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Financial Institutions Committee Hearing Testimony
AB-0617 Money Transmission Modernization Act
December 5th, 2023

Thank you Madam Chair and to the Committee members for the opportunity to further describe the intent of this bill and the benefits it will generate for DFI and those being impacted by this legislation.

The purpose of this bill, known as the "Money Transmission Modernization Act" (MTMA), is to streamline the Department of Financial Institutions (DFI) licensing administration of eight licensee groups. This is a 113-page bill that is reduced to the following cogent points.

MTMA is based on a model law developed by the Conference of State Bank Supervisors ("CSBS") with extensive input from regulators and industry stakeholders. The transparent effort involved hundreds of hours of collaborative meetings among state regulators from across the country, licensed money transmitters, and industry trade groups, as well as input from a variety of consumer and financial services stakeholders. The result was strong consensus support for the Model Law's money transmission provisions. Wisconsin DFI participated in this process and recommends adopting the model principles covered by this bill proposal.

Of the eight licensee groups, many have not had statute reviews or updates in decades as illustrated in the Co-Sponsor memo. The change in technology, the speed of transactions, the multi-state activities, and the constantly changing business models require a higher level of sophistication and specificity to be used in the regulatory process. The Bill highlights include:

1) Adopt the Money Transmitter Modernization Act (MTMA);

2) Require the use of the Nationwide Multistate Licensing System and Registry (NMLS). This licensee registration platform is mandated for and is currently used by thousands of financial institutions in Wisconsin and across the country.

3) Standardize the licensing and license renewal process. Eighty-three percent of the 638 Wisconsin licensees affected by this bill are already using NMLS. This process will create time and cost savings for both DFI administration and licensees by having all entities using the same licensee platform.

4) Codify current practices with respect to loan companies and debt collectors. In recent years, DFI has implemented many facets of this bill into their best practices and examination process for the affected licensee groups. This bill cleans up statute languages and codifies these practices.

The basic proposal for each licensee group is uniform. Three licensee groups have expanded languages covered in the bill. A review of these proposal changes reflects a reasonable level of supervision by DFI and the licensees will experience benefits and minimal business impact from these changes.

Benefits of the legislation:

NMLS

- Licensing through NMLS supports the Networked Supervision initiative to improve regulatory coordination and information sharing amongst regulators and enhance consumer protection.
- Increased efficiencies for businesses who are licensed in more than one state, by eliminating duplicative filings with each state.
- Increased efficiencies for industries who hold multiple different license types with the division (i.e., a loan company that also has a payday lender license).
- Requiring licensing through NMLS eliminates the need to develop and implement a new licensing database to replace the current proprietary system, which is antiquated and requires additional measures to keep the system secure.
- Mandating the use of NMLS increases division efficiencies by eliminating the need to maintain a duplicative proprietary database.
- Industry will be able to pay their renewal fees online, eliminating the need for DFI to process payments.
- NMLS supports electronic surety bonds and paperless filings.
- Provides a secure means for the industry to upload required documents and eliminates the need for submission via mail or unsecured email.
- NMLS Consumer Access will enable consumers to obtain more information on licensees than the Department's website currently provides. This will help consumers determine if they want to conduct business with a particular company, if a company is legitimate, and will also provide better contact information for each licensee.

Debt Collectors

- Eliminating the licensing of solicitors and collectors reduces the regulatory burden and costs for the industry and increases efficiencies for the division.

Licensed Lenders

- Licensees will support updates to records requirements and provisions applying to third-party service providers.
- Modernizes the loan company licensing statute to accommodate online business models that were not envisioned at the time s. 138.09 was originally enacted.
- Clarifies licensing requirements for stakeholders.
- Clarifies that licensees are permitted to use third-party service providers.

Money Transmitters

- Provides an exemption for parties acting as an agent of the payee where risks to the consumer are limited.
- Provides greater protections for consumers using money transmitters by requiring the licensing of more money transmitters, requiring compliance with federal regulations, and increasing bond amounts.
- Adjust the licensing fee structure to be based on the volume of transmissions. Currently, the fee is based on the number of locations or agents in the state ($500 plus $5 for each location/agent within this state, up to $1,500). A volume fee structure is more equitable as licensees with little volume will pay the current $500 license fee and the annual fee will increase as the volume of activity increases.
- Standardizes the reporting requirements for money transmitters using the NMLS money service business call report and uniform authorized agent report.
- Provides industry with a more common set of standards by which they are licensed and regulated.

