



# DCU BULLETIN

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## Guidance on Money Service Businesses

Recently the Conference of State Supervisors (CSBS) published a white paper to explain the state licensing, supervision, and regulation of money services businesses (MSBs). Increasingly, some money services businesses have been unable to acquire or maintain accounts at depository financial institutions. As a result MSBs may not be able to provide vital financial services to consumers and small businesses across the world. The purpose of this bulletin is to make clear the existence, structure, and degree of an established regulatory system for MSBs. These state regulatory requirements are focused on customer protection, safety and soundness, and adherence to the Bank Secrecy Act and Anti-Money Laundering requirements and enforced through the Department of Financial Institutions Consumer Services Division.

[The State of State Money Services Businesses Regulation & Supervision](#) policy paper offers insight on risk, regulation, and the benefits MSBs offer consumers.

If you have any questions regarding this bulletin, or want to obtain more information regarding this topic, please contact Linda Jekel, Director, Division of Credit Unions, at (360) 902-8778 or [linda.jekel@dfi.wa.gov](mailto:linda.jekel@dfi.wa.gov).



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# THE STATE OF STATE MONEY SERVICES BUSINESSES REGULATION & SUPERVISION

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Conference of State Bank Supervisors  
Washington, D.C.

Money Transmitter Regulators Association  
Harrisburg, PA

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### **About The Conference of State Bank Supervisors**

The Conference of State Bank Supervisors (“CSBS”) is the nationwide organization of banking regulators from all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. For more than a century, CSBS has given state supervisors a national forum to coordinate supervision and develop policy related to their regulated entities.

### **About The Money Transmitter Regulators Association**

The Money Transmitter Regulators Association (“MTRA”) is a national non-profit organization dedicated to the efficient and effective regulation of money transmission industry in the U.S. The MTRA membership consists of state regulatory authorities in charge of regulating money transmitters and sellers of traveler’s checks, money orders, drafts and other money instruments.

# Introduction

Money services businesses (MSBs), and specifically money transmitters, play a vital role in providing financial services to consumers and small businesses across the country. Countless Americans use MSBs every day to pay bills, purchase items online or send funds to family members and friends domestically and abroad. MSBs are especially integral to those less likely to use traditional banking services. Over one-quarter of U.S. households use non-bank financial institutions, including money transmitters.<sup>1</sup>

However, MSBs, including money transmitters important to the global flow of remittances, are losing access to traditional banking services. State regulators recognized this phenomenon through the examination of MSBs. Similarly, the Financial Crimes Enforcement Network (FinCEN) has acknowledged that banks are indiscriminately terminating the accounts of MSBs, or refusing to open accounts for any MSBs, thereby eliminating them as a category of customers.<sup>2</sup> Further, there is evidence MSB agents are unable to acquire or maintain bank accounts, eliminating the capability to perform many of the activities performed for licensed entities. This may be partially the result of concerns about regulatory scrutiny, the perceived risks presented by MSB accounts, and/or the costs and burdens associated with maintaining such accounts.<sup>3</sup> Regardless, such a wholesale approach runs counter to the expectation that financial institutions can and should assess the risks of customers on a case-by-case basis.

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<sup>1</sup> United States Department of Treasury, National Money Laundering Risk Assessment, June, 12, 2015. <https://www.treasury.gov/resource-center/terrorist-illicit-finance/Documents/National%20Money%20Laundering%20Risk%20Assessment%20-%2006-12-2015.pdf>.

<sup>2</sup> FinCEN Statement on Providing Banking Services to Money Services Businesses, November 10, 2014. [https://www.fincen.gov/news\\_room/nr/html/20141110.html](https://www.fincen.gov/news_room/nr/html/20141110.html).

<sup>3</sup> Ibid.

Loss of banking services to these companies does not eliminate the demand for services provided by MSBs. Instead, transparent, legitimate transactions are converted into opaque, illegitimate transactions. Illicit actors are attracted to these opaque structures, seeking the opportunity to obscure avenues for the movement of illegal funds.

The lack of access to banking services by MSBs may also be partially rooted in a misunderstanding of the degree to which MSBs are licensed, regulated and supervised by state and federal regulatory agencies.

The purpose of this paper is to outline the state system of supervision of MSBs in order to make clear the existence, structure and degree of an established regulatory system for MSBs. These state regulatory requirements are focused on customer protection, safety and soundness and adherence to Bank Secrecy Act and Anti-Money Laundering (“BSA/AML”) requirements and enforced through state supervisory programs.

