consumer finance laws and agent of the payee exemptions.

While each of the commitments has value, those that encourage seamless regulation across state lines have been the most impactful for industry and regulators. For example, MSBs are experiencing a quicker licensing process as states adopt the Multistate MSB Licensing Agreement (MMLA), and as of January 2021, multistate MSBs will have fewer exams under the One Company, One Exam program. For state regulators, these MSB initiatives mean less time navigating multistate differences and more time for risk analysis and consumer protection.

Networked Supervision

Financial regulation must continue to evolve and strengthen with the changing financial services landscape. An integrated and empowered state system is critical for meeting both current and future regulatory challenges.

To that end, states are working through CSBS to create a regulatory network empowered by technology platforms and the collective intelligence of its users – a strategic approach that we call Networked Supervision. This “networked” system will increase efficiency, reduce regulatory burden and protect consumers more effectively.

Initiatives like the MMLA and One Company, One Exam, are part of this broader focus and have laid the groundwork for even more integration. For example, both initiatives will be built into the modernized Nationwide Multistate Licensing System (NMLS) and inform the more data-driven and risk-scoped regulatory experience. In addition, the multistate examination concepts of One Company, One Exam are now being applied to a pilot program for mortgage companies.

Conclusion

State regulators have made considerable progress in harmonizing the multistate licensing and supervisory experience for nonbank financial companies. Industry input through the FIAP was critical to this success. Going forward, both industry and regulators can expect further streamlining under Networked Supervision.




CSBS thanks the FIAP and all our stakeholders for feedback and support of Vision 2020 and for collaboration in the years to come as we build the regulatory system of the future.

Visit CSBS.org for updates on state regulators’ progress on Networked Supervision.

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FEBRUARY 2021

 PAYMENTS & LENDING INDUSTRY RECOMMENDATIONS	 REGULATOR RESPONSE	 2020 YEAR-END IMPLEMENTATION UPDATE
Use CSBS Regtech for Licensing and Exams		
Expand use of NMLS across all license types	DRIVE 50-state adoption of NMLS for nonbank financial services	The FIAP companies urged the states to continue to expand their use of NMLS as a licensing system across as many license types as possible. NMLS is a key part of current Vision 2020 efforts and is foundational to the states' goal of Networked Supervision. Through NMLS, states collaborate, coordinate and drive toward a networked system of state regulation.
Expand use of all available NMLS functionality	DRIVE 50-state adoption of NMLS for nonbank financial services	States continue to expand their use of NMLS across a growing range of license types. When we announced the FIAP recommendations in February 2019 , we had a total of 64 state agencies using NMLS. This included: <ul style="list-style-type: none"> • 44 state agencies using NMLS to manage 69 MSB license programs, and • 33 state agencies using NMLS to manage 91 consumer finance lender license programs. As the end of 2020: <ul style="list-style-type: none"> • 49 state agencies use NMLS to manage 80 MSB license programs, and • 42 state agencies use NMLS to manage 125 consumer finance lender license programs. Status: Continuing as part of Networked Supervision

Use CSBS Regtech for Licensing and Exams *(Continued)*

<p>Develop menu of state licensing requirements for multi-state consistency, including:</p> <ul style="list-style-type: none"> • renewal timelines and requirements • supplement paper-based notice and disclosure requirements with online delivery/posting options • electronic surety bonds • electronic fingerprint cards • electronic payments to state agencies 	<p>BUILD into ongoing work to develop the new NMLS</p>	<p>The FIAP highlighted the pain points MSBs face when seeking licensure in multiple states, including differing legal and procedural requirements, different interpretations of similar legal provisions, and the time and resources needed to satisfy similar requirements in multiple states. The FIAP also noted the challenge of states using NMLS, but still requiring submissions outside of NMLS.</p> <p>In 2018, a handful of states launched the Multistate MSB Licensing Agreement (MMLA), setting up a process for streamlining the MSB licensing process. Under the MMLA, signatory states agree to accept the work of other states in reviewing key components of a license application. Companies licensed through this process have experienced a 66 percent reduction in license processing times.</p> <p>As of year-end 2020, 29 states have signed on to the agreement, and their collaboration has become a foundation for the next generation of NMLS and for evolving MSB oversight from a state-by-state process to a robust network for state licensing and supervision.</p> <p>Status: Continuing as part of Networked Supervision</p>
<p>Build the State Examination System</p>	<p>LAUNCH SES with pilot states during 2019</p>	<p>FIAP companies urged the states to continue to improve multi-state exam coordination. As the FIAP continued its discussions during 2018, the states shared with the FIAP the vision for the State Examination System (SES), an end-to-end exam management system to support the supervision of nonbank and other financial services providers.</p> <p>Following a successful pilot during the second half of 2019, CSBS launched SES in March 2020. While this timing was planned well before the COVID-19 pandemic, SES turned out to be a key solution for meeting the states’ immediate needs to the pivot to off-site and remote examinations. SES expanded in September 2020 to support the consumer complaints resolution process, a feature set that ten agencies are already using. As of year-end 2020, 29 state agencies are using SES for either supervisory activities or consumer complaint handling, with over 400 exams conducted or in progress through this system and more than 210 consumer complaints addressed through the system. To learn more about SES, click here.</p> <p>Status: Complete</p>

