



December 2019

# BANK SECRECY ACT

Examiners Need More  
Information on How to  
Assess Banks'  
Compliance Controls  
for Money Transmitter  
Accounts

## Why GAO Did This Study

The World Bank and others have reported that some money transmitters have been losing access to banking services. Money transmitters play an important role in the financial system, in part because they provide financial services to people less likely to use traditional banking services. GAO was asked to review the causes and potential effects of derisking by banks.

This report examines, among other issues, (1) the extent to which banks are terminating or limiting services for money transmitters, (2) challenges in assessing banks' BSA/AML compliance related to money transmitters, and (3) regulators' actions to address derisking concerns.

GAO reviewed bank examination reports and documents, held eight discussion groups with federal bank examiners, surveyed a nationally representative sample of 406 banks (excluding credit unions), and interviewed federal and bank officials, money transmitters, industry associations, and other stakeholders.

## What GAO Recommends

GAO is making a total of four recommendations to the federal banking regulators that each regulator improve examiners' ability to evaluate banks' BSA/AML compliance as applied to money transmitter accounts. The federal banking regulators agreed with GAO's recommendations.

GAO also reiterates its recommendation in [GAO-18-263](#) that FinCEN and the federal banking regulators conduct a retrospective review of BSA regulations and implementation.

View [GAO-20-46](#). For more information, contact Michael E. Clements at (202) 512-8678 or [clements@ga.gov](mailto:clements@ga.gov).

## BANK SECRECY ACT

### Examiners Need More Information on How to Assess Banks' Compliance Controls for Money Transmitter Accounts

## What GAO Found

From 2014 through 2016, 40 of 86 banks with money transmitter customers that responded to GAO's survey indicated they terminated at least one money transmitter account for money-laundering-related reasons. Money transmitters transfer money for their customers to recipients domestically or internationally. Common reasons given for terminating accounts included the customer not providing information needed to satisfy the banks' due diligence requirements under Bank Secrecy Act (BSA)/anti-money laundering (AML) regulations and that the cost of BSA/AML compliance made these customers unprofitable. However, banks also cited concerns that these customers drew heightened regulatory oversight; this may indicate "derisking," the practice of banks limiting services or closing accounts with customers to avoid any perceived regulatory concerns about facilitating money laundering.

Federal bank examiners in some of GAO's discussion groups identified challenges in assessing banks' compliance with due diligence requirements. In 2005, the Department of the Treasury's (Treasury) Financial Crimes Enforcement Network (FinCEN) and the federal banking regulators issued interagency interpretive guidance to clarify BSA/AML requirements and supervisory expectations for banks providing banking services to money transmitters. The guidance was incorporated in the Federal Financial Institutions Examination Council BSA/AML examination manual. However, examiners from some discussion groups said it was unclear how much due diligence is reasonable to expect banks to conduct for their money transmitter customers. For example, while the manual's examination guidance pertaining to money transmitters states that due diligence on higher-risk accounts can include reviewing the money transmitter's BSA/AML compliance program or conducting on-site visits, the related examination procedures do not clarify what these reviews or visits might entail. Unless federal banking regulators take steps to improve examiners' ability to evaluate banks' compliance with BSA/AML requirements as applied to money transmitter accounts, examiners may not be fully achieving examination objectives.

In response to derisking concerns associated with money transmitters, FinCEN and the federal banking regulators have issued general guidance that discourages banks from terminating accounts with any particular customer type without evaluating individual customers' risks. In prior work, GAO noted that regulators had not fully evaluated how banks' regulatory concerns may be influencing decisions to derisk. GAO recommended that FinCEN and the federal banking regulators conduct a retrospective review of BSA regulations and their implementation, with a focus on how banks' regulatory concerns may affect their decisions to provide services. According to federal banking regulators and FinCEN, they and Treasury established an interagency working group in early 2018 that they believe will address the recommendation. The working group has taken important steps toward improving the efficiency and effectiveness of BSA/AML supervision, including issuing an interagency statement intended to improve the transparency of the risk-focused approach examiners use to plan and conduct BSA examinations. However, the working group has not yet evaluated the full range of factors that may influence banks to derisk.

