The Reality of Money Transmission: Secure, Convenient, and Trusted Under State Supervision

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Recent statements about money transmission in the United States have perpetuated myths about consumer protections and the safety and soundness of this vibrant, secure, and trusted part of our country's payments ecosystem.

It is time that we dispel some of these myths by explaining the realities of the state-developed, nationwide framework for regulation, licensing, and supervision of money transmission.

While targeted reforms made through cooperation between the states and federal government may be appropriate, a complete overhaul of an established, secure, convenient, and stable money transmission ecosystem is an unwarranted federal overreach.

Myth 1: *There are significant gaps in state regulation of money transmitters; a federal regulatory framework is necessary to properly oversee these businesses.*

Reality: The states have a strong, existing, nationwide regulatory framework for money transmitters. State regulators license money transmitters through the Nationwide Multistate Licensing System (NMLS). The states also supervise licensed money transmitters through consistent examinations, regularly coordinating with other states for nationwide firms licensed in multiple states.[1]

Through NMLS, state supervisors receive a Money Services Business (MSB) Call Report every quarter, providing visibility into the financial health and activities of the money transmission industry.

The state regulatory environment for money transmitters is not static. As companies have scaled and technology has evolved, the states have responded. Most recently, the states developed a set of standards known as the Money Transmission Modernization Act (MTMA) (2021).

Myth 2: *Money transmitters are not subject to consistent prudential requirements because of a patchwork set of rules among the states.*

Reality: The MTMA establishes a single set of prudential standards that include requirements for tangible net worth (similar to bank capital), surety bonds (similar to insurance), and permissible investments (similar to bank liquidity). To date, 28 states have adopted the MTMA.[2]

A money transmitter that operates in any one of these states is subject to all the MTMA standards. Not just the part of the company in that state … ***the whole company***. As a result, ***more than 99% of the dollar amount of the industry's money transmission is subject to MTMA prudential standards.***

The states also regularly coordinate supervision for companies that operate in more than one state, and, when necessary, coordinate enforcement[3] actions. If warranted, individual states can also act quickly to address emerging risks and protect consumers.[4]

Myth 3: *Variations in state laws allow money transmitters to make risky financial investments that put consumers at risk.*

Reality: Unlike banks, which are used to make loans, money transmitters are required by states to safeguard customer funds by holding "permissible investments" (like bank liquidity) in an amount equal to 100% of customer funds – ***a mandatory 1-for-1 liquidity requirement****.* For example, if a money transmitter has $1 million of customer funds, the firm must have $1 million in liquidity in the form of permissible investments.

Additionally, all money transmitters covered by MTMA must maintain tangible net worth (like bank capital) that scales with a company's growth. The more assets a company holds, the higher the capital requirements. And, importantly, this ***capital cushion must be maintained in concert with the 1-for-1 liquidity reserve***. Because money transmitters are required to fully reserve for customer funds in high-quality liquid assets, capital requirements serve as an additional protection for consumers.

Myth 4: *Due to widely varying permissible investment requirements of states, money transmitters hold risky investments, and customers could lose their funds in a "run" on a money transmitter.*

Reality: For decades,[5] the states' 1-for-1 permissible investment requirement has protected consumers and prevented the occurrence of money transmitter runs. State laws require money transmitters to hold 1-for-1 permissible investments for all customer funds, not just the customer funds in any particular state. Unlike banks, where a majority of customer deposits are tied up in loans, customer funds held by money transmitters are required to be readily available in high-quality and highly-liquid permissible investments.

Here are the facts from the MSB Call Report from the second quarter of 2024:

- At the end of the second quarter, money transmitters were responsible for $131 billion in transmission liabilities to customers.
- Against these customer liabilities, ***money transmitters held $200 billion in permissible investments – more than 1.5 times transmission liabilities***.
- Of these permissible investments, $168 billion (84%) were in the most liquid form – either cash on hand or in bank accounts ($155 billion) or Treasuries ($13 billion). So, ***the most highly liquid permissible investments were nearly 1.3 times all transmission liabilities***.
- On top of that, money transmitters held an additional $31 billion in other permissible investments, such as investment grade securities, government obligations, or receivables.

Myth 5: *Precise figures for customer balances held by money transmitters are unknown.*

Reality: Wallets, prepaid cards, and similar products offered by money transmitters are typically referred to as "stored value" and have been regulated by the states for over two decades.[6] Stored-value providers must report their customer funds to state regulators on the quarterly MSB Call Report.

At the end of the second quarter of 2024, the 10 largest stored-value providers reported $57.5 billion in aggregate stored-value balances.[7] These balances are customer transmission liabilities subject to the mandatory 1-for-1 liquidity requirements and additional capital requirements discussed above (Myths 3 and 4).

The states have an effective nationwide regulatory and supervisory framework in place to protect consumers who use services provided by money transmitters, including stored-value products. The money transmission business model and economic footprint is very different from the larger and more complex banking ecosystem.[8]

Myth 6: *No one has visibility into the financial health of money transmitters.*

Reality: State supervisors do. They monitor the financial activity and health of money transmitters through the MSB Call Report.