## State Regulation & Supervision of MSBs

State banking regulators supervise approximately 4,790 state-chartered banks,<sup>4</sup> which represents 77 percent of the nation’s banks. In addition to regulating and supervising banks, most state banking regulators also regulate a variety of non-bank financial services providers, including MSBs. Specifically, state financial supervisors license and regulate five types of MSBs: (1) currency dealers or exchangers, (2) check cashers, (3) issuers of traveler’s checks, money

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<sup>4</sup> FDIC Statistics on Depository Institutions as of Year End 2015. Available at <https://www.fdic.gov/bank/statistical/>.

orders, prepaid access and/or stored value, (4) sellers or redeemers of traveler's checks, money orders, prepaid access and/or stored value, and (5) money transmitters.

This broad supervisory portfolio provides state regulators with a unique perspective of money laundering, fraud, and counter-terrorist financing risks ("BSA/AML risk"). Unlike any single federal prudential regulator, most state banking departments regulate multiple prongs of the financial intermediaries in the U.S. payments system, which include banks, credit unions, and MSBs. As such, state financial regulators are well positioned to recognize the intersection of BSA/AML risks at financial institutions and the best way to supervise for these risks at both depository and non-depository institutions.

State financial regulators operate to ensure safety and soundness and stability within the marketplace, while protecting consumer and law enforcement interests. State regulators have a responsibility to ensure their citizens have the best possible options for transmitting value in a manner that does not put consumers, businesses, the payments system, or national security at risk. Through state licensure, regulation, and supervision, state financial regulators balance market efficiency and risk to ensure that consumers and businesses can access money services in a manner that limits the potential for illegal activity perpetrated through the payment system.

## Overview of MSB Industry

While the term MSB includes a variety of industries, money transmitters are an important financial service integral to consumers desiring to send and receive money, especially

those lacking a traditional bank account. As of first quarter-end 2016, state financial regulators collectively licensed 456 consolidated money transmitters,<sup>5</sup> of which 243 operated in multiple states. When compared to the same time period in 2015, the number of licensed consolidated companies has dropped by 12 percent. However, the states have licensed 16.6 percent more companies, reflecting a trend towards companies expanding operations into multiple states. A 31 percent increase in the average number of company licenses from 2015 to 2016 also reflects a trend toward multi-state operations. As of first quarter-end 2016, money transmitter licensees held an average of nearly 10 state licenses.

|   | Q1 2016 Total | Q1 2015 Total | YOY   |
|---|---------------|---------------|-------|
| <b>Consolidated Companies</b>                                   | 456           | 518           | -12%  |
| <b>Licenses</b>   | 4442          | 3808          | 16.6% |
| <b>Consolidated Companies Operating in Multiple States</b>      | 243           | 231           | 5%    |
| <b>% of Consolidated Companies Operating in Multiple States</b> | 53%           | 45%           | 8%    |
| <b>Avg. Licenses per Consolidated Company</b>                   | 9.7           | 7.4           | 31%   |

Source: Non-public Multi-state MSB Examination Taskforce Survey

### Credentialing of MSBs

Given the position of trust and confidence held by MSBs and their critical function within local economies,<sup>6</sup> state law generally requires the licensing of companies and individuals

<sup>5</sup> Non-public Multi-state MSB Examination Taskforce survey of state money transmitter regulators. For the purposes of this count, consolidated money transmitters are subsidiary licensees combined with licensed parent companies.

<sup>6</sup> See, e.g., The California Money Transmitter Act, Cal Fin Code § 2000 et seq. (“The [California] Legislature finds and declares all of the following: \* \* \* (c) The failure of money transmission businesses to fulfill their obligations would cause loss to consumers, disrupt the payments mechanism in this state, undermine public confidence in financial institutions doing business in this state, and adversely affect the health, safety, and general welfare of persons in this state.”).

that hold or transmit other people's funds. One of the main purposes of licensing is credentialing the entities and individuals seeking to engage in money transmission. The credentialing process serves two complementary purposes: 1) ensuring MSBs are responsible and qualified to do business, and 2) as an ongoing measure of accountability for the public. By credentialing those who take and send monetary value on behalf of others, the states limit potential BSA/AML risk and add stability to financial markets. In turn, licensed companies increase law enforcement confidence, which encourages economic stability.