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### Abbreviations

AML	anti-money laundering
BSA	Bank Secrecy Act
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FFIEC	Federal Financial Institutions Examination Council
FinCEN	Financial Crimes Enforcement Network
HIDTA	High Intensity Drug Trafficking Area
HIFCA	High Intensity Financial Crime Area
IRS	Internal Revenue Service
MSB	money services business
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
SAR	suspicious activity report
Treasury	Department of the Treasury

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December 3, 2019

Congressional Requesters

Money laundering and terrorist financing pose threats to national security and the integrity of the financial system. The Bank Secrecy Act (BSA) is an important tool in federal law enforcement efforts to detect and deter the use of financial institutions for criminal activity, including money laundering and terrorist financing.<sup>1</sup> The BSA and its implementing regulations generally require financial institutions, including banks, to collect and retain various records of customer transactions, verify customers' identities, maintain anti-money laundering (AML) compliance programs, and report suspicious transactions. The Department of the Treasury's (Treasury) Financial Crimes Enforcement Network (FinCEN) has authority to administer and enforce compliance with the BSA, and it has delegated BSA/AML examination authority for banks to the federal banking regulators—the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration (NCUA).<sup>2</sup>

In recent years, the World Bank and others have reported that some money transmitters—entities that transfer money for their customers to recipients domestically or internationally—have been losing access to banking services with depository institutions.<sup>3</sup> Money transmitters play an important role in the financial system, in part because they often provide a regulated channel for conducting financial transactions to people less likely to use traditional banking services and because of their prominent role in providing international money transfer services. You and others

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<sup>1</sup>Bank Secrecy Act, Pub. L. No. 91-508, 84 Stat. 1114-24 (1970) (codified as amended in scattered sections of 12 U.S.C., 18 U.S.C., and 31 U.S.C.).

<sup>2</sup>See 31 C.F.R. § 1010.810(b). The federal banking regulators also have authority to examine banks for compliance with BSA requirements under 12 U.S.C. § 1818(s). For purposes of this report, unless otherwise indicated we use "banks" generally to refer to both banks and credit unions and "federal banking regulators" to include NCUA.

<sup>3</sup>A money transmitter is defined as a person that provides money transmission services. Money transmission services means the acceptance of currency, funds, or other value that substitutes for currency from one person and the transmission of such value to another location or person by any means. Whether a person is a money transmitter for BSA purposes is a matter of facts and circumstances. 31 C.F.R. § 1010.100(ff)(5).

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have raised questions about whether some banks may be engaging in “derisking” with respect to money transmitters—that is, limiting certain services or ending their relationships with customers to, among other things, avoid perceived regulatory concerns about facilitating money laundering.<sup>4</sup>

This report is the last of four addressing your request that we review the various effects of derisking, including on money transmitters operating in the United States.<sup>5</sup> This report (1) describes regulators’ BSA/AML supervisory expectations for banks that provide services to money transmitters and other money services businesses (MSB) and examiner views on bank challenges in complying with these requirements; (2) examines challenges reported by examiners in conducting BSA/AML assessments; (3) examines the extent to which banks are terminating or limiting money transmitters’ access to banking services and the effects on money transmitters; and (4) evaluates how FinCEN and the federal banking regulators have assessed and responded to concerns about the derisking of money transmitters.<sup>6</sup>

To address our first objective, we reviewed joint guidance issued by FinCEN and the federal banking regulators on banking MSBs—including money transmitters—and the Federal Financial Institutions Examination

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<sup>4</sup>The term “derisking” can be defined in a variety of ways. Our usage does not refer to instances in which banks limit services or terminate relationships based on credible evidence of suspicious or illegal activity. App. I contains additional information on the definition we used for derisking.

<sup>5</sup>This review was conducted in response to a 2016 request from Representative Wm. Lacy Clay (then Ranking Member of House Financial Services Subcommittee on Financial Institutions and Consumer Credit) and Representative Gwen Moore (then Ranking Member of House Financial Services Subcommittee on Monetary Policy and Trade). Our other reviews related to derisking are on (1) remittance transfers from the United States to selected fragile countries, (2) account terminations and bank branch closures in the U.S. Southwest border region, and (3) the provision of U.S. humanitarian assistance. See GAO, *Remittances to Fragile Countries: Treasury Should Assess Risks from Shifts to Non-Banking Channels*, [GAO-18-313](#) (Washington, D.C.: Mar. 8, 2018); *Bank Secrecy Act: Derisking along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Review*, [GAO-18-263](#) (Washington, D.C.: Feb. 26, 2018); and *Humanitarian Assistance: USAID Should Improve Information and Collection to Help Mitigate Implementers’ Banking Challenges*, [GAO-18-669](#) (Washington, D.C.: Sept. 20, 2018).