In addition to detailed information on permissible investments, tangible net worth, and customer liabilities, state supervisors monitor other data from the MSB Call Report, such as:

- Average daily transmission liability (e.g., how much a company holds in customer funds on an average day);
- Total transactions for the quarter, broken out by subsets of transmission types;
- Balance sheets and income statements, which are tailored to business model;
- Permissible investments, broken out by asset-type, and;
- International transmission volume broken out by country.

Myth 7: *States can neither address risk that originates outside their borders nor a crisis that would require coordinated intervention.*

Reality: States regulators have a long track record of addressing financial risks that originate outside their borders, as well as coordinating with fellow state regulators across state lines. This includes supervising money transmitters and taking enforcement action against companies that fail to protect consumers or meet financial requirements.

State authority extends over the entirety of the licensed entity. Accordingly, the multistate and any multinational activities of a licensee are fully within the scope of coordinated annual state examinations.

State regulators also coordinate enforcement actions. In March, for example, the states acted quickly to protect consumers when a nationally-operating money transmitter approached insolvency. The state action required the company to cease doing business and return customer funds.

Money transmitters are also subject to federal anti-money laundering requirements. Given the limited examination resources of FinCEN and the IRS (which serves as FinCEN's delegated examiners), the states are de facto frontline supervisors of compliance with these federal anti-money laundering standards.

Myth 8: *A federal framework would create confidence in the money and payments system, promoting innovation and preventing or minimizing customer runs, payments disruptions, and financial stability risks.*

Reality: State regulation and supervision of money transmission has already created a dynamic and innovative marketplace that provides secure and convenient services for consumers. In 2023 alone, state-licensed money transmitters transacted $5.5 trillion in payments.

There is no lack of consumer confidence in the money transmission system.

There is no evidence that the current state regulatory framework poses a risk to consumers or financial stability.

The reality is clear: through the MTMA and coordinated supervision and enforcement, the states have created an effective nationwide regulatory framework for money transmission – covering 99% of customer funds.

The absence of a federal prudential regulator does not constitute a regulatory gap.

Myth 9: *The Synapse failure demonstrates a gap in state supervision of money transmission that requires a federal payments framework.*

Reality: Synapse was not a state-licensed money transmitter, and using its bankruptcy to support a federal payments framework is misleading, at best.

Synapse's bankruptcy does raise serious questions, particularly involving the relationship of financial technology companies to banks. These relationships – between third-party service providers and banks – are already covered by a number of federal laws and by regulations and guidelines issued by the federal banking agencies.

The federal banking agencies – the FDIC, OCC, and Federal Reserve – collectively have supervision authority over all banks. The states jointly supervise state-chartered banks with the Federal Reserve or the FDIC. The OCC supervises national banks.

Policy makers should consider targeted reforms that address the very real consumer harms caused by the Synapse bankruptcy. The states look forward to this conversation and will support sound rules that protect consumers, foster innovation, and enable responsible bank partnerships with financial technology firms.

But using the Synapse bankruptcy as a basis for a complete overhaul of an established, secure, convenient, and stable money transmission regulatory framework managed by the states is another unwarranted federal overreach.

Endnotes

1 The licensing process, sometimes referred to ad the "first exam," includes an examination of business plans, financial condition, criminal background and credit checks, authorized agents, internal policies, procedures and controls, Office of Foreign Assets Control sanctions compliance, flow of funds structure, and several other review areas.

2 Four additional states have adopted the MTMA in part, and more states are considering MTMA adoption.

3 *See, e.g.,* ACI Worldwide Corp. et al. Settlement Agreement and Consent Order (16 October 2023) https://www.csbs.org/newsroom/state-regulators-settle-aci-payments-inc-unauthorized-transactions-mr-cooper-customer.

4 *See, e.g.,* Texas Banking Commissioner Issues Consent Order Relating to Payward Interactive, Inc. d/b/a Kraken et al. Note that Texas's requirement that Payward Interactive maintain $48 million in capital applies to the company regardless of where it operates.

5. *See, e.g.,* Uniform Money Services Act, Section 7.01 (Uniform Law Commission 2022) ("Comment: Money transmitters are required to maintain a certain level of investments that are equal to the value of their outstanding obligations as a means of protecting individual consumers. This is another safety and soundness requirement designed to safeguard funds receive from consumers.").

6 See id. at Section 1.02(21).

7 Only 71 money transmitters indicated that they held "stored value: funds on their MSB Call Report, and the total balances for all providers at the end of the second quarter 2024 was $60 billion.

8 By comparison, banks held nearly $18.8 trillion in deposits in the same quarter, and 43 banks each held more than $50 billion in deposits. Consumer funds in banks are protected by a joint state/federal regulatory model, primarily because they are also backed by federal deposit insurance.

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