Licensing communicates to the public that a licensee has been vetted and approved by a state agency. Investigation and credentialing of MSBs provides initial assurance that the company is prepared to address and mitigate BSA/AML risk. Most state regulatory agencies license and regulate MSBs to ensure compliance with state and federal regulatory requirements, to help prevent the use of MSBs to finance illicit activities such as narcotics trafficking and terrorism, while also providing protections for customers. Oversight includes ensuring the proper policies, procedures, and safeguards are in place to protect the company and its customers from operational, monetary, and BSA/AML risk. Many states have utilized the Uniform Money Services Act, adopted by the Uniform Law Commission, as the outline for their statutory provisions, which includes licensing standards, financial stability requirements, and regulatory principles.<sup>7</sup>

To become licensed, prospective licensees must file an application that typically includes the submission of credit reports, fingerprints, a business plan, financial statements, and a

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<sup>7</sup> See Uniform Law Commission, Money Services Act, *available at* <http://uniformlaws.org/Act.aspx?title=Money%20Services%20Act>.

surety bond. In many states, the prospective licensee must provide evidence of policies, procedures, and internal controls that will facilitate the organization's compliance with state and federal regulations, including required FinCEN registration and documentation of a BSA/AML compliance program. A BSA/AML compliance program requires policies, procedures, and internal controls to detect and deter money laundering and other illegal activity. In most states, prospective licensees undergo rigorous requirements with the state agencies that include dialogue with the applicant regarding their business plan. Further, the financial condition of the application is evaluated to ensure the company has the financial capacity to engage in MSB activities. The application may also include a background check on all owners and executive officers, including third party search requests for owners that do not live in the United States. These requirements are common in the MSB, banking, mortgage, securities, and other financial industries to ensure persons in a position of trust meet established standards to protect consumers and businesses alike.

Once a license is granted, management is required to maintain requisite permissible investments,<sup>8</sup> surety bonds, and submit periodic reports that often include financial statements, permissible investments calculations, branch and agent reporting, and transmission volume activity. This reporting is used to scope BSA/AML compliance risk during examinations.

Credentialing through the licensure process has been a key aspect of the regulation of emerging payment technologies, including virtual currencies. The licensure process has presented new business models to state regulators, who are then in a position to work with a

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<sup>8</sup> Permissible investments are low risk, liquid assets such as cash and high rated investments required to be maintained in case an institution is unable to meet its commitments or fails. Most state permissible investment requirements must be equal to the outstanding transmissions, payment instruments, or prepaid access values in the state or in all states.

company to determine whether the activity in question is money transmission or some other financial service that requires licensure. To date, approximately 44 states have issued licenses to companies that utilize virtual currency in their business model, though the circumstances of the decision to license are dependent on each company. Once licensed, emerging payments companies are subject to regular reporting, supervision, and enforcement like all MSBs.

## Supervision of MSBs

While state agencies have various frequency cycles for conducting examinations, most licensed money transmitters are examined annually by either multi-state teams or individual states to ensure licensees operate in a safe and sound manner, and in adherence to state and federal laws and regulations. Between exams, state regulators monitor their licensees on an ongoing basis by reviewing the information submitted pursuant to reporting requirements. Licensees have periodic reporting requirements covering financial statements, permissible investments adequacy, branch and agent listings, and transmission volume activity. Consumer complaints provide another input into the supervisory process.

During the course of an examination, state examiners review a money transmitter's operations, financial condition, management, compliance function, and compliance with the Bank Secrecy Act and the institution's anti-money laundering program. All these areas of review provide state agencies with data and other information to assess if a licensee is complying with applicable laws and conducting business in a safe and sound manner. If a licensee is found

operating in an unsafe manner or out of compliance with state and federal requirements, the licensee may face state enforcement actions.

BSA/AML compliance is a substantial portion of money transmitter exams. During an exam, state examiners review the following:

- Registration with FinCEN
- Agent Monitoring
- BSA/AML Risk Assessment
- Anti-Money Laundering Programs
- Procedures for mitigating money laundering and terrorist financing from foreign agent or counterparty relationships
- Currency Transaction Reporting
- International Transportation of Currency of Monetary Instruments Reporting
- Foreign Bank and Financial Accounts Reporting
- Suspicious Activity Reporting
- Purchase and Sale of Monetary Instruments Record Keeping
- Funds Transfers Record Keeping
- Voluntary Information Sharing
- Internal Controls
- Independent Review of BSA/AML Program
- Information Systems Adequacy
- Training
- Office of Foreign Assets Control Requirements
- Personal Information Safeguards

State enforcement actions vary depending on the entity, substantiated behavior, and type and nature of violation. Importantly, enforcement is subject to appeal to an administrative hearing, ensuring licensees are afforded due process. For less serious findings warranting redress, the regulator and the regulated entity might agree to a letter of understanding or consent order, acknowledging the violation and setting forth a corrective plan. For more serious violations, temporary or permanent cease and desist orders will be issued, potentially limiting or even halting an entity's ability to operate. In more egregious circumstances, civil money

penalties will be imposed in addition to any consumer restitution. Additionally, an entity's license could be revoked and the regulator's findings may necessitate referral to state and/or federal law enforcement.