Use CSBS Regtech for Licensing and Exams *(Continued)*

<p>Increase multi-state exam coordination</p>	<p>ESTABLISH quantitative targets for multi-state exams</p> <p>LAUNCH SES with pilot states during 2019</p> <p>One-company, one-exam pilot launched January 2019</p>	<p>In addition to the development of SES, FIAP companies urged the states to continue to bring more coordination to multi-state exams. During 2019, the states piloted the One Company, One Exam concept. Through this pilot, a nationally operating MSB was examined once in 2019, meeting the exam needs and requirements for many states. During 2020, the states processed lessons learned from this pilot and established a plan for transforming the One Company, One Exam experiment into a nationwide initiative now known as MSB Networked Supervision.</p> <p>Seventy-seven of the nation’s largest payments companies (including some cryptoasset payments companies) will be examined through this consolidated single, multi-state exam approach in 2021. Building on years of multistate coordination, this exam protocol will enable states to fine tune a risk-based approach to each company’s operations. Each exam will be led by one state overseeing a group of examiners sourced from across the country. By relying on experts across the state system — including in cyber security and anti-money laundering — regulators will gain more insight while also freeing up state resources.</p> <p>This intentional and coordinated approach to scheduling and information sharing – with SES as a key enabler – will reduce regulatory burden and result in a more efficient use of regulatory resources and a more networked system of state MSB supervision.</p> <p>During 2021, states will also pilot One Company One Exam with state-licensed mortgage companies.</p> <p>Status: Continuing as part of Networked Supervision</p> <p>One Company One Exam in place for nationally operating MSBs for 2021</p>
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Harmonize Owner and Management Vetting

<p>Explore standardized approaches to control and control persons including:</p> <ul style="list-style-type: none"> • change of control application process • approaches to international persons • treatment of passive investors 	<p>ESTABLISH a regulator-industry working group on control</p> <p>DEVELOP a 50-state model MSB law</p>	<p>The FIAP highlighted challenges relating to differing approaches to control persons and changes of control. The states actually dove into this one even before the FIAP finished its work, establishing an NMLS working group on control. This group’s work informed the development of the CSBS Model State MSB Law, which includes a standardized approach to control, including treatment of passive investors.</p> <p>The states have taken a collaborative approach to developing the Model MSB Law, convening a Regulator-Industry Clearinghouse to develop provisions consistent with regulatory and industry priorities. The CSBS Board recently approved the first part of the Model MSB Law, which addresses, among other topics, coordinated licensing and supervision, control persons and regulatory reporting. The model law’s approach to control aligns with how banking laws treat control.</p> <p>Additionally, the NMLS Key Individual Wizard (KIWI) – a tool for regulators and license applicants to evaluate individuals based on roles and responsibilities, not titles, in order to identify control persons – aligns with the model law’s approach to control.</p> <p>The model law’s and KIWI’s approach to identifying control persons are integrated into the NMLS modernization development plan.</p> <p>Status: Work on model law continues as part of Networked Supervision</p>
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Increase Transparency		
Create central repository of licensing and fintech-related state guidances	BUILD an online database of state licensing and fintech guidance	<p>The FIAP highlighted the need for more tools for navigating the state system to bring greater transparency to state financial regulation. Several initiatives are underway to respond to this need.</p> <p>The FIAP discussed the challenges of staying current on state-issued guidance and interpretations related to nonbank licensing. CSBS continues to maintain the State Regulatory Guidance Portal, a database housing state regulatory guidances related to nonbank licensing and oversight.</p>
Conduct 50-state surveys of consumer finance, MSB exemptions	PUBLISH an online source for current licensing requirements and exemptions; encourage a common standard	<p>The FIAP Payments Subgroup highlighted difficulty in identifying differences in licensing exemptions. To understand these differences, several 50-state overviews have been launched.</p> <ul style="list-style-type: none"> • The “Agent of the Payee” Exemption Map identifies states with laws or regulations that explicitly do not require a money transmitter license for the activity of receiving money from a person for payment for goods or services to a third party. • In December 2019 CSBS released a 50-state survey of state consumer finance laws. In November 2020, we released the first update, which includes a comprehensive catalog of state usury laws. <p>Status: Complete</p>
Establish vehicle/forum for conversations — prelicensure and/or outside the formal exam cycle — on technology, companies and products	COORDINATE information sessions for regulators and industry to discuss fintech developments	<p>Robust and open dialogue is one of the key benefits for states coming out of their work with FIAP companies. CSBS and its members continue to seek engagement with industry and other stakeholders through a variety of mechanisms and forums. Across a range of initiatives, including NMLS and the Model MSB Law, the states are working closely with industry.</p> <p>To build on the FIAP model, in 2021 CSBS will hold a series of virtual regulator-industry roundtables on timely fintech topics. These small, focused discussions will provide an opportunity explore areas of alignment and shared learning between state regulators, industry, and other stakeholders.</p> <p>The NMLS Annual Conference serves as a key venue for engagement between state regulators and the nonbank financial services industry. Given the current national health crisis, the 2021 conference will be a virtual event. This format will offer informational sessions for key stakeholders and allow for more diverse perspectives on the proposed licensing model, key individual wizard, the State Examination System (SES) and more. For more information on the conference or to review the agenda, visit www.nmlsconference.org.</p> <p>Status: Continuing as part of Networked Supervision</p>



