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U.S. House of Representatives
Committee on Financial Services
Testimony of Ezra C. Levine on Behalf of the
Non-Bank Funds Transmitters Group

"Remittances: Reducing Costs, Increasing Competition, and Broadening Access to the Market"

My name is Ezra Levine and I am a partner at Howrey Simon Arnold & White and am counsel to The Non-Bank Funds Transmitters Group ("Group"). The Group is composed of the leading national providers of funds transmission services. These companies include: Travelex Americas; Travelers Express/MoneyGram Payment Systems, Inc.; RIA Financial Services; Western Union Financial Services, Inc.; American Express Travel Related Services Company, Inc.; and Comdata Network, Inc. Each of these companies is licensed by the 45 largest states and the District of Columbia and Puerto Rico to transmit funds and/or issue payment instruments such as money orders, travelers checks and drafts.

I. Non-Bank Money Transmission is a Highly Regulated Business

- **Comprehensive State Licensing Laws**

Contrary to commonly held perception, the non-bank funds transmission industry is highly regulated. Traditionally the states have regulated for safety and soundness non-bank money transmitters through comprehensive licensing laws. These laws impose a high degree of regulation and are intended to assure the safety and soundness of licensees. For example, they provide for periodic on-sight examinations, often by teams of examiners, filing of extensive financial and other reports and the maintenance of financial reserves. In fact, unlike banks which must maintain reserves only at a specified ratio, licensed money transmitters must have reserves equal to 100% of outstanding money transmission obligations to customers. Typically, the state regulators are the state banking departments or the state department of financial institutions. For companies such as Group members, which are licensed in all states, the costs of compliance with differing state laws are significant. The quality of the regulatory oversight in most states is equivalent to that for state chartered banks and credit unions.

- **Federal Anti-Money Laundering Laws**

In addition to the state laws, non-bank transmitters are subject to the federal anti-money laundering laws, including recordkeeping and reporting requirements of the federal anti-money laundering laws such as the U.S. Bank Secrecy Act and the U.S. Patriot Act. Group members have developed and implemented comprehensive BSA compliance programs for themselves and their sales outlets. One of the key features of these programs is the OFAC review of the names of each sender and recipient of money transmissions. Because of the large volume of transactions to Latin America and the similarity of many names, there are many false "hits" which the companies spend significant resources to verify. These compliance programs are examined by the Internal Revenue Service and the government can impose civil and criminal penalties for non-compliance.

II. Competition in the Funds Transmission Market is Growing and Prices are Falling.

The *Wall Street Journal* reported in November, 2002 that approximately $14 billion of funds are remitted from the United States to Mexico and Central America – this represents a 28% increase from 2000 to 2001, and it is expected to grow another 10% in 2003. While the bulk of funds are sent to Mexico and Latin America, funds are also sent to locations throughout the world.

- **The Number of Licensed Money Transmitters is Growing**

In the past several years, this high transaction volume has attracted big and small entities which are eager to capture some of the funds transmission business by offering new services, new features and different prices. For example, in the traditional money transmission arena, there are now over 50 licensed money transmitters in such states as California and Illinois, over 60 in Texas and New

York and over 100 in Florida, with thousands of "agent" sales locations in each state. These agent locations, rather than the licensed transmitters, have the face-to-face contact with customers. Most of these sales locations are small independently owned businesses, such as convenience stores, located in the communities that they serve, including inner cities. In fact, non-bank money transmitters provide important retail financial services to communities which are not adequately served by other financial institutions. In addition, many of these sales locations are culturally sensitive to the needs of the immigrant communities that they serve; they are open for business at non-traditional hours and offer multi-lingual service to accommodate customer needs. Likewise the large transmitters are responsive to the needs of their customers. They have a long-term interest in repeat business.

- **The Large Transmitters Pioneered Transmission Service to the World**

These licensed non-bank entities range from small niche companies to larger multi-state corporations. Some licensees focus on transmission to only one or a select group of countries. Some provide only limited services. Niche entities sometimes can provide transmission services at lower cost since they specialize in only one or a few country destinations. The larger transmitters, which often serve over 160 countries, typically have higher costs resulting from compliance with diverse regulatory regimes in numerous countries, higher risk of fraud, significant telecommunication costs and the maintenance of world-wide remittance infrastructures. This includes 24/7 call centers staffed with multi-lingual personnel to assist customers. This service is particularly useful to provide customers with information about services relating to countries where few transmissions are sent. In short, since the large transmitters attempt to cover the globe, they provide a customer response mechanism to insure that customers can obtain accurate information about all aspects of the service.