## Coordinated Supervision

Many state MSB licensees hold licenses in more than one state. Consequently, state agencies have proactively built a foundation for multi-state coordination and examinations. The MTRA formed the foundation for multi-state MSB efforts by executing the Money Transmitter Regulators Cooperative Agreement (MTRA Agreement) in 2002<sup>9</sup> and the MTRA Examination Protocol (MTRA Protocol) in 2010. These documents established the initial framework for states to coordinate MSB examinations and share information.

The MTRA Agreement started the states on the path to coordinated regulatory oversight by promoting concurrent and joint examinations among states. The MTRA Protocol provided a process for examinations, including multi-state examination schedules, work programs, and reports designed to increase effectiveness and reduce regulatory burden. Since the MTRA Agreement and Protocol were implemented, state agencies have conducted over 400 multi-state MSB examinations. Through coordination, regulatory oversight is applied in a uniform manner, a benefit that has been publicly noted by industry.<sup>10</sup>

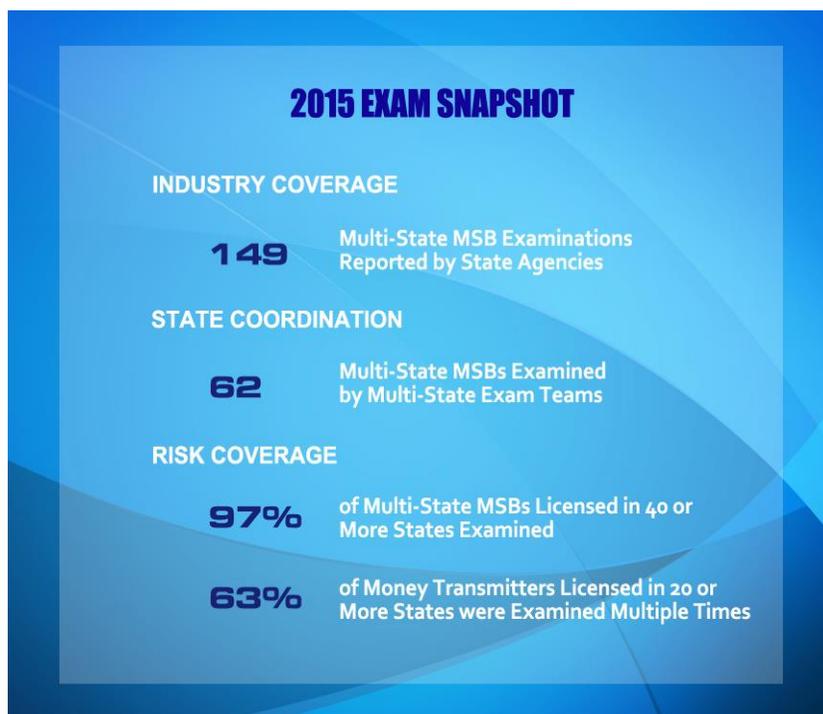
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<sup>9</sup> The MTRA Cooperative Agreement can be found at <http://www.mtraweb.org/about/cooperative-agreement/>.

<sup>10</sup> "Recent developments in money transmitter regulation have been positive for regulated entities, as examinations by multi-state regulator teams have blossomed." Ezra C. Levine, Counsel, The Money Services Roundtable. Hearing before the Subcommittee on Financial Institutions and Consumer Credit of the Committee on Financial Services, U.S. House of Representatives, 112<sup>th</sup> Congress, Second Session, Serial No. 112-139, 9 (June 21, 2012). *See also*, Timothy P. Daly, Senior Vice President, Global Public Policy, The Western Union Company. *Id.* at

To foster consistency, coordination, and communication, the states have collaborated on the enhanced CSBS/MTRA Nationwide Cooperative Agreement for MSB Supervision<sup>11</sup> and the Protocol for Performing Multi-State Examinations.<sup>12</sup> The CSBS/MTRA Agreement and Protocol supplement an effective and efficient regulatory framework for licensees by establishing the Multi-State MSB Examination Taskforce (MMET) to oversee joint examinations. The MMET is comprised of 10 state members representing 49 signatory states and territories under the agreement. The MMET advances a supervisory program tailored to multi-state licensees that fosters consistency and coordination among state agencies.