<sup>6</sup>Under FINCEN’s BSA/AML regulations, money transmitters are a type of money services business. Other types of money services business include, subject to exception, dealers in foreign exchange, check cashers, issuers or sellers of traveler’s checks or money orders, providers or sellers of prepaid access (such as prepaid cards), and the U.S. Postal Service. See 31 C.F.R. § 1010.100(ff).



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Council's (FFIEC) BSA/AML examination manual used by federal banking regulators to examine banks for BSA/AML compliance.<sup>7</sup> We also interviewed a nongeneralizable sample of representatives of banks and credit unions, banking industry groups and trade associations, and the federal banking regulators.<sup>8</sup> We conducted eight discussion groups with BSA/AML examiners (six to 14 examiners in each group) from the federal banking regulators to understand how they assess BSA/AML compliance controls around money transmitter customers.

To address our second objective, we asked examiners in our discussion groups to identify any challenges they encountered when assessing these compliance controls. We also reviewed examination guidance and procedures for assessing BSA/AML compliance controls around money transmitters. We assessed this information against federal internal control standards related to identifying risks and communicating information.<sup>9</sup> We also reviewed documentation from BSA/AML examinations of a nongeneralizable sample of 56 banks and credit unions that reflected a mix of asset sizes from each federal banking regulator. We also included

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<sup>7</sup>FFIEC is a formal interagency body that prescribes uniform principles, standards, and report forms for the federal examination of financial institutions by its member agencies and makes recommendations to promote uniformity in the supervision of financial institutions. FFIEC's member agencies are the Federal Reserve, FDIC, NCUA, OCC, the Consumer Financial Protection Bureau, and the State Liaison Committee (five representatives from state regulatory agencies that supervise financial institutions). We did not include the Consumer Financial Protection Bureau in our review because it does not have a role in BSA/AML compliance and enforcement. See Federal Financial Institutions Examination Council, *Bank Secrecy Act Anti-Money Laundering Examination Manual* (2014), available at <https://bsaaml.ffiec.gov/manual>.

<sup>8</sup>We interviewed representatives of 22 banks. Using FDIC's Statistics on Depository Institutions database, we obtained the population of banks and stratified them according to three asset-size categories. We used a judgmental sample to randomly select eight banks to review based on asset size (small, medium, and large) and primary regulator (Federal Reserve, OCC, and FDIC). We obtained from NCUA the population of credit unions that serve money transmitters and stratified them according to three asset-size categories. We chose three credit unions based on the number of money transmitters they serve and randomly selected three additional credit unions, one from each asset category, for a total of six credit unions. Additionally, we jointly interviewed eight extra-large banks in coordination with our other work on derisking—account terminations and closures of bank branches along the U.S. Southwest border ([GAO-18-263](#)) and remittance transfers from the United States to selected fragile countries ([GAO-18-313](#)).

<sup>9</sup>See GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

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banks that had enforcement actions taken against them to gain additional context about BSA/AML examinations, including BSA/AML violations.<sup>10</sup>

To address our third objective, we administered a web-based survey to a nationally representative sample of banks in the United States for a total survey sample of 406 banks.<sup>11</sup> In the survey, we asked banks about terminations of money transmitter accounts and limitations on account offerings related to BSA/AML risk and the reasons for these decisions for the period January 1, 2014, to December 31, 2016.<sup>12</sup> We obtained a weighted survey response rate of 46.5 percent. While we designed the survey to be nationally representative of all banks in the United States, some results are statistically nongeneralizable because of the relatively small number of banks that reported having money transmitters as customers. For survey questions that are statistically nongeneralizable, we present only the number of responses to each survey question, and the results are not generalizable to the population of banks. See appendix I for more information on our survey methodology and appendix II for our survey results. To examine the effects on money transmitters of bank account terminations on and limitations in the number of accounts, we interviewed a nongeneralizable sample of representatives of 11 money transmitters we selected to represent a range of sizes.

To address our fourth objective, we reviewed agency documentation and guidance the agencies issued to banks related to the derisking of MSBs and interviewed agency officials. We also reviewed our prior report that evaluated regulators' response to derisking along the Southwest border, and we assessed actions regulators have taken to respond to a

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<sup>10</sup>Federal banking regulators identify violations of BSA/AML requirements as part of the bank examination process. In some cases, a banking regulator may allow the bank to remedy the violation as part of its supervisory process. In appropriate circumstances, however, the banking regulator may take either informal or formal actions to address violations.

