



## From John Ryan, CSBS president and CEO

The United States is in the midst of enormous growth in nonbank financial services companies that utilize fintech business models. Money services business is a \$1.4 trillion dollar sector where CSBS data show approximately 55% of all transactions are fintech-based. Fintech business models are increasing in lending products as well: fintech mortgage origination grew from one-third in 2013 to two-thirds of the \$890 billion market in mid-2019.

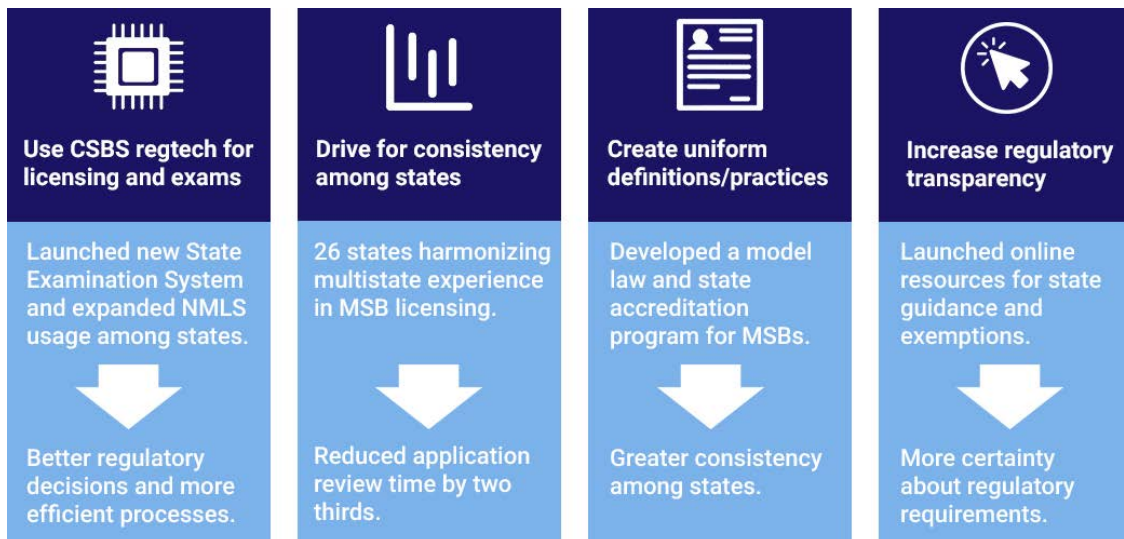
These companies – ranging from large multinationals, to new digital entrants, to established brick-and-mortars – are licensed and supervised at the state level. State licensing is focused on underlying business activities rather than the technology used to offer it. However, as supervisors, state regulators also need to understand how licensees use technology and data to deliver services to customers.

Technology and innovation have enabled companies to scale geographically and enter new markets more quickly. This has brought a focus on the “pain points” created by variations between states. CSBS identified a need to re-engineer nonbank supervision to transform multistate regulation for the benefit of the system and consumers. To meet this need, CSBS developed [Vision 2020](#), a bundle of initiatives driving toward a networked system of nonbank licensing and supervision.

Industry input into this process has been a vital element of Vision 2020. Over two years ago, we brought together the CSBS [Fintech Industry Advisory Panel](#) to identify challenges and bring forth actionable recommendations to strengthen and streamline state regulation. In February of this year, [CSBS announced next steps](#) in operationalizing many of these recommendations.

Today, CSBS is releasing an accountability report to highlight progress implementing the recommendations state regulators accepted. See the original recommendations and responses [here](#).

CSBS made 11 distinct commitments that largely fit into four focus areas:






This effort is underway and ongoing. Improvements in the state regulatory system enable financial services innovation and build the foundation for a reimagined, networked approach to state nonbank regulation.