In 2015, 149 state examinations of Multistate MSBs (MMSBs)<sup>13</sup> were reported complete, 68 of which were joint exams consisting of examiners from multiple states.<sup>14</sup> Participation in joint examinations was widespread, with 26 states participating. Thirteen states



Source: Multi-State MSB Examination Taskforce Annual Report, 2015

49. (“Recent developments in money transmitter regulation have been positive for both consumers and regulated entities, as examinations of multi-state organizations have grown more efficient, effective and consistent.”).

<sup>11</sup> The Enhanced CSBS/MTRA Nationwide Cooperative Agreement for MSB Supervision, available at <http://www.csbs.org/regulatory/Cooperative-Agreements/Documents/MSB/MSB-CooperativeAgreement010512clean.pdf>.

<sup>12</sup> Protocol for Performing Multi-state Examinations, available at <https://www.csbs.org/regulatory/Cooperative-Agreements/Documents/MSB/MSB-Protocol010512.pdf>.

<sup>13</sup> MMSB means any MSB with operations in two or more states.

<sup>14</sup> 62 MMSBs were examined by multi-state teams, six of which were examined twice in 2015.

participated as lead states, providing a total of 21 Examiners-in-Charge to supervise and offer technical expertise.

MMSBs that underwent examination varied in size, with two-thirds of the largest companies being examined by multistate exam teams. Nearly 75% of the exams were administered at companies that held licenses in more than 20 states. Still, 18 joint exams were performed at companies licensed in 19 or fewer states.

## Coordinated Enforcement

As a result of established processes and lines of communication, state agencies promptly communicate to one another to reduce the possibility of fraud when enforcement is necessary across state lines. State collaboration and coordination was evident in 2013 when it became clear to states that a money transmitter was possibly misappropriating customer funds. The money transmitter in question primarily remitted funds to Brazil with transfers in excess of \$122 million originating from Massachusetts in 2012 alone. During an examination that involved coordination with the Brazilian Central Bank and two private Brazilian banks, examiners determined that transaction records were falsified, evidencing an even broader pattern of illegal activity.

As a result, Massachusetts and several other states promptly issued Cease and Desist orders<sup>15</sup> to stop this company from accepting and transmitting money and initiated a

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<sup>15</sup> Massachusetts Division of Banks, Braz Transfers, Inc., Saugus, MA – Findings of Fact and Temporary Order to Cease and Desist (1 April 2013). Available at <http://www.mass.gov/ocabr/banking-and-finance/laws-and-regulations/enforcement-actions/2013-dob-enforcement-actions/braz04012013.html>.

coordinated response across 37-states. Enforcement actions were communicated across the affected states, including multi-state calls, where states worked together to ensure remittance transfers were received and customers were assisted in a timely manner. The states also worked with federal authorities in both the United States and Brazil. This case is but one demonstration that state regulators are prepared and capable of promptly acting on a national and international basis.

## State-Federal Coordination

Equally important as inter-state action is meaningful coordination with federal regulatory agencies. States recognize the importance of a larger regulatory fabric and integrated oversight for consumer protection and national security. In many areas of bank and non-bank regulation and supervision, the states have found that a more coordinated approach better serves both consumers and regulated entities.

Congress has repeatedly recognized the importance of coordination between state and federal authorities. In August 2014, the Money Remittances Improvement Act of 2014 was signed into law to allow the Treasury Secretary to rely on state BSA/AML examinations for depository and non-depository financial institutions.<sup>16</sup> This law recognizes the applicability of state exams to federal BSA/AML requirements and sets a foundation for further coordination between states and FinCEN.

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<sup>16</sup> Money Remittances Improvement Act of 2014, 113 P.L. 156, 128 Stat. 1829, 2014 Enacted H.R. 4386, 113 Enacted H.R. 4386. Available at <https://www.congress.gov/bill/113th-congress/house-bill/4386/text/pl>.

In addition to coordination with FinCEN, the Federal Financial Institutions Examination Council (FFIEC) has proved a valuable venue for coordination on processes between state regulators and federal financial regulators across a wide range of supervisory issues and processes. Through the State Liaison Committee to the FFIEC, the states collaborate with the FFIEC on the Bank Secrecy Act/Anti-Money Laundering Examination Manual, and participate as voting members of the FFIEC BSA/AML Working Group, an interagency effort to enhance coordination of BSA/AML training, guidance, and policy. The responsibilities of the working group include ensuring consistent agency approaches and collaborating on emerging issues. State banking regulators bring a diverse background to these deliberations, drawing on MSB experience to facilitate guidance for depository institutions.

