

Testimony of
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Hearing on the Regulation of Money Services Businesses

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Good morning, Chairwoman Capito, Ranking Member Maloney, and members of the Subcommittee. My name is Tim Daly, and I am Senior Vice President for Global Public Policy for Western Union. I am pleased to be here today to discuss the regulatory environment for money services businesses.

Western Union is a leader in global payment services. Since 1871, Western Union has provided consumers and businesses with fast, reliable and convenient ways to send and receive money around the world, as well as send payments and purchase money orders. Today Western Union operates from approximately 500,000 locations in 200 countries and territories around the world. In 2011, Western Union completed 226 million consumer-to-consumer transactions worldwide, moving \$81 billion of principal between consumers, and 425 million business payments.

The regulation of money services businesses is an area of particular interest and concern to Western Union, and we are glad to have the opportunity to share our perspective. As a large, geographically diverse business, Western Union operates in a complex and sometimes cumbersome regulatory environment that involves a multitude of state and federal laws and regulations here in the U.S., as well as abroad. We support efforts to streamline this process and improve the consistency of application and enforcement of laws governing our operations.

The Current Regulatory Environment

Western Union and other money transmitters are licensed by the individual states in which they do business. States are responsible for the day-to-day regulatory supervision and oversight of money transmitters.

State licensing laws seek to ensure the safety and soundness of money transmitters, and impose a high degree of regulation on licensed entities. To monitor and enforce compliance with these requirements, states conduct regular on-site examinations of money transmitters, generally through the state banking department or the state department of financial institutions. These examinations review financial condition, check for regulatory compliance, and monitor the maintenance of financial reserves. They are similar in scope and purpose to the examinations conducted at state-chartered banks.

Western Union, with locations in all 50 states and several U.S. territories, is subject to examination by each state in which it is licensed, including examination for money laundering compliance. We are currently licensed and regulated by 48 states, the District of Columbia, and several United States territories. In 2011, Western Union was examined by 11 state banking departments.

In addition to these state laws and regulations, money transmitters are also governed by federal statutes and regulations, including the Bank Secrecy Act (BSA), the USA Patriot Act, and the sanctions administered by the Treasury's Office of Foreign Assets Control, among

others. Money transmitters must register every two years with the Financial Crimes Enforcement Network (FinCEN), an agency of the Department of the Treasury. As of December 19, 2011, 38,633 money services businesses have registered with FinCEN. Western Union is subject to regulatory oversight by FinCEN and examination by the Internal Revenue Service (IRS). Both FinCEN and the IRS have enforcement authority over Western Union's compliance with BSA requirements.

A welcome development over the past several years has been the enactment of memoranda of understanding (MOUs) among the IRS, FinCEN and the state banking departments to share information and resources in the examinations of money transmitters whose operations cross state lines. With these MOUs in place, state examiners can monitor and enforce compliance with the Bank Secrecy Act and other federal anti-money laundering laws, as well as examining for safety and soundness. FinCEN retains its authority over the legal and practical interpretation of the Bank Secrecy Act, which should ensure uniform application of BSA requirements and standards. The IRS, FinCEN and state regulators have agreed on a joint examination manual for money transmitters that focuses on BSA compliance issues.

The states have also entered into agreements with each other to coordinate and consolidate examinations of money transmitters on an interstate basis. Under these agreements, teams of examiners from several states participate in a coordinated examination, with one state agency serving as lead. To date, Western Union's experience with these multi-state examination teams has been positive, and we support the continuation of this effort to coordinate and consolidate supervision across state lines.

Further Improvements to Money Transmitter Regulation

Recent developments in money transmitter regulation have been positive for both consumers and regulated entities, as examinations of multi-state organization have grown more efficient, effective and consistent. However, room for improvement remains.

Given the current regulatory structure for money transmitters, Western Union agrees that state examinations are the most effective means of monitoring BSA compliance. Without coordination, however, the sheer number of regulatory authorities Western Union must work with creates opportunities for confusion, conflict, inconsistency and unnecessary duplication of effort. We urge continued work toward uniform application of the Bank Secrecy Act and other relevant federal laws, and the continued coordination of state examinations and enforcement activities.

The Money Transmitter Regulators Association (MTRA) is hard at work on joint examination protocols for consolidated multi-state examinations, in which a lead state would have the authority to act on behalf of up to 10 other states.

Beyond this effort, which we strongly support, we are pleased about the development of a pilot program that would adapt the National Mortgage Licensing System (NMLS) to cover state licensing of money transmitters, as well. This program, if implemented, would allow applicants for money transmitter licenses to submit their data to a single point of contact, which would then make that information available to states for download. States would still make their own

decisions about whether to award a license, but this system would eliminate duplication of effort and opportunities for error. We see great advantages to adopting such a system, and would urge any changes at the federal level to accommodate and encourage its further development.

As the Committee considers further modernization of the regulatory structure for money transmitters, we ask that any new federal legislation advance and encourage coordinated, consolidated supervision between and among the relevant state and federal agencies, and provide regulated entities with certainty and consistency within the examination process. The innovations now underway offer great potential benefits to the public, to the relevant agencies, and to the industry, and we look forward to further developments. We ask the Committee to think carefully about how new initiatives might be funded, and balance the benefits of any new initiatives with their potential costs to consumers.

Western Union looks forward to continuing this discussion as we work together toward a more effective and efficient regulatory structure that protects our entire financial system. Thank you again for inviting Western Union to testify today. I look forward to answering any questions you may have.