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How to bank a $61 billion-dollar industry

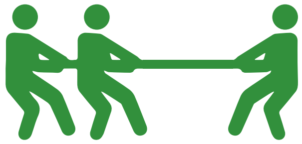
The money transmitter industry is vast and growing every year. While many bank's senior compliance officers continue to say no to the industry, a few banks continue to work with the industry and are making huge fees. The key to a bank's success with a money transmitter account is keeping the regulators satisfied.

Currently, banks have three primary ways to handle this industry:

EXCLUDE

- Many banks have choosen not to work with the industry.
- However, no compliance is the worst compliance.

Compliance departments must be willing to work with all industries, so that they know how to handle them. When you exclude yourself from an entire industry, your staff becomes unaware of what to look out for. Spending all of your time "de-risking" can create a risk in of itself.



COMPETE

- Some banks have tried to enter into this business.
- However, banks have found it difficult to compete with an industry that specializes in bulk deposits.

Banks who choose to compete with the money transmitter industry often miss the main reasons why a customer chooses a money transmitter over a bank in the first place: location, convenience and pricing. A money transmitter performs transactions in bulk. As with any other industry, when you can do something in bulk, you enjoy a competitive advantage.

PARTNER

- Some banks have found ways to work with the money transmitter.
- The key to a succesful relationship is sharing information in a transparent way.

The most successful way to bank a money transmitter is to have a system in place that allows the sharing of information. A successful system is one that allows a bank to see where the cash is coming from, so there is a robust KYC policy in place, while keeping the money transmitter responsible for all the transactions they are performing.

What is a Money Transmitter?

A Licensed Money Transmitter (LMT) is any person or business engaged in the act of receiving money from one person (the sender) for the purpose of transmitting the same money to another person (the beneficiary). Licensed Money Transmitters are a part of a larger group commonly referred to as Money Service Businesses (MSB's).

"Money transfers started as a non-banking transaction in 1871, when Western Union invented the money transfers. The industry has been around for over 150 years, and has grown EVERY year."

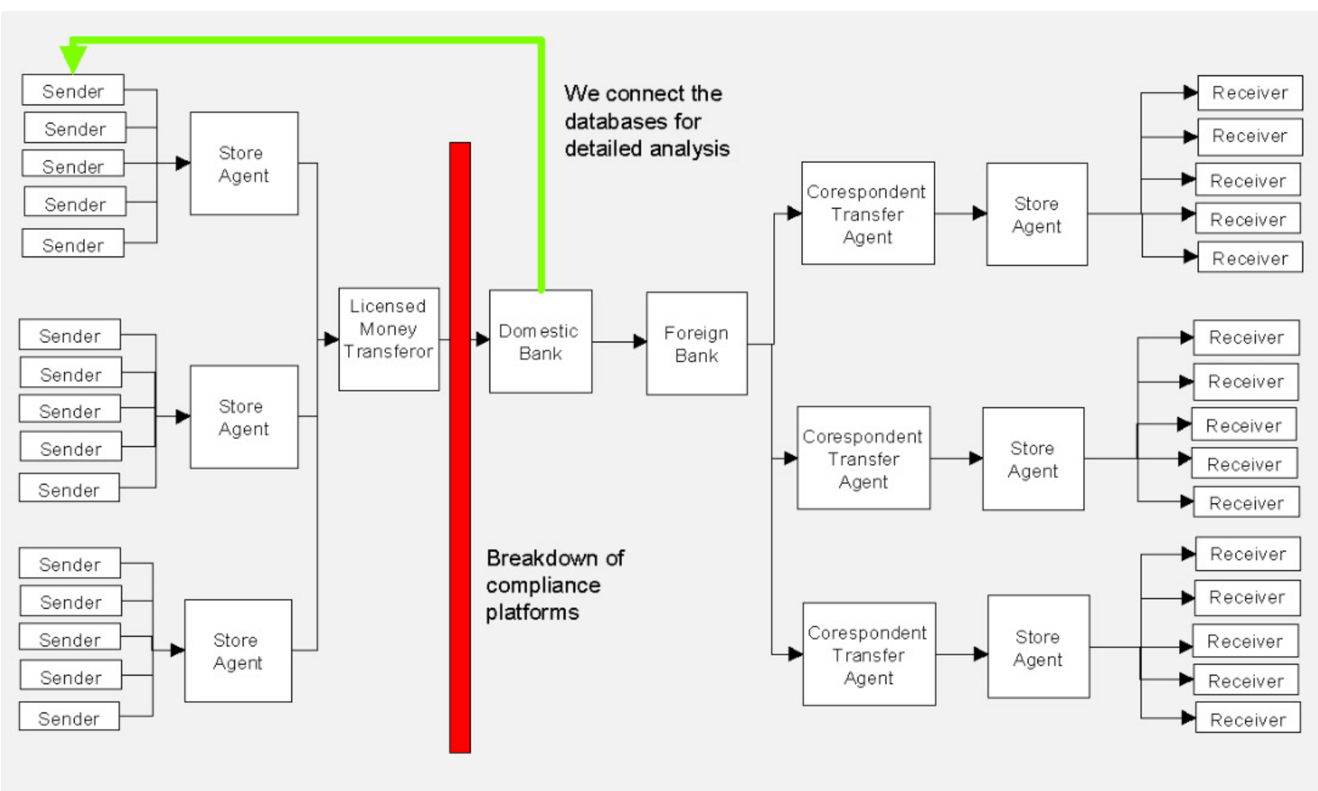
People who use money transmitters are commonly referred to as unbanked. The term "unbanked" usually has a negative connotation. The common assumption is that the LMT customers lack bank accounts because they don't have proper documentation or they are doing something improper.