The larger non-bank money transmitters have served diverse international markets for many years and have over 200,000 locations worldwide. They have invested capital in telecommunications equipment, established distribution networks and engaged in extensive marketing efforts to develop the remittance business worldwide. These companies pioneered the transmission business which many others are now attempting to emulate. Their extensive networks often reach areas that many banks, credit unions or other remittance providers do not serve. It should be noted in this regard that enactment of inflexible point of sale disclosure requirements could make it impossible for large remitters to serve some countries because information such as the precise rate of exchange is not available at the time of the send transaction.

- **Lower Prices Have Resulted From Increased Competition**

The domestic market for remittance services is dynamic and competitive. As an example of the positive effects of competition in the remittance arena, it has been estimated that the average cost of remittances to Mexico has decreased by over 60% since 1999. Competition is alive and well in the transmission business – the veritable explosion in the number of service providers has presented consumers with an unprecedented array of choices. Overall accessibility has increased, while prices have been reduced and are continuing to fall. The beneficiaries of this explosion of competing services are consumers.

Some of the new competition has come from banks which have been attracted to this growing market and have been aggressively advertising their remittance services and competitive pricing. Banks such as Citigroup and Bank of America are investing in Mexican banks in order to capture more of the fast-growing transmission market. Consistent with this trend, in April, 2003, U.S. Bank announced that it had instituted remittance services to Mexico, following the lead of Bank of America, Wells Fargo and others. Bank remittance business, however, is not subject to the requirements of the state licensing laws. Therefore, banks can implement new transmission technologies without regulatory impediment. Also, the new bank remittance services are only focused on Mexico and Latin America.

Customers are the winners as a result of this increased competition. As additional funds transmission services are offered, whether through ATMs or otherwise, customers reap the rewards of additional choices – not only price choices, but choices of different types of services (i.e., features and functionality).

In addition, credit unions and the United States Postal Service provide remittance services aimed at Mexico and other Latin countries. Significant competition also exists from courier services which conduct funds transmissions by physically transporting currency and payment instruments on behalf of consumers. This is a different level of service and it is accordingly priced.

- **The Future – More Transmission Providers, Additional Services and Even Lower Prices**

The competitive money transmission landscape is vibrant -- consumers can choose based on an evaluation of each service provider's price, as well as the features and functionality of the service. The current trend for consumers is clear – they can expect even more remittance features and functionality at highly competitive prices. Customers are aware of these vendors and the services and prices offered – if they were not, these new services and providers would not be flourishing.

III. Adequate Customer Disclosure Exists

Increasingly, state licensing laws have been amended to include required customer disclosures at the point of sale. For example, California has a disclosure law and recently, Washington, Illinois and Texas, with the support of the Group, enacted laws to provide for disclosure at the point of sale of terms and conditions of the money transmission.

- **The Major Transmitters Provide Point of Sale Consumer Disclosures**

The national transmitters, at all of their agent locations, inform customers of the amount of the service fees and provide them with information regarding foreign exchange in writing when that information is available. Consumers sending money to Mexico are provided with a receipt in English and Spanish that shows the amount of money sent in US currency, the total amount of the service fee, the exchange rate and the total amount of the payout in Mexican pesos. Of course, the disclosures which can be made with regard to transmissions to Mexico cannot be made for transmissions to all countries because many currencies are not commonly traded. Moreover, in some transactions, such as those to a traveler, the sender does not know in which country the recipient will pick up the funds ("will call" transactions), so it is impossible to specify a rate of exchange at the point of sale. In short, inflexible disclosure requirements are unrealistic, impractical and could have the anti-consumer effect of forcing remitters to cease providing certain services or serving certain international markets.

IV. The Vibrant, Competitive Transmission Market is Benefiting Consumers

In short, the remittance market is highly competitive; consumers are benefiting from lower prices and more available remittance options. The Group appreciates this opportunity to submit these comments to the committee.