The states have also entered into memorandums of understanding with FinCEN and the Internal Revenue Service (IRS) to coordinate BSA/AML supervision in the non-bank sector.<sup>17</sup> As such, state agencies provide information to FinCEN and the IRS on a quarterly and annual basis. This information may include the number of BSA examinations conducted, referrals of BSA violations, and state enforcement actions. Additionally, state agencies worked collaboratively with FinCEN and the IRS on the FinCEN/IRS Bank Secrecy Act/Anti-Money Laundering Examination Manual for MSBs that was issued in 2008.<sup>18</sup>

In 2016, the MMET, FinCEN and the IRS began sharing proposed principal and agent examination schedules for the following quarter. In February 2016, the states met with FinCEN

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<sup>17</sup> Memorandum of Understanding between the Internal Revenue Service and the States concerning Money Services Businesses and Certain Other Non-bank Financial Institutions. *Available at* [http://www.csbs.org/regulatory/Cooperative-Agreements/Documents/IRS-StatesBSA\\_MOU\\_4-22-2005.pdf](http://www.csbs.org/regulatory/Cooperative-Agreements/Documents/IRS-StatesBSA_MOU_4-22-2005.pdf).

<sup>18</sup> *Available at* [https://www.fincen.gov/news\\_room/rp/msb\\_exam\\_materials.html](https://www.fincen.gov/news_room/rp/msb_exam_materials.html).

and IRS to discuss coordinating supervisory efforts, with the intention to hold such meetings on a recurring basis.

State agencies also have provided resources to develop and conduct training for state and IRS examiners nationwide on BSA compliance for MSBs. CSBS regularly offers a BSA/AML Examiner School. The week-long school provides an intensive overview of BSA/AML requirements, including currency transaction reporting, customer identification programs, suspicious activity reporting, and the exam procedures to test these requirements. MTRA also offers examiner schools, focusing on examinations and emerging issues.

In addition to existing state/federal cooperative frameworks, the Dodd-Frank Wall Street Reform and Consumer Protection Act established new expectations for coordination, collaboration, and information sharing between the states and federal regulators, including with the Consumer Financial Protection Bureau (CFPB).<sup>19</sup> In 2011, the states entered into an Information Sharing Memorandum of Understanding with the CFPB,<sup>20</sup> which lays the foundation for information-sharing, supervision, and enforcement between the CFPB and state regulators.

Beginning in 2015, the states and the CFPB joined efforts to simultaneously supervise large money transmitters through what is known as coordinated supervision. Annually, both sides agree to schedule and examine together certain money transmitters, and additionally

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<sup>19</sup> “The Bureau shall coordinate with . . . State regulators, as appropriate, to promote consistent regulatory treatment of consumer financial and investment products and services.” Dodd-Frank Act § 1015, *codified at* 12 U.S.C. 5495. Available at <https://www.gpo.gov/fdsys/pkg/USCODE-2010-title12/html/USCODE-2010-title12-chap53-subchapV-partA-sec5495.htm>.

<sup>20</sup> Memorandum of Understanding Between the Consumer Financial Protection Bureau, the Conference of State Bank Supervisors, and the Other Signatories Hereto On the Sharing of Information for Consumer Protection and Other Purposes. Available at <http://www.csbs.org/regulatory/Cooperative-Agreements/Documents/CFPB%20CSBS%20MOU.pdf>.

agree to exchange independent reports of examination on other money transmitters. The goal is better communication and leverage of resources in the supervision of money transmitters.

## Nationwide Multistate Licensing System

State regulators have long understood that regulation needs to adapt alongside marketplace changes in order to capture the benefits and mitigate the risks of innovation. State regulators also understand that, in the modern economy, businesses and markets grow irrespective of geographic boundaries. Accordingly, the states recognized a need to be able to effectively and efficiently license financial services companies, to keep track of bad actors, and to provide responsible actors with greater efficiency and consistency in the licensing process. To achieve these goals, the states collectively developed and currently operate the Nationwide Multistate Licensing System and Registry<sup>21</sup> (NMLS or System) through CSBS. After success in the mortgage licensing arena, states are currently using the System to license other regulated businesses, including MSBs.