SUPPLEMENTAL EXPLANATIONS

Licensed Consumer Lenders
Modernizes loan company regulation to incorporate staff interpretations and accommodate changes in industry practice and use of a third-party service provider.

(FOR REFERENCE)
- *Adds definition of consumer loan.*
- *Clarifies what doing business under section 138.09 means.*
- *Codifies the position that a license is required to take assignment of loans with a finance charge that exceeds 18% without regard to whether the loan was originated by a financial institution.*
- *Exempts from licensure collection agencies regulated by DFI, payment processors, special purpose vehicles, and in certain situations persons involved in securitizations and collateral financing.*
- *Codifies the position that licensees can contract with a third party to service a consumer loan.*
- *Eliminates the requirement for all loans to be consummated at the licensed location.*
- *Modernizes record retention requirements.*
- *Eliminates obsolete provisions.*

Money Transmitters
This legislation repeals and replaces an antiquated Chapter 217 with language from the Model Act developed by the Conference of State Bank Supervisors, industry, and regulatory representatives to modernize the money transmitter regulations and address the myriad of changes that have occurred in the industry. The legislation also requires licensees to apply for, amend, renew, and surrender their licenses on NMLS.

(FOR REFERENCE)
- Modernization of the money transmitter regulations is based on the Model Money Transmission Modernization Act, also known as the Money Transmitter Model Law, which represents a single set of nationwide standards and requirements created by industry and state experts and approved by the Conference of State Bank Supervisor (CSBS) Board of Directors.
- A common regulatory baseline across the country is a crucial step in advancing multistate harmonization in the money transmission industry, as states will be better able to work together in the licensing, regulation, and supervision of money transmitters operating across state lines.
- Common standards also empower the states to use technology, apply data analytics, and share resources together as a networked system of state supervision (Networked Supervision) which benefits both consumers and industry.
    - Consumers benefit from the added risk detection and corresponding consumer protection that becomes possible with consistent standards across the states.
    - Industry benefits from a faster, more predictable, and efficient regulatory process across the states.
- Adds a licensing exemption for the agent of the payee, government, service providers for financial institutions, certain payment processors, commodities board of trade, futures commission merchant, securities broker-dealer, and employees of the money transmitter or authorized agent.
- Requires licensure of any company transmitting on behalf of a Wisconsin resident regardless of whether the company has a physical presence in Wisconsin, which is an existing requirement.
- Requires compliance with federal laws applicable to money transmission.
- Increases initial license fee from $800 to $1,000 and bases subsequent annual license fees on the annual volume of Wisconsin transmissions, ranging from $500-$4,000; currently the annual fee is $500-$1,500 and has not increased since 1995.

Increases surety bond to \$100,000-\$500,000 based on volume; currently the bond requirement is \$10,000 for the first location plus \$5,000 for additional locations or \$300,000, whichever is less.

- Revises the minimum tangible net worth from \$100,000 to the greater of \$100,000 or the sum of the following: 3% of the licensee's first \$100,000,000 in total assets, plus 2% of any additional assets up to \$1,000,000,000, plus 0.5% of any additional assets over \$1,000,000,000.
- Requires licensee to maintain permissible investments that cover the total amount of outstanding money transmission obligations.
- Requires audited financials submitted annually.
- Requires licensing and reporting through NMLS.
- Expands on the division's authority to revoke, suspend, or deny an application or renewal.
- Expands the requirements of licensees operating through authorized agent locations.
- Acquisition of control of a licensee would require DFI approval.
- Reduces record retention requirement from 6 years to 3 years.
- Requires timely transmission or a refund of the funds to the sender.

Debt Collectors

- Revises regulation to accommodate changes in industry practice, incorporate long-standing staff interpretations, streamline the licensing process, and reduce regulatory burden on collectors and solicitors.
- Revises Administrative Code to incorporate staff interpretations and accommodate the use of NMLS for processing license applications and renewals and for filing reports to increase bureau efficiencies and reduce the filing burden of licensees operating in more than one state.