Licensed Money Transmitters are regulated by the same entities that regulate State Banks. LMT's are required to collect the same customer information that a bank would require and go through the same compliance screening a bank would perform (ID requirements, OFAC checks, etc.).

How the Industry Works

A Licensed Money Transmitter accepts money through a network of agents who are usually retail locations such as supermarkets or convenience stores. The agent collects information about the sender and the receiver of the money. The agents then deposit all of the money collected into the LMT's bank account. The LMT then transfers the money oversees to a foreign correspondent who then delivers the money to a predetermined location for the beneficiary to pick up.

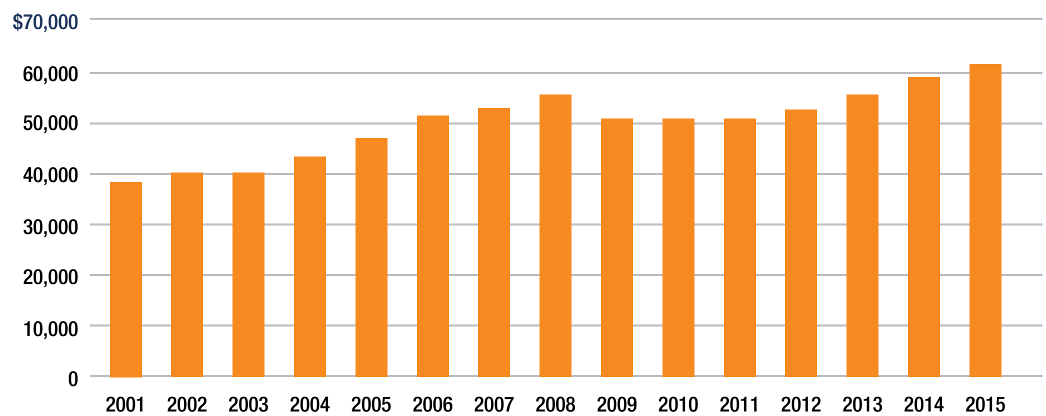
The challenge LMT face is the deposit of the cash into the banking system. When an LMT deposits cash into a bank, the information they have collected on the sender and the receiver does not go along with the deposit, which creates regulatory issues for the banks accepting and transferring the large dollar amounts of cash.

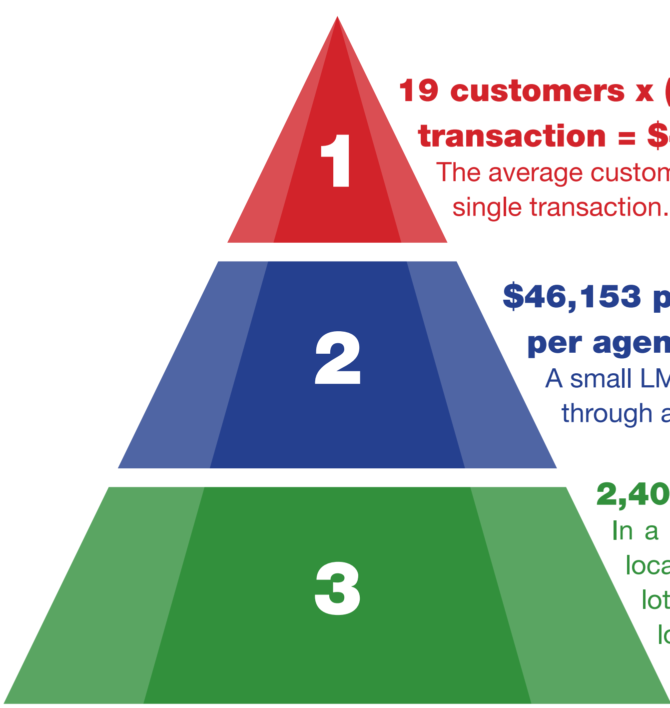


Size and Potential

LMT send **$575 billion dollars** annually with the U.S. market accounting for **$61.4 billion dollars** of that volume.[1]