### NMLS Features

Originally developed as a voluntary system for state licensing and then codified in the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act),<sup>22</sup> NMLS is a web-based system that allows state-licensed, non-depository companies in a variety of industries to

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<sup>21</sup> See <http://mortgage.nationwidelicencingsystem.org/Pages/Default.aspx>.

<sup>22</sup> P.L. 110-289. *Codified at* 12 U.S.C. 5101 et seq. More information on the SAFE Act may be found at <http://mortgage.nationwidelicencingsystem.org/SAFE/Pages/default.aspx>.

apply for, amend, update, or renew a license online for all participating state agencies using a single set of uniform applications in one system.

The System enables licensees to manage their licenses in one location for multiple states, while states are able to track the number of unique companies and individuals, as well as the number of licenses they hold in each state. As a system of record for state regulatory authorities and a central point of access for licensing, NMLS brings greater uniformity and transparency to these non-depository financial services industries while maintaining and strengthening the ability of state regulators to monitor these industries.

Additionally, NMLS has established a criminal background check process that allows company owners and directors, when required by state law, to submit a single set of fingerprints to the system for a single FBI criminal background check available to all relevant state agencies, saving significant expense for the individual and driving greater consistency by regulators. Congress has recognized the value of this functionality and, in 2015, enacted legislation enhancing the System's ability to process background checks for all financial services, including MSBs.

## NMLS Expansion

In 2012, NMLS expanded functionality to include MSBs. Currently, 34 state agencies are using NMLS for MSB licensure, and each year more agencies adopt NMLS as they adjust their laws and regulations. Currently, approximately 1,900 companies hold more than 4,000 approved MSB licenses through NMLS. Concerning money transmitters specifically, 286

companies are licensed through NMLS. While there are quite a few firms that are licensed only in one state, NMLS includes all large money transmission firms licensed nationwide.

#### MSB License Numbers and Types By State using NMLS in 2015

| State Agency | License Description                   | Approved Licenses |
|--------------|---------------------------------------|-------------------|
| AR           | Money Transmitter License             | 54                |
| CT           | Check Cashing License                 | 61                |
| CT           | Money Transmission License            | 94                |
| DC           | Check Cashier License                 | 62                |
| DC           | Money Transmitter License             | 82                |
| GA           | Seller of Payment Instruments License | 44                |
| GA           | Money Transmitter License             | 98                |
| GA           | Check Cashier License                 | 966               |
| HI           | Money Transmitter License             | 55                |
| IA           | Money Services License                | 75                |
| ID           | Money Transmitters                    | 86                |
| IN-DFI       | Money Transmitter License             | 56                |
| KS           | Money Transmitter License             | 80                |
| KY           | Money Transmitter License             | 83                |
| LA           | Sale of Checks and Money Transmitters | 81                |
| MA           | Check Seller                          | 17                |
| MA           | Check Cashier                         | 61                |
| MA           | Foreign Transmittal Agency            | 61                |
| MD           | Money Transmitter License             | 107               |
| ME           | Money Transmitter License             | 45                |
| MI           | Money Transmitter License             | 88                |
| MN           | Money Transmitter License             | 98                |
| ND           | Money Transmitter License             | 80                |
| NE           | Money Transmitter License             | 76                |

| State Agency | License Description                            | Approved Licenses |
|--------------|--|-------------------|
| NH           | Money Transmitter License                      | 61                |
| OK-DOB       | Money Transmission License                     | 70                |
| PA           | Money Transmitter                              | 87                |
| PA           | Retail Grocery Store Check Cashier License     | 123               |
| PA           | Check Cashier License                          | 275               |
| PR           | Money Transmitter License                      | 33                |
| RI           | Sales of Checks                                | 22                |
| RI           | Check Cashier License                          | 23                |
| RI           | Electronic Money Transfers                     | 67                |
| SD           | Money Transmitter License                      | 44                |
| SD           | Money Lender License                           | 47                |
| TN           | Money Transmitter License                      | 97                |
| TX-DOB       | Money Transmitter License                      | 49                |
| UT-DFI       | Money Transmitter License                      | 73                |
| VT           | Check Cashing and Currency Exchange            | 4                 |
| VT           | Money Transmitter                              | 62                |
| WA           | Currency Exchange (only)                       | 9                 |
| WA           | Check Cashier with Small Loan Endorsement      | 18                |
| WA           | Check Cashier                                  | 71                |
| WA           | Money Transmitter (includes Currency Exchange) | 142               |
| WI           | Seller of Checks                               | 39                |
| WV           | Money Transmitter License                      | 74                |
| WY           | Money Transmitter License                      | 58                |