(FOR REFERENCE)

- Eliminates registration of solicitors and collectors with the bureau to reduce regulatory burden and accommodate the use of the NMLS. This results in a reduction in the annual license fees paid to DFI as the \$15 per person solicitor/collector fee is eliminated.
- Updates the approval requirements for a collector's use of an alias.
- Creates a licensing exemption for mortgage bankers licensed under such. III, ch. 224, Stat. The activities of servicing residential mortgage loans or providing escrow services would otherwise fall under the definition of a collection agency.
- Clarifies a licensee's trust checking account must be identified as a "trust account."
- Clarifies the definition of "prompt deposit" of funds into the trust account to require deposit within 48 hours.
- Eliminates the requirement for an active office in Wisconsin as that is no longer necessary for conducting examinations.
- Adds the requirement to license as a branch any location where the collection of a bill or account of a Wisconsin resident occurs. Under existing law, only branch locations within the state of Wisconsin require a license.
- Expands reasons that DFI may suspend or revoke a collection agency license.
- Updates the Administrative Rules

WISCONSIN STATE SENATE
DAN KNODL
STATE SENATOR • 8TH DISTRICT

Assembly Bill 617
Public Testimony
Assembly Committee on Financial Institutions
December 5, 2023

Thank you Chairwoman Duchow and members of the committee for holding this public hearing on Assembly Bill 617, the Money Transmitter Modernization Act.

This legislation affects the money transmission industry. This industry provides payment intermediary services and (in Wisconsin) consists of eight different groups as regulated by the Department of Financial Institutions. These industries are Collection Agencies, Licensed Loan Companies, Sellers of Checks, Payday Lenders, Sales Finance Companies, Adjustment Service Companies, Currency Exchanges, and Insurance Premium Finance Companies. Altogether, there are 638 licensees in this industry operating in Wisconsin.

While these industries are not as well-known as banks and credit unions, they are just as susceptible to changes in technology and the market. The MTMA aims to modernize and streamline the regulation of money transmitters while promoting innovation and consumer protection.

Adopting this legislation will improve the regulatory burden on these industries by establishing consistent licensing standards across multiple states. Bringing Wisconsin's money transmission laws into alignment with those of other states, particularly by adopting the Nationwide Multistate Licensing System (NMLS), will allow more industry players to enter Wisconsin and expand the market, and will reduce redundancies for those who are already operating here.

At the same time, it will enhance consumer protection by standardizing requirements and providing greater transparency on businesses operating in the industry.

I would like to thank Representative O'Connor for his hard work on this bill, as well as the many industry stakeholders and individuals at DFI who participated in drafting this legislation.

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SERVING WASHINGTON, OZAUKEE, WAUKESHA & MILWAUKEE COUNTIES

State of Wisconsin

Department of Financial Institutions

Tony Evers, **Governor** Cheryll Olson-Collins, **Secretary-designee**

December 5, 2023

Testimony from the Department of Financial Institutions Regarding Assembly Bill 617

Good afternoon, I am Catherine Haberland, the Assistant Deputy Secretary at the Department of Financial Institutions (DFI). I have at the table with me Lisa Lee, the Bureau Director of Financial Services in the Division of Banking, and Matt Lynch, DFI's Chief Legal Counsel.

Chair Duchow and Vice-Chair O'Connor, thank you for the opportunity to testify in support of Assembly Bill 617. On behalf of the Department, I especially would like to thank Representative O'Connor for championing this bill and those that have cosponsored. Regulatory bills generally are not considered to be very exciting or interesting. However, they are important, and this bill is critical to the Department, Wisconsin consumers, and businesses that DFI licenses. The Department has been working on this legislation for about eight years and it is part of a national effort to provide uniform regulatory legislation in all states.

This bill has three pieces to it: 1) the Money Transmission Modernization Act (MTMA), which is a model law that most, if not all, states, are trying to enact to create uniformity among states in the regulation of money transmitters; 2) a requirement for our licensed financial services industries to transition to the nationwide multistate licensing system and registry, otherwise known as NMLS, for licensing and renewal purposes; and 3) other miscellaneous changes that reflect our current regulatory practices.

Money Transmission Modernization Act

First, I will address the money transmitter modernization section. Money transmitters are financial services companies that receive, hold, and/or send money for customers. Traditionally, you'd think of companies like Western Union and MoneyGram. More often now, you may think of online companies like PayPal, Inc. or peer to peer payment apps like Venmo. Some of these companies operate just in Wisconsin, some regional, some nationwide, and some globally. This industry has shown tremendous growth, not only in transmission volume, but also in the variety of companies. Because of the boom in fintechs, the number of money transmitters operating nationwide has more than doubled since 2015. More of these companies are operating online or via an app rather than a physical location in a state.

When our state statutes regarding Sellers of Checks were created, it did not contemplate these fintechs, online presence, or apps. When one of these companies operates in multiple states, it currently must navigate the different regulatory requirements of each individual state, which can be quite burdensome. As a result, the federal government has threatened to intervene. We believe that the states are best equipped to represent our local interests. The MTMA is a result of efforts to streamline regulation for money transmitters, while maintaining local oversight.

