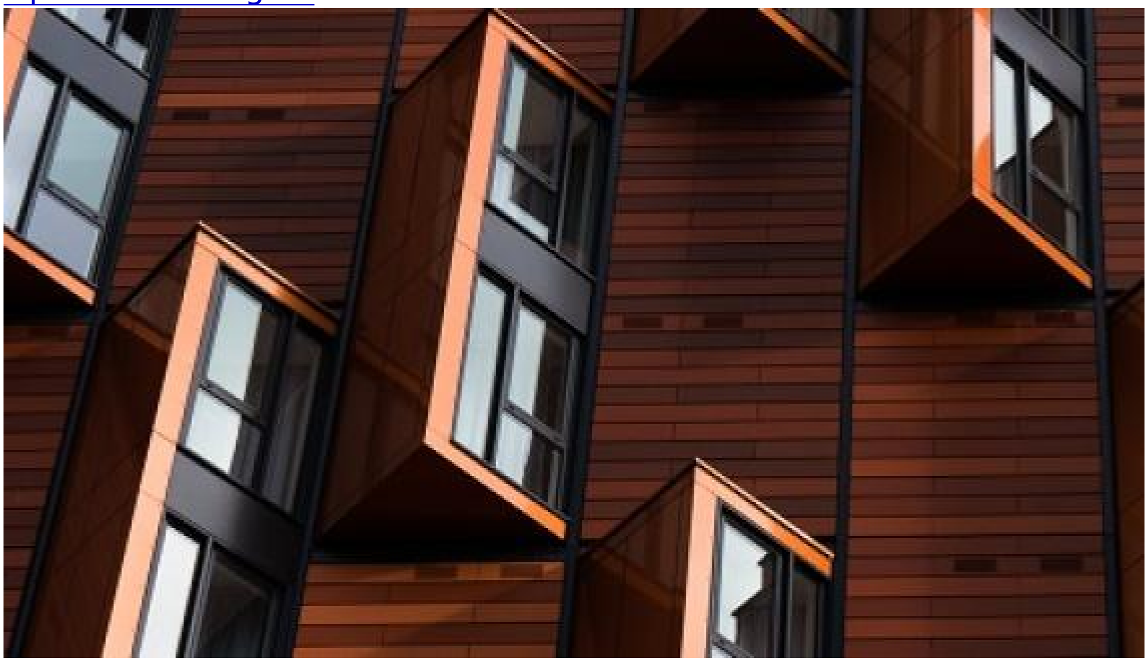
The Bank Service Company Examination Coordination Act, Explained

Opinions & Insights



State regulators strongly support the Bank Service Company Examination Coordination Act. The bill, first introduced in the 114th Congress, is commonsense, bipartisan legislation that makes state and federal supervision more efficient and more effective.

About Third-Party Service Providers

More and more, banks are outsourcing their core business functions to third-party service providers, or TSPs. TSPs can be used by banks to fulfill a wide range of functions; hardware management, software development, cybersecurity, payments processing and even outsourcing tellers are all examples of TSP services. Using a TSP does not free a bank from meeting its regulatory requirements, and TSPs are expected to comply with the same applicable laws and regulations as the bank using their services.

Limitations of Current Law

Currently, the Bank Service Company Act, or BSCA, authorizes federal regulators to examine TSPs but is silent about the authority and role of state regulators. Similarly, many state regulators examine TSPs (under the authority of their state laws) to ensure they do not pose undue risks to the state-chartered banking system, which accounts for 79 percent of the nation's banks.

The Bank Service Company Examination Coordination Act would update the BSCA to recognize the states' role in supervising TSPs and encourage state and federal coordination of TSP exams, but it would not grant any new authority to state regulators.

State Regulators' Position

State regulators strongly support the enactment of the Bank Service Company Examination Coordination Act. The bill is commonsense, bipartisan legislation that makes state and federal supervision more efficient and more effective.

- Amending the BSCA to appropriately reflect states' authority to examine TSPs will improve state-federal coordination and information sharing and promote more efficient supervision of TSPs that provide critical services to a broad range of banks.

- TSP exam coordination and improved information sharing among state and federal regulators will also allow regulators to use limited resources effectively, avoid duplicative examinations, and reduce regulatory burden.
- This legislation helps regulatory agencies better safeguard individual institutions, the banking system, and consumers.

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