# FINTECH INDUSTRY ADVISORY PANEL

## Accountability Report







DECEMBER 2019

 <p><b>PAYMENTS &amp; LENDING INDUSTRY RECOMMENDATIONS</b></p>	 <p><b>REGULATOR RESPONSE</b></p>	 <p><b>DECEMBER 2019 IMPLEMENTATION UPDATE</b></p>
<p>Use CSBS Regtech for Licensing and Exams</p>		
<p>Expand use of NMLS across all license types</p>	<p><b>DRIVE 50-state adoption of NMLS for nonbank financial services</b></p>	<p>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. The FIAP also noted the challenge of states using NMLS but still requiring submissions outside of NMLS.</p> <p>As of November 1,</p> <ul style="list-style-type: none"> <li>• 46 state agencies use NMLS to manage 75 MSB license programs, and</li> <li>• 37 state agencies use NMLS to manage 106 consumer finance lender license programs.</li> </ul>
<p>Expand use of all available NMLS functionality</p>	<p><b>DRIVE 50-state adoption of NMLS for nonbank financial services</b></p>	<p>As more and more states use NMLS for managing more and more licenses, we have built additional licensing-related functionality into the system to further streamline the licensing process. States continue to increase their use of these added functionalities. Since we rolled out the FIAP recommendations and implementation plan in February:</p> <ul style="list-style-type: none"> <li>• Four additional states started using the automated annual renewal process,</li> <li>• Four states began utilizing NMLS Invoicing to invoice licensees for assessments, penalties, and other charges, and</li> <li>• One new state adopted the <a href="#">MSB Call Report</a>.</li> </ul>

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"> <li>• renewal timelines and requirements</li> <li>• supplement paper-based notice and disclosure requirements with online delivery/posting options</li> <li>• electronic surety bonds</li> <li>• electronic fingerprint cards</li> <li>• electronic payments to state agencies</li> </ul>	<p><b>BUILD into ongoing work to develop the new NMLS</b></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 provision, and the time and resources need to satisfy similar requirements in multiple states.</p> <p>In 2018, a handful of states signed on to the <a href="#">Multistate MSB Licensing Agreement</a> (MMLA), setting up a process for streamlining the MSB licensing process. Under the MMLA, signatory states agreed to accept the work of other states in reviewing key components of a license application. The first MMLA pilot launched in April 2018. The pilot proved successful in bringing down licensing processing times and helping states effectively leverage and share regulatory resources. The MMLA launched its second pilot in October 2018 and as of September 2019 are accepting new program applicants monthly. Between June 2018 and November 2019, 21 agencies issued 146 licenses to 16 companies.</p> <p>The MMLA has officially evolved from pilot to an established CSBS program. More states continue to join the MMLA. As of November 1, 26 states have signed on to the agreement, which has become a foundation for evolving MSB oversight from a state-by-state process to a more networked approach. For more on the MMLA, click <a href="#">here</a>.</p>
<p>Build the State Examination System</p>	<p><b>LAUNCH SES with pilot states during 2019</b></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>FIAP companies also had a chance to see SES at the 2019 NMLS Conference and throughout the year as we demo'd the system with industry and regulators. As of October 1, the SES pilot is live with 10 state agencies participating. The pilot phase will provide us with key, real-world feedback that will prepare us for a nationwide roll-out down the road. To learn more about SES, click <a href="#">here</a>.</p>
<p>Increase multi-state exam coordination</p>	<p><b>ESTABLISH quantitative targets for multi-state exams</b></p> <p><b>LAUNCH SES with pilot states during 2019</b></p> <p><b>One-company, one-exam pilot launched January 2019</b></p>	<p>In addition to the development of SES, the FIAP companies urged the states to continue to bring more coordination to the multi-state exam process. 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. The states are processing “lessons learned” from this pilot and exploring next steps.</p> <p>The key preliminary takeaway: The states can do this. An intentional and coordinated approach to scheduling and information sharing — with SES as a key enabler — leads to reduced regulatory burden, a more efficient use of regulatory resources, and a more networked system of state MSB supervision.</p>