Although regulations have increased and the availability of banking services have decreased, the moneys sent overseas continues to increase. Since 2001, remittances have increased nearly every year with one exception. The dip in the chart between 2008 and 2009 is a result of housing bubble bursting, affecting many industries. By 2012 the trend continued its growth.





19 customers x (7) days a week x $350 per avg. transaction = $46,153

The average customer of an LMT sends less than $350 in a single transaction.

$46,153 per week x 52 weeks = $2,400,000 per agent location

A small LMT receives approximately $48 million a year in transfers through a network of approximately 20 agents

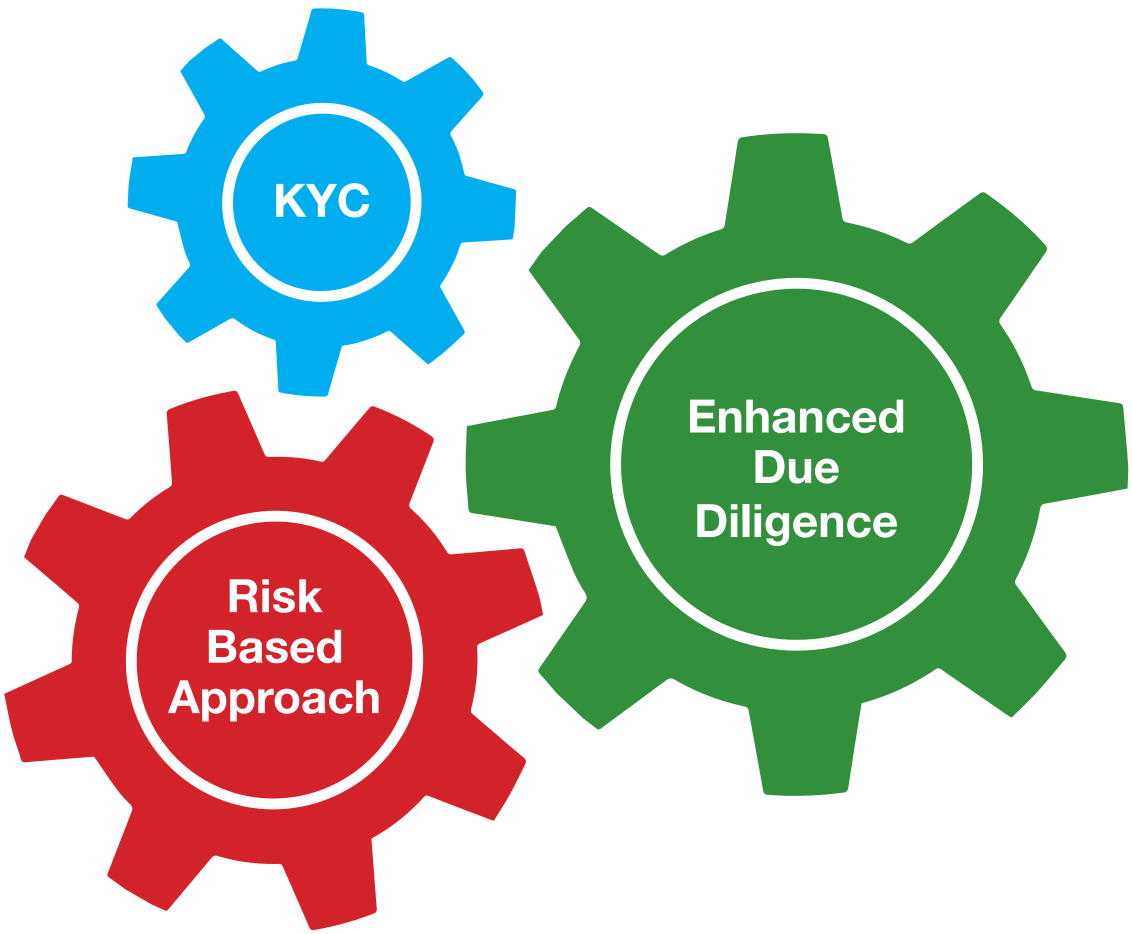
2,400,000 per location x 20 = $48,000,000

In a retail location such as a restaurant, gas station or supermarket located in densely populated areas, 19 customers per day is not a lot. However, when dealing with an LMT, 19 customers per day, per location, can add up to a big responsibility for the banks' who is accepting all of these transactions into one bank account.