<sup>11</sup>Our sample of banks for the survey did not include credit unions.

<sup>12</sup>BSA/AML risk refers to the money laundering or terrorist financing risks that arise from the products, services, customers, entities, transactions, and geographic locations unique to each bank. The FFIEC examination manual provides guidance to the banking industry on identifying and controlling risks associated with money laundering and terrorist financing. The manual contains an overview of BSA/AML compliance program requirements, BSA/AML risk and risk-management expectations, sound industry practices, and examination procedures.

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recommendation we made in that report.<sup>13</sup> A more detailed description of our scope and methodology appears in appendix I.

We conducted this performance audit from August 2016 to December 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

### BSA/AML Requirements and Key Agencies Involved in Their Enforcement

The BSA established reporting, recordkeeping, and other AML requirements for financial institutions. As the delegated administrator of the BSA, FinCEN has issued implementing regulations. In complying with BSA/AML requirements, U.S. financial institutions assist government agencies in detecting and preventing money laundering and terrorist financing by, among other things, establishing and maintaining compliance programs, conducting ongoing monitoring of customers and transactions, and reporting suspicious activity. Oversight and enforcement of compliance with the BSA involve several federal agencies, including FinCEN and the Internal Revenue Service (IRS).<sup>14</sup> FinCEN has overall authority for administering and enforcing compliance under the BSA and may seek civil penalties and injunctions to compel compliance. In addition, each of the federal banking regulators has independent authority to initiate enforcement actions against supervised institutions for violations of law and to seek civil money penalties for BSA violations, among other things. FinCEN has delegated authority to IRS to investigate most criminal violations of the BSA. The Department of Justice prosecutes violations of federal criminal money-laundering

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<sup>13</sup>See [GAO-18-263](#).

<sup>14</sup>FinCEN has delegated its BSA examination authority to other federal agencies, including the federal banking regulators, the Securities and Exchange Commission, the Commodity Futures Trading Commission, and the Federal Housing Finance Authority. See 31 C.F.R. § 1010.810(b). IRS also has been delegated authority to investigate criminal BSA violations. See 31 C.F.R. § 1010.810(c).

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statutes, including violations of the BSA, and several law enforcement agencies conduct BSA-related criminal investigations.<sup>15</sup>

The federal banking regulators have also issued BSA/AML regulations that require banks to establish and maintain a BSA/AML compliance program that includes, among other things, policies, procedures, and processes to identify and report suspicious activity. The banking regulators are required to review banks' compliance with BSA/AML requirements and regulations, which they generally do every 1 to 2 years as a part of their routine safety and soundness examinations. FinCEN has also delegated examination authority for BSA/AML compliance for certain entities, including money transmitters, to IRS. In general, money transmitters must register with FinCEN and provide certain information on their structure and ownership. According to Treasury, in all but one state, money transmitters are required to obtain licenses from states in which they are incorporated or conduct business.<sup>16</sup> State supervisory agencies also may conduct BSA/AML examinations of licensed money transmitters.

To ensure consistency in the application of BSA/AML requirements, in 2005 the federal banking regulators collaborated with FinCEN on developing an examination manual that was issued by FFIEC for federal bank examiners conducting BSA/AML examinations of banks. The examination manual has been revised several times since its release, and the most recent comprehensive revision was released in 2014. According to the examination manual, a key function of the federal banking regulators' BSA/AML examinations is to assess whether banks have established the appropriate policies, procedures, and processes based on their BSA/AML risk to identify and report suspicious activity. The supervisory process also assesses whether banks provide sufficient detail in reports to law enforcement agencies to make the reports useful for investigating suspicious transactions that are reported. Moreover, federal banking regulators conduct risk-focused BSA/AML examinations of banks—that is, they review key BSA/AML risks or specific risk areas identified by the bank and tailor examination procedures based on each bank's risk profile. Among other things, examiners review whether banks

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<sup>15</sup>For further information on the agencies involved in BSA/AML enforcement and compliance, see GAO, *Bank Secrecy Act: Agencies and Financial Institutions Share Information but Metrics and Feedback Not Regularly Provided*, [GAO-19-582](#) (Washington, D.C.: Aug. 27, 2019).

<sup>16</sup>According to Treasury, money transmitters are not required to obtain a license to operate in the state of Montana.