Harmonize Owner and Management Vetting		
<p>Explore standardized approaches to control and control persons including:</p> <ul style="list-style-type: none"> <li>• change of control application process</li> <li>• approaches to international persons</li> <li>• treatment of passive investors</li> </ul>	<p><b>ESTABLISH a regulator-industry working group on control</b></p> <p><b>DEVELOP a 50-state model MSB law</b></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. One product of the working group has been the development of the NMLS Key Individual Wizard (the “KIWI”). Currently in the prototype phase, the KIWI is a tool for regulators and license applicants to evaluate individuals based on roles and responsibilities, not titles, in order to identify control persons.</p> <p>Additionally, the proposed model state MBS law take a similarly practical approach to a common understanding of control under state licensing laws. Related to this, the states are reviewing potential approaches to streamlining the review of passive investors.</p>
Increase Transparency		
<p>Create central repository of licensing and fintech-related state guidances</p>	<p><b>BUILD an online database of state licensing and fintech guidance</b></p>	<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>Conduct 50-state surveys of consumer finance, MSB exemptions</p>	<p><b>PUBLISH an online source for current licensing requirements and exemptions; encourage a common standard</b></p>	<p>The FIAP discussed the challenges of staying current on state-issued guidances and interpretations related to nonbank licensing. In August 2019, CSBS launched the <a href="#">State Regulatory Guidance Portal</a>. This database houses a variety of state regulatory guidances related to nonbank licensing and oversight. The portal is a living resource and we will continue to post new materials as they become available.</p> <p>The FIAP Payments Subgroup highlighted difficulty in identifying differences in licensing exemptions. To understand these differences, several 50-state surveys have been launched. The <a href="#">“Agent of the Payee” Exemption Map</a> 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. The Agent of the Payee Exemption Map also includes state-by-state summaries of the requirements for the exemption.</p> <p>CSBS is in the process of compiling a 50-state survey of state consumer finance laws. We have been previewing it with industry and other stakeholders. We expect this resource to be publicly available in early 2020.</p>
<p>Establish vehicle/forum for conversations — prelicensure and/or outside the formal exam cycle — on technology, companies and products</p>	<p><b>COORDINATE information sessions for regulators and industry to discuss fintech developments</b></p>	<p>One of the key benefits for the states coming out of the work with the FIAP companies was the robust and open dialogue. CSBS and its members continue to seek engagement with industry and other stakeholders through a variety of mechanisms and forums.</p> <p>The Annual NMLS Conference serves as a key venue for engagement between state regulators and the nonbank financial services industry. With topical panels covering a broad range of industries and gatherings such as the “Meet the Regulator” session, the NMLS Conference enables shared learnings and informal dialog across many industries and licensing and supervisory processes.</p>

 <p><b>PAYMENTS-SPECIFIC INDUSTRY RECOMMENDATIONS</b></p>	 <p><b>REGULATOR RESPONSE</b></p>	 <p><b>DECEMBER 2019 IMPLEMENTATION UPDATE</b></p>
<b>Create Uniform Definitions and Practices</b>		
<p>Standardize definitions and interpretations of the activities that require MSB licensure</p> <p>Standardize exemptions and procedure(s) for exemptions to MSB licensure</p> <p>Form regulator working group to evaluate differences in state MSB prudential requirements and explore harmonization opportunities</p>	<p><b>DEVELOP</b> a 50-state model MSB law</p>	<p>The FIAP called on states to align around common definitions and requirements for state-licensed MSB. Industry feedback highlighted that states sometimes interpret and implement laws differently, even when the statutory language is the same.</p> <p>The states determined that a model law will help companies to scale nationally, while preserving important customer and marketplace protections.</p> <p>On October 1, CSBS issued for public comment a <a href="#">draft model state MSB law</a> that covers a range of licensing requirements. With this work, we are focused on consistent approaches, not just consistent statutory language. We plan to finalize in the coming months.</p>
<b>Create Uniform Definitions and Practices</b>		
 <p><b>LENDING-SPECIFIC INDUSTRY RECOMMENDATIONS</b></p>	 <p><b>REGULATOR RESPONSE</b></p>	 <p><b>DECEMBER 2019 IMPLEMENTATION UPDATE</b></p>
<b>Create Uniform Definitions and Practices</b>		
<p>Consistent reporting timelines and requirements for state-licensed consumer finance lenders</p>	<p><b>CREATE</b> a standardized consumer finance call report</p>	<p>The states rolled out the Mortgage Call Report in 2011 and the MSB Call Report in 2017. Submitted through NMLS, these reports have brought significant standardization to state reporting. For example, the <a href="#">MSB Call Report</a> led to eliminating 20 state-specific MSB activity reports. These reports also produce data that helps the states establish a more networked state system.</p> <p>The FIAP Lending Subgroup identified varying reporting requirements as a significant regulatory burden. Modeled on the Mortgage and MSB call report, a Consumer Finance Call Report is in the works, and we expect to issue a draft for public comment in 2020.</p>
<b>Continue Industry/Regulator Conversations</b>		
<p>Facilitate regulator education regarding lead generation as an acquisition channel for online lenders</p>	<p><b>INCLUDE</b> lead generation in professional development</p>	<p>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.</p>