Source: State Regulatory Registry Annual Report, 2015.  
[https://www.csbs.org/srr/Documents/SRR\\_2015AR\\_Web.pdf](https://www.csbs.org/srr/Documents/SRR_2015AR_Web.pdf)

## Agent Reporting

In 2014, the NMLS Uniform Authorized Agent Reporting (UAAR) functionality deployed, permitting state-licensed money transmitters to upload lists of their authorized agents for reporting to state regulators. At year-end 2015, 26 state agencies were using the UAAR functionality with 161 companies reporting over 174,000 Active Authorized Agent relationships

in NMLS. The NMLS tracks these Agent locations and their history, including, which (and how many) principals are using the same Agents and whether or not the Agent is also a licensee (e.g. Check Casher). Most of the new Money Transmitters entering the industry are not using Authorized Agent locations.

| Number of Agents in NMLS        | Companies |
|---------------------------------|-----------|
| 10,000 or more                  | 8         |
| 5,000 – 9,999                   | 1         |
| 1,000 – 4,999                   | 11        |
| 500 – 999                       | 6         |
| 100 – 499                       | 23        |
| 50 – 99                         | 12        |
| 10 – 49                         | 43        |
| Less than 10                    | 58        |
| 0 (No Agents Used by Principal) | 83        |

Source: NMLS Data

## NMLS Consumer Access

In addition to shared functionality between regulators and industry, NMLS provides transparency to consumers seeking information on regulated companies and individuals. NMLS Consumer Access (<http://www.nmlsconsumeraccess.org/>) is a fully searchable public website that allows consumers to view information concerning companies, branches, and individuals holding state licenses in the NMLS. In 2012, the information available on the website was upgraded to include public state regulatory actions for state licensees. The website also enables consumers to connect directly to state agencies for the purpose of submitting a consumer complaint against a state licensed company.

## MSB Call Report

To inform licensing and supervisory requirements, approximately 36 states require licensed money services businesses companies to submit routine reports, in varying formats,

that include financial condition data, transactional activity and permissible investment amounts.<sup>23</sup> To coordinate this process, states are developing a uniform MSB Call Report that licensees will submit through NMLS. The NMLS MSB Call Report (MSBCR) is intended to replace individual state reports and provide timely, comprehensive, and uniform information and reporting frequencies on entities licensed as money services businesses.

The proposed MSBCR will be comprised of three parts: company financial condition data, information about the licensee's company and state level transactional activity, and company permissible investment information. Licensees will be required to submit most of the MSBCR data on a quarterly basis in those states adopting the report. Current plans are to deploy the MSBCR in 2017.

The MSBCR will provide the MMET and state and federal regulators standardized information about MSB activities that will allow them to better assess risk and identify trends. This will complement the information received concerning Authorized Agents.

Given the supervisory value of the MSB information collected by states through NMLS, in 2015 CSBS entered into an information sharing Memorandum of Understanding (MOU) with FinCEN. Under this MOU, CSBS provides regulatory information from NMLS to FinCEN as well as providing log in capability allowing regulator level access for company, agent or individual look up.

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<sup>23</sup> See, e.g. California Money Transmitter Call Report Forms, available at <http://www.dbo.ca.gov/forms/tma/callreport.asp>.

# Looking Forward

State regulators are keenly aware that money laundering, fraud, and terrorist financing risks constantly face our nation. States also understand that there is a desire by many in the payments and technology industries for greater clarity for both state and federal regulatory requirements on how to mitigate these risks.

State regulators are working together and with our federal counterparts to further develop structures, processes, and systems to bring greater clarity and consistency to MSB supervision. We continue to work collaboratively to identify gaps in supervision and better coordinate consumer protection, safety and soundness, and national security goals. The states are engaging with our federal counterparts, as well as with representatives from industry and consumer groups, to seek opportunities for innovation in the payments systems, while exploiting the benefits and minimizing the risks of money services.

The states are concerned that indiscriminate “derisking” 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. Banks and customers should know and understand the MSBs with which they are transacting business, including the supervisory structures designed to authorize and regulate the industry, and make decisions based on the individual risk profile of each MSB.

Local understanding, coordination between regulators, and collaboration with policy makers has provided the states a unique ability to actively regulate a broad range of financial products and services in an effective and timely manner. We look forward to working with

industry and our federal regulatory partners toward an integrated and collaborative approach to all innovative financial products and services, ensuring individuals and economies are well served.