**PAYMENTS-SPECIFIC
INDUSTRY
RECOMMENDATIONS**



NEXT STEPS



**2020 YEAR-END
IMPLEMENTATION UPDATE**

Create Uniform Definitions and Practices

Standardize definitions and interpretations of the activities that require MSB licensure

Standardize exemptions and procedure(s) for exemptions to MSB licensure

Form regulator working group to evaluate differences in state MSB prudential requirements and explore harmonization opportunities

**DEVELOP a
50-state model
MSB law**

The FIAP called on states to align around common definitions and requirements for state-licensed MSBs. Industry feedback highlighted that law interpretation and implementation differ across states even when the statutory language is the same.

The states determined that a model law will provide an effective foundation for a state regulatory system that enables companies to scale nationally, while preserving important customer and marketplace protections.

Work continues on this Model State MSB Law. As part of this effort, the states convened a Regulator-Industry Clearinghouse to develop provisions consistent with regulatory and industry priorities. The CSBS Board recently approved the first part of the Model MSB Law, which addresses, among other topics, coordinated licensing and supervision, control persons and regulatory reporting.

Status: Work on the model law continues as part of Networked Supervision



**LENDING-SPECIFIC
INDUSTRY
RECOMMENDATIONS**



NEXT STEPS



**2020 YEAR-END
IMPLEMENTATION UPDATE**

Create Uniform Definitions and Practices

Consistent reporting timelines and requirements for state-licensed consumer finance lenders

CREATE a standardized consumer finance call report

In 2011, the states rolled out the Mortgage Call Report; in 2017, the states rolled out the [MSB Call Report](#). Submitted through NMLS, these two reports brought significant standardization to state reporting requirements. For example, the MSB Call Report led to eliminating 20 state-specific reports of MSB activity. Additionally, these call reports have produced a robust data set that helps states understand and anticipate trends and risks and supports a more networked state system.

The FIAP Lending Subgroup identified varying state reporting requirements as a significant regulatory burden. Work proceeds on a Consumer Finance Call Report. The states have used this initiative to consider a new approach to data standards for regulatory reporting. We are planning to pilot a new Uniform Loan Transaction Report for use in exams and regulatory reporting. We expect that there will be opportunities for industry engagement and feedback on this pilot during 2021, including at the 2021 NMLS Virtual Conference.

Status: Continuing under Networked Supervision

Continue Industry/Regulator Conversations

Facilitate regulator education regarding lead generation as an acquisition channel for online lenders

INCLUDE lead generation in professional development

The Lending Subgroup of the FIAP issued an informational paper on lead generation activities and regulation which is a resource for states to consider as they address the issue.

Status: Continuing under Networked Supervision