The MTMA is a single set of nationwide standards and requirements created by industry and state experts through careful negotiation. It creates a common baseline of laws across states to not only allow industry to have one set of standards to understand and comply with, but also allow states to work with each other as a networked system of state supervision, sharing technology, data analytics, and resources. Consumers benefit from added risk detection and industry benefits from a faster, more predictable and efficient oversight process across states.

As this model law was negotiated with industry, please find attached to this testimony letters of support from several of these companies.

Nationwide Multistate Licensing System and Registry

Second, I will address the requirement that our licensed financial services industries participate in NMLS. NMLS is the system of record for non-depository, financial services licensing, or registration in 66 state or territorial governmental agencies in the United States. This legislation will require licensees in the division to apply for, amend, renew, and surrender their license on NMLS.

Like the MTMA, requiring participation in NMLS will create a standard process for licensees across states, supporting multistate coordination initiatives. The bill standardizes the license renewal process and the renewal period, as well as the annual report filing dates. For licensees, the online system is more efficient and allows for online payments. These changes would allow smaller operators to more easily apply for licenses to expand their business models beyond Wisconsin and become more competitive in the marketplace.

This bill would now extend the requirement to utilize NMLS to the remaining industries where there was no statutory authorization to promulgate rules. These industries include insurance premium finance companies, collection agencies, currency exchanges, and loan companies. DFI has experience transitioning licensees and is committed to making the transition as smooth as possible.

Codifying Current Regulatory Practices

Finally, the bill would make changes to reflect current practices with regulating debt collectors and loan companies. The changes accommodate changes in industry practice, incorporate long-standing staff interpretations, streamline the licensing process, and reduce regulatory burden on collectors and solicitors.

Thank you for the opportunity to provide this testimony. We would be happy to answer any questions the Committee may have.

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October 31, 2023

The Honorable Jerry O'Connor
Vice Chair of Assembly Committee on Financial Institutions
Wisconsin State Assembly
Room 17 West
State Capitol
Madison, WI 53708

Via Electronic Mail to: Rep.O'Connor@legis.wisconsin.gov

Re: Comments in Support of LRB-2427 – Money Transmission Modernization Act

Vice Chair O'Connor,

On behalf of the Electronic Transactions Association ("ETA"), the leading trade association for the payments industry, we appreciate the opportunity to provide the comments below in strong support of the Legislative Research Bureau Draft 2427 ("LRB-2427") related to adopting money transmission modernization standardization for the state of Wisconsin.

ETA strongly supports the passage of LRB-2427 which incorporates the Conference of State Bank Supervisors ("CSBS") Model Money Transmission Modernization Act ("Money Transmitter Model Law") into Wisconsin law. We commend the work of CSBS in bringing together regulators and other stakeholders to develop a uniform, nationwide framework for the regulation of money transmission businesses. Through harmonized standards, the Money Transmitter Model Law will facilitate enhanced, coordinated supervision of money transmission businesses, and reduce barriers to entry and provision of critical financial services created by disparate and sometimes conflicting state laws and regulations.

Additionally, uniform, and comprehensive adoption of the Model Law and regulations will ensure that customers are protected in the same fashion, and payments companies are regulated in the same fashion, across all jurisdictions. It would create a robust single, national standard for customer protections, clarify and standardize definitions of regulated activity and related key elements of regulation, and streamline states' ability to license and examine money transmitters through the Nationwide Multistate Licensing System. Uniform adoption of the Model Law would therefore not only enable a more seamless approach to regulation than the status quo, but also help preserve States' limited resources with respect to licensing and supervisory efforts.

CSBS recently reported that the boom in fintech payments providers has resulted in the number of money transmitters operating nationwide (licensed in 40 or more states) more than doubling since 2015. Considering the substantial increase in the volume of regulation and oversight required as this industry continues to expand, standardization will be a benefit to regulators in managing workloads more efficiently.

Uniform adoption of the Model Law is critical to protecting users, maintaining U.S. competitiveness, and supporting regulator efficiency. Therefore, ETA supports LRB-2427 because it would align regulation of money transmission in Wisconsin with the Model Law that is being adopted in states across the nation.

* * * *

We appreciate you taking the time to consider these important issues. If you would like to discuss any aspect of our comments, please contact me or ETA Executive Vice President Scott Talbott at Stalbott@electran.org.

