

# Money Services Businesses: Understanding the Risks and Rewards

Presented By:

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# Introduction

## ➤ Recent Headlines

U.S. DEPARTMENT OF THE TREASURY

Press Center

Remarks of Under Secretary Cohen at the ABA/ABA Money Laundering Enforcement Conference

11/10/2014



# Introduction

- Who are money services businesses (MSBs)?
  - Check cashers
  - Money transmitters
  - Issuers & sellers of money orders & travelers checks
  - Dealers in foreign exchange
  - Providers & sellers of prepaid access
  - *Agents*
  
- Varying degrees of risk

# Introduction

- Why do customers use MSBs?
  - Convenience
  - Preference
  - Lack of options



# Abby Hans

*President*

Hans Management, Inc.

# History of the Check Cashing Industry

- The Great Depression
- 1931: Northside and Southside
- 1946: Licensing and Regulation
  - Creation of the CCEA
- 1950's Growth
- 1970's
  - No Good Deed Goes Unpunished
  - Bank Secrecy Act

# History of the Check Cashing Industry

- 1990: FinCEN
- 1992: NaCCA
  - Alliances with Western Union & MoneyGram
- 1997: FiSCA
- 1999:
  - EFT '99
- 2000: How Do You Like Me Now?

# History of the Check Cashing Industry

- 2001: 9/11
  - USA Patriot Act (Oct. 2001)
- 2014: Increased Electronification and Staff Oversight





# Michael Hans

*Director of Operations & Compliance Officer*

Hans Management, Inc.

# Currency Exchange Operations

- Products and Services
  - Financial, Business and Governmental
- Daily Operations and Procedures
  - Security
  - POS
  - BSA/AML Compliance
    - Recording/Reporting
  - Store Reconciliation, Balance and Closeout
- Personnel
  - Company Structure

# Currency Exchange Operations

- Personnel (continued)
  - Training
    - Products/Services
    - Compliance (BSA / AML)
      - Initial and Ongoing
- Accounting/Bookkeeping
- Audits/Examinations
  - Random store balances/audits (in-house)
  - State of Illinois – DFPR
  - Title 31 - IRS

# Currency Exchange Operations

- Audits/Examinations (continued)
  - Independent Review - BSA / AML Program
  - Partners/Principals (Bank, Money Transmitter, etc.)
- Compliance Officer
  - Responsibilities
  - Outsourcing
    - BSA / AML Program
      - Develop, Implement and Maintain
    - Monitor transaction activity
    - Assist with reviews/audits/exams
    - Point of contact for BSA / AML related matters



**Republic Bank**

# **Dave Ryan**

*Senior Vice President*

Money Services Businesses Division

Republic Bank

# Problems / Benefits

- The government has categorized MSBs as high-risk accounts.
  - A greater degree of monitoring and costs.
- Risk, perceived or otherwise, needs to be rewarded.

## What are the benefits?

- Scale – while overall relationships are critical to understanding your MSB customer, this is a transaction, fee-based business model.
- The scale needs to be such to compensate for the investment in products, services, and personnel that are unique to the MSB industry.
- Once initial investments are made, fee income can be very important for a bank's bottom line.

# Two main types of risk

## ➤ Credit

- Uncollected funds, cash on delivery, overdrafts, B2B, returns, etc.
- Does the compliance officer care about the credit risk? It's about knowing your customer.

## ➤ Compliance

- Multiple bank relationships
- Commercial check cashing
- Policies and procedures – corporate, ACH, BSA, etc.
- BSA requirements
  - FinCEN's “culture of compliance”
  - Independent reviews
  - It's all about “**transparency**”

# Other risks

## ➤ Reputational

- Hard to define but it is real
- “I only care if this check is good or not” to “Do I want to be doing business with this person or company?”

## ➤ Operational

- Balancing
- Processing returns
- ACHs



# Banking MSBs

- Have a policy that identifies the risks:
  - Cash-based businesses
  - Immediate availability of funds
  - Cash orders / wires
  - Kiting
  - Overdrafts
  - **BSA / AML**
  - Tax evasion
  - Registrations / Licensing
  - **KY customer**
  - **KY correspondent**
  - **Agency relationships**
  - **Corporate check cashing**

# Banking MSBs

- Have a set of procedures that mitigates these risks:
  - Identify the type of MSB and the state and federal licensing requirements
  - Underwrite the accounts similar to credit / macro-study sets expectations. Distributions, is capital adequate, trends on makers and payees...can the MSB afford it?
  - Set limits
  - Limit bank relationships
  - Establish lines of credit where needed
  - **Analyze the MSB's policies, procedures, independent reviews, and audits (financial, ACH, etc.)**
  - **Transaction monitoring** – balances, returns, paid items
  - **Correspondent reviews, onsite visits, etc.**
  - Staffing (credit / operations)

# Trends

- The pressure continues (for many years now) to increase for the bank to know its customers' customers.
- Checks have been declining in volume placing more and more pressure on capital requirements and personal financial support.
  - Drives MSBs to take on higher risk checks and to try to outpace decline with expansion. This in turn places greater demand on capital.



# Ernesto Rios

## *Revenue Agent*

Workload Identification, Selection, Delivery, and Monitoring (WISDM)  
Internal Revenue Service

# AML Program Requirements

- Policies, Procedures and Internal Controls
  - Risk-based
  - Consistently implemented
  - Monitored
    - Compliance Officer
      - Delegated duties
      - Branch/Agent Locations
        - High Risk
        - Identify/monitor transactions
        - Terminate agents

# SAR Review Process

- Identify unusual activity
- Research sender/beneficiary for prior transactions
- Decision
  - File – based on all facts
  - Not file – know the customer/business purpose
  - Monitor for future transactions

# “Know Your Customer”

- Not required by MSBs
- DOJ - “Virtually impossible for a financial institution to have an effective SAR program unless they have a “Know Your Customer” requirement”

# “Know Your Customer”

- Risk-based
- Customers with a higher volume of recurrent transactions
  - \$25,000 / 12 month period
- Source of funds
- Business purpose
- Terminate relationship



# AML Program Requirements

- Training
  - Adequate and timely
- Independent review
  - Frequency is risk-based
  - Transactional testing
  - Plan to address deficiencies

# AML/CTF Compliance Programs for MSBs

- Developing
  - 4 pillars
- Maintaining
  - Changes in regulations
  - New products/services
  - Monitoring
- IRS Examinations
  - Letter of Intent to Examine
  - On-site visit
  - Closing interview

# Closing / Q&A

# Conclusions

- Not all MSBs pose the same risk
- Not all banks should service the industry
- Servicing MSBs can result in:
  - A significant source of income
  - Improved infrastructure for future growth

# Entering the Market

““The financial services industry must learn to intelligently embrace risk. This will be encouraged by regulators who are good risk managers themselves.”

– Jim Harper, global policy counsel  
for the Bitcoin Foundation

# Exiting the Market

“Chances are the risk is still coming back to us,  
it’s just less transparent.”

– Bob Werner, global head of  
financial crime compliance for HSBC

# Questions?