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have an adequate system of internal controls to ensure ongoing compliance with BSA/AML regulations. Similarly, in 2008 FinCEN issued a BSA examination manual to guide reviews of money transmitters and other types of MSBs, including reviews by IRS and state regulators.<sup>17</sup> Both the FFIEC and FinCEN examination manuals are publicly available.

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### Components of BSA/AML Compliance Programs for Money Transmitters and Banks under the BSA

Money transmitters and banks are subject to requirements under the BSA. They are generally required to design and implement a written AML compliance program, report certain transactions to Treasury, and meet recordkeeping (including identity documentation) requirements for transfers of \$3,000 or more. At a minimum, each AML compliance program must

- establish a system of AML compliance policies, procedures, and internal controls to ensure ongoing compliance;
- designate an individual to coordinate and monitor day-to-day compliance;
- provide training for appropriate personnel; and
- provide for an independent audit function to test for compliance.

Additionally, banks must include appropriate risk-based procedures for conducting ongoing customer due diligence as part of their AML compliance program.

BSA/AML regulations require that each bank or money transmitter tailor a compliance program that is specific to its own risks based on factors such as the products and services offered and the customers and locations

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<sup>17</sup>Congress has taken steps to improve the coordination between state and federal authorities in MSB supervision. In August 2014, Congress enacted the Money Remittances Improvement Act of 2014, which allows the Secretary of the Treasury to rely on state BSA/AML examinations for certain categories of financial institutions. See Money Remittances Improvement Act of 2014, Pub. L. No. 113-156, 128 Stat. 1829 (2014). FinCEN staff said that FinCEN has executed BSA regulatory information-sharing memorandums of understanding with 67 state regulatory agencies and the Commonwealth of Puerto Rico. They noted that as FinCEN does not conduct examinations of MSBs on a routine basis, FinCEN relies heavily on both federal and state examinations of MSBs in its supervisory oversight of MSBs. IRS staff told us that IRS has 44 memorandums of understanding with states and that IRS uses state reports of examination in its risk scoping of examinations of MSBs. IRS also has procedures in place to conduct concurrent examinations with states on a voluntary basis.

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served. BSA/AML compliance programs for banks—including those that service money transmitters—are expected to include the following:

- **Customer identification program.** Banks must have written procedures for opening accounts and must specify what identifying information they will obtain from each customer. At a minimum, the bank must obtain the following identifying information from each customer before opening the account: name, date of birth, address, and identification number, such as a Social Security number or a passport number. Banks' customer identification programs must also include risk-based procedures for verifying the identity of each customer to the extent reasonable and practicable. Additionally, a bank's customer identification program should contain procedures for circumstances when a bank cannot verify the customer's identity, including procedures for when the bank should not open an account and when the bank should close an account.
- **Customer due diligence procedures.** These procedures assist banks in determining when transactions are potentially suspicious. Procedures must be designed to achieve two minimum regulatory requirements: (1) understanding the nature and purpose of customer relationships so customer risk profiles can be developed and (2) conducting ongoing monitoring, based on the level of risk associated with the customer, to identify and report suspicious activity and to maintain and update customer information on a risk-basis.
- **Additional due diligence procedures.** Due diligence procedures also should define when and what additional customer information will be collected for customers who banks determine may pose a higher risk for money laundering or terrorist financing. Procedures should be based on each customer's risk profile and specific risks posed. Banks review higher-risk customers and their transactions more closely at account opening and more frequently throughout the term of their relationship with the bank.

In addition, banks and money transmitters must also have policies and procedures to monitor transactions and identify suspicious activity. Monitoring generally includes (1) manual review of transaction summary reports to identify suspicious transactions or (2) automated monitoring systems that use computer algorithms to identify patterns of unusual

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activity. As we previously reported, banks with large transaction volumes typically use automated monitoring systems.<sup>18</sup>

Banks and money transmitters also must comply with certain reporting requirements:

- **Currency Transaction Reports.** Banks and money transmitters must electronically file this type of report for each transaction or a combination of transactions in a single day—such as a deposit, withdrawal, exchange, or other payment or transfer—in currency of more than \$10,000.
- **Suspicious Activity Reports (SAR).** Under FinCEN regulation, banks and money transmitters are required to file this type of report when (1) a transaction involves or aggregates at least \$5,000 in funds or other assets for banks or at least \$2,000 in funds or other assets for money transmitters and (2) the institution knows, suspects, or has reason to suspect that the transaction is suspicious.<sup>19</sup>

In addition, banks' compliance programs generally include policies and procedures that describe criteria for deciding to close or not to open an account. For example, although there is no requirement for a bank to close an account that is the subject of a SAR filing, a bank should develop criteria in policies and procedures that indicate when it will escalate issues identified through repeat SAR filings on accounts, including criteria on when to close an account. The federal banking regulators generally do not direct banks to open, close, or maintain individual accounts.