Respectfully Submitted,

Brian Yates

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October 31, 2023

The Honorable Jerry O'Connor
Vice Chair Assembly Committee on Financial Institutions
Wisconsin State Assembly
Room 17 West, State Capitol
Madison, WI 53708

Via: Electronic Submission, Rep.O'Connor@legis.wisconsin.gov

Vice Chair O'Connor:

I am writing to express Intuit's support for Legislative Research Bureau Draft (LRB) 2427, which will revise provisions related to money transmission and certain related activities for Wisconsin.

Intuit is the global financial technology platform that helps consumers and small businesses overcome their most important financial challenges. We serve more than 100 million customers worldwide with TurboTax, Credit Karma, QuickBooks and Mailchimp, and believe that everyone should have the opportunity to prosper.

Intuit's role in money transmission is important to the success of small business customers that use our QuickBooks product. In Wisconsin, more than 20,000 small businesses used QuickBooks Payroll to pay their employees more than $4.3 billion in 2022. In addition, nearly 14,000 merchants processed more than $745 million in payments last year.

LRB 2427 is based on the Money Transmission Modernization Act, which was developed by the Conference of State Bank Supervisors. This Act is a collaborative effort by state regulators from across the country, licensed money transmitters, and industry trade groups; it addresses current conflicting state laws and a patchwork of consumer protections.

Specifically, the legislation will align Wisconsin with a national standard for customer protections, clarify and standardize definitions of regulated activity, and streamline states' ability to license and examine money transmitters through the Nationwide Multistate Licensing System. This will ensure customers are protected and payments companies are regulated in the same manner across all jurisdictions.

Thank you for your leadership and support for LRB 2427, which will protect users, maintain competitiveness, and support regulator efficiency.

Sincerely,

Michael Kennedy

Michael Kennedy
Chief Corporate Affairs Officer

Cc: The Honorable Robin Vos, Speaker of Wisconsin State Assembly
Lisa Lee, Wisconsin Department of Financial Institutions

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October 31, 2023

Representative Jerry O'Connor
Vice-Chair, Committee on Financial Institutions
Wisconsin State Assembly

Re: ***LRB 2471/1 – Draft money transmitter legislation***

Dear Vice-Chair O'Connor:

This letter is submitted on behalf of The Money Services Round Table ("**TMSRT**"), a consortium of leading national non-bank money transmission companies.[1]

TMSRT has reviewed the provisions of LRB 2471/1 pertaining to the regulation of money transmission in Wisconsin. These provisions would replace the current Wisconsin Seller of Checks Law with legislation aligned with the "Model Money Transmission Modernization Act" (the "**Model Law**"). The Model Law was developed by the Conference of State Bank Supervisors ("**CSBS**") with extensive input from regulators and industry stakeholders. The transparent effort involved hundreds of hours of collaborative meetings among state regulators from across the country, licensed money transmitters, and industry trade groups, as well as input from a variety of consumer and financial services stakeholders. The result was strong consensus support for the Model Law's money transmission provisions (Articles 1-12).

The Model Law is intended for create a common regulatory baseline for the regulation of money transmitters across the country, which, as CSBS explains, "is a crucial step in advancing multistate harmonization in the money transmission industry, as states will be better able to work together in the licensing, regulation and supervision of money transmitters operating across state lines." Uniform and comprehensive adoption of the Model Law will create a robust national standard for customer protections, clarify and standardize definitions of regulated activity and related key elements of regulation, and streamline states' ability to license and examine money transmitters through the Nationwide Multistate Licensing System. Uniform adoption of the Model Law would therefore not only enable a more seamless approach to regulation than the status quo, but also help preserve States' limited resources with respect to licensing and supervisory efforts.

Therefore, TMSRT supports the formal introduction of LRB 2471/1 in its current form because it would align the regulation of money transmission in Wisconsin with the Model Law and should

[1] Current members are RIA Financial Services, Sigue Corporation, American Express Travel Related Services Company, Inc., Western Union Financial Services, Inc. and Western Union International Services, Inc., and MoneyGram Payment Systems, Inc. These companies offer a variety of non-bank funds transmission services, often in locations not served by banks and other depository institutions. Each company is currently licensed as a money transmitter (or its equivalent) throughout the United States, including in Wisconsin pursuant to the Seller of Checks Law.

further enable more efficient and effective regulation of money transmitters in Wisconsin and throughout the country.

If you have any additional questions for TMSRT regarding the Model Law or the regulation of money transmitter licensees generally, TMSRT would be happy to respond.

Sincerely,

Adam Fleisher
Counsel to The Money Services Round Table

cc: Senator Daniel Knodl, Wisconsin State Senate
Lisa Lee, Licensed Financial Services Director, Division of Banking, Wisconsin Department of Financial Institutions