1 - World Bank staff calculation based on data from the IMF balance of payments statistics and database 2015

Expectations of Regulators

Compliance is a continuing process that must be an integral part of a banks daily operations. A bank must perform a higher level of due diligence when dealing with an LMT. When working with an LMT, a bank must apply all of the tools it commonly uses when banking any client plus a bank must **build a risk profile appropriate for the LMT customer and perform Enhanced Due Diligence (EDD).**



As stated by the Federal Financial Institutions Examination Council (FFIEC)

"Enhanced due diligence (EDD) for higher-risk customers is especially critical in understanding their anticipated transactions and implementing suspicious activity monitoring system that reduces the bank's reputation, compliance, and transaction risks." [2]

2 - FFIEC – Customer Due Diligence Overview https://www.ffiec.gov/bsa_aml_infobase/pages_manual/olm_013.htm

Current Direction of the Industry

In 2001, after the events of September 11th compliance became an industry all its own. The compliance industries main focus was on the banking industry. Since then, the pendulum swung way too far in one direction, over regulation of the banks. Just as banks began to get their arms around all the new laws and regulations, the 2008 housing crash hit and banks found themselves back in the spotlight. Banks began to drop their relationships with entire industries because the regulations had become that overwhelming.

Recently, regulators have begun to acknowledge that too much regulation has had unintended consequences. Now, slowly the pendulum is swinging back in the other direction of less regulation. The following are just a few quotes from the regulators:

FinCen

November 2014:

"The Bank Secrecy Act does not require, and neither does FinCen expect banking institutions to serve as the de facto regulator of the money service business industry any more than of any other industry" [3]

NCUA

February 2016:

"It is important to know that credit unions can provide financial services to licensed money transmitters" [4]

Conference of State Banking Supervisors

May 2016:

"The states are concerned that indiscriminate "de-risking" resulting in the elimination of MSB bank accounts will not only weaken access to financial services, but may very well unintentionally increase BSA/AML risks." [5]

Department of Justice

August 2017:

"Operation Chokepoint, a misguided initiative…We share your view that law abiding businesses should not be targeted simply for operating in an industry that a particular administration might disfavor." [6]

3 - FinCen Statement, November 10, 2014 https://depositslipsllc.com/docs/fincen-update.pdf

4 - NCUA newsletter, February 2016 https://depositslipsllc.com/docs/NCUA-newsletter.pdf

5 – Conference of State Banking Supervisors, May 2016 https://depositslipsllc.com/docs/State-MSB-Regulation.pdf

6 – Operation Choke Point, August 16, 2017 https://depositslipsllc.com/docs/Annoucement-Operation-Chokepoint.pdf

A Solution for SUCCESSFULLY, SAFELY and PROFITABLY Banking This Industry

$mart Pricing

The various risks a bank faces such as compliance risk, reputational risk and financial risk, makes it critical to understand pricing when working with an LMT. If a bank does not price an LMT account correctly, they can't afford the correct personnel and the correct programs.

Pricing for an LMT account cannot be a fixed monthly fee. It must be a variable fee. The more volume an LMT does, the more time and resources it will take from a bank. With a variable fee, the more an LMT deposits, the more the bank will earn and be able to afford the appropriate compliance programs and personnel.

A fee of .30c per $100 deposited is recommended based on our knowledge of the industry and past experience when working with money remitters.

$mart Solution

DepositSlips is a software platform that helps banks and credit unions work with LMT in a safe and transparent manner. Our patented platform allows an LMT to make a deposit in an electronic format. **The format allows the bank to click on the deposit through multiple drill down layers to see who sent the money and who received the money**.

The platform features a user-friendly interface to perform the following tasks:

- Maintain complete profiles of the LMT
- Maintain complete profile of the LMT's agents
- Easily identify transactions over $10,000 buried in the LMT's bulk deposit and verify proper CTR filing
- Easily identify transactions over $3,000 buried in the LMT's bulk deposit and verify ID requirements
- Search all transactions through a combination of 21 fields for suspicious activity or structuring
- Time stamp all documents that require updating and alert Compliance Officer through red flag system
- Create Enhanced Due Diligence Reports to document all worked performed
- Easily monitor for transactions or volume outside of expected activity

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