



Financial Industry Advisory Services

Regulatory Developments for Service Providers: CFPB National Information System Supervision Program

Executive Summary

- The Consumer Financial Protection Bureau (CFPB) recently announced the development and implementation of a supervision program focused directly on service providers – the National Information System Supervision Program (NISSP), which is a comprehensive examination program new to service providers in the financial services industry.
- NISSP has started supervising large service providers in the depository and non-depository financial services industries including: electronic system platforms, software packages and other types of technological tools.
- Service providers need to have robust Compliance Management Systems (CMS) to ensure they provide technology that supports compliance with all 18 consumer protection laws and examination support processes to support the CFPB examination.

NISSP Overview

Up until recently, the CFPB has supervised service providers only through the financial institutions they examine that use service providers. The CFPB has recognized the potential risks to American financial service consumers posed by large service providers, including electronic system platforms, software packages and other types of technological tools. As such, compliance risks in an entire market may be heightened when regulatory compliance is not considered and integrated through the development lifecycle, change and configuration of these compliance systems. Because a single service provider might affect consumers across many institutions, the CFPB's NISSP program was developed, and is being implemented to examine service providers directly.

Impact on Service Providers

The CFPB has already started with baseline reviews of service providers' CMS and operations. The initial focus will be on service providers supporting mortgage serving and origination, with service providers supporting other financial products to follow.

The results of these base line CMS reviews will define the future supervision and/or enforcement actions at the service provider. It is therefore critical that the service provider has a robust CMS and that the initial base-line review has positive results. Anything but positive results will likely result in more frequent and more comprehensive examinations of the service provider. Poor supervisory results can also result in the CFPB taking enforcement action against the service provider.

Following the baseline CMS results, a service provider can expect a second phase of examination of compliance with all 18 consumer protection laws. The frequency, scope and depth of these examinations will be informed by the result of the baseline CMS review.

How Can Service Providers Prepare?



Ensure a strong CMS is in place.

A strong Program:

- Establishes compliance responsibilities;
- Communicates those responsibilities to employees;
- Ensures the responsibilities are carried out and legal requirements are met;
- Reviews operations to ensure that responsibilities are carried out and legal requirements are met; and
- Takes corrective action and updates tools, systems, processes, and materials as necessary.

A strong Program requires:

- Board and Executive Management oversight;
- Written policies and procedures;
- Training;
- Monitoring and corrective action; and
- Consumer complaint response, resolution, root cause analysis, and enterprise-wide action as necessary.



Ensure a governance and risk management program, based on the three lines of defense, is in place.

The first line of defense relies upon management controls within a business area. The second line of defense is based on quality and compliance oversight of those controls. The third line of defense, Internal Audit, independently and objectively reviews and validates the effectiveness of the risk management, internal control system and corporate governance.



Ensure a strong examination management process is in place.

It is important to plan your organization's overall approach to the examination process in advance. This preparation allows for better coordination and understanding among your staff of what is required in an examination and increases the likelihood of a better outcome while mitigating any disruption to your day-to-day business operations. Effective examination management builds credibility with the regulator, establishes a positive tone at the onset of the exam and provides continuity during the examination process.

Seek an independent review and best practice guidance.

How Can Alvarez & Marsal (A&M) Help Service Providers?

- Provide an independent rapid assessment of the service providers CMS; validating that it is effective and/or noting where enhancements are required.
- Review any compliance, operational and system areas that may require a deeper dive to assess effective functioning to ensure compliance with all regulatory requirements and expectations.
- Work with appropriate personnel to prepare and/or manage the CFPB examination.
- Support the development and implementation of remediation plan resulting from a CFPB examination.

The A&M Team and Its NISSP Service Offering Leadership

- A&M's dedicated Financial Industry Advisory Services practice has deep regulatory knowledge and expertise that can deliver and provide financial services companies like yours with the necessary support and assurances to help mitigate operational, compliance, regulatory and reputational risks.
- Our team comprises experts in CMS who regularly assess the effectiveness of systems in ensuring compliance with all regulatory requirements and expectations.
- The A&M NISSP service offering leader, Managing Director Anthony Gibbs, was formally a Regional Director with the CFPB and was the strategic leader responsible for the creation and development of NISSP.



+1 312 833 0780
agibbs@alvarezandmarsal.com

Anthony Gibbs, *Managing Director*

A&M Financial Industry Advisory Services

Anthony Gibbs specializes in all aspects of governance, enterprise risk management, regulatory compliance, and process and system optimization. His primary areas of focus are Consumer Financial Protection laws and regulations and designing and building effective, efficient and sustainable enterprise compliance risk management processes. Mr. Gibbs also helps clients proactively prepare for regulatory expectations and helps navigate them through regulatory supervisory examinations and their aftermath for all regulatory agencies. Mr. Gibbs was formally a Regional Director with the CFPB.



+1 312 241 2573
evanhorn@alvarezandmarsal.com

Eric VanHorn, *Manager*

A&M Financial Industry Advisory Services

Eric VanHorn specializes in data driven regulatory compliance assessments and analysis. With more than 28 years of private and public sector experience in a variety of regulatory, operational, strategic and military roles, Mr. VanHorn brings a full spectrum perspective to complex business and compliance challenges. Prior to joining A&M, Mr. VanHorn was a senior commissioned examiner with the CFPB's Midwest region where he had responsibility for managing and conducting supervisory examinations of financial institutions across the Midwest and on national teams.