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## Transfers through Money Transmitters

The money transfer industry is diverse, ranging from Fortune 500 companies with numerous outlets worldwide to small, independent money transmitters. Some money transmitters are in communities with population concentrations that do not necessarily have access to traditional banking services. Money transmitters may send and receive funds domestically—intrastate or interstate—or internationally. Money

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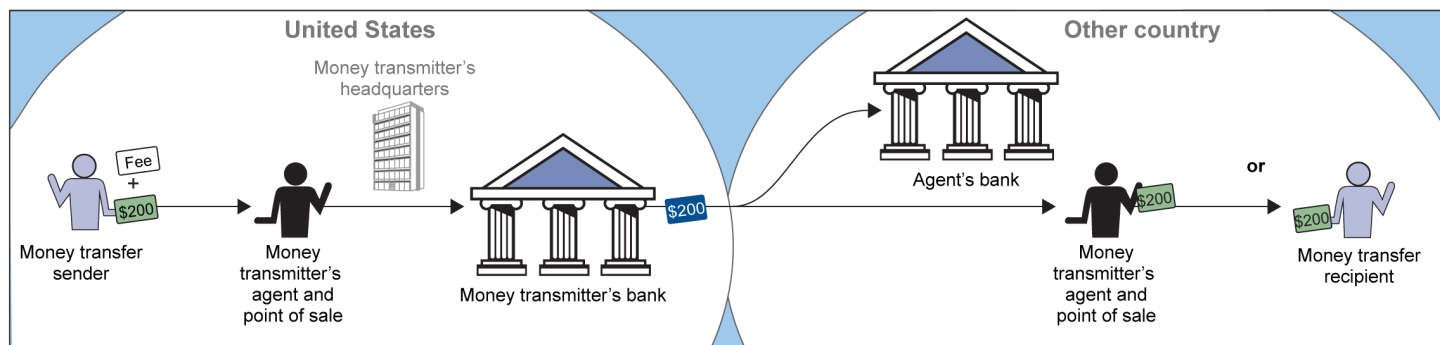
<sup>18</sup>See [GAO-18-263](#).



<sup>19</sup>Each federal banking regulator has also established additional criteria for the filing of SAR by financial institutions under their supervision, such as a requirement to file a SAR for suspicious activity involving suspected insider abuse at any dollar amount. See 12 C.F.R. §§ 21.11 (OCC); 208.62 (Federal Reserve); 748.1(c) (NCUA); 353.3 (FDIC).

transmitters typically work through agents—separate business entities generally authorized to send and receive money transfers. Most money transfers are initiated in person at retail outlets. Money transmitters generally operate through their own retail storefronts or through grocery stores, financial service outlets, convenience stores, and other retailers that serve as agents.<sup>20</sup>

In one common type of money transmitter transaction—known as a cash-to-cash transfer—a sender enters a money transmitter agent location and provides cash to cover the transfer amount and fees (see fig. 1). For transfers at or above \$3,000, senders must generally provide basic information about themselves (including name and address) at the time of the transfer request. The agent processes the transaction, and the money transmitter’s headquarters screens it to validate BSA/AML compliance. The money is then transferred to a recipient via a distributing agent or bank. In an international money transfer, the money may be distributed through an agent in the destination country, wired through the money transmitter’s bank to the distributor agent’s bank, or transferred by other means to a specified agent in the recipient’s country. The distributor agent pays out cash to the recipient in either U.S. dollars or local currency.

**Figure 1: Example of a Money Transmitter Cash-to-Cash Transfer**



 Money transfer  
 Wire transfer

Source: GAO analysis of information from money transmitters; images from Art Explosion. | GAO-20-46

<sup>20</sup>See GAO, *International Remittances: Money Laundering Risks and Views on Enhanced Customer Verification and Recordkeeping Requirements*, [GAO-16-65](#) (Washington, D.C.: Jan. 15, 2016).



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## Money-Laundering and Terrorist-Financing Risks Posed by Money Transmitters

Money transfers can pose money-laundering and terrorist-financing risks, as funds related to illicit activity may go undetected due to the large volume of transactions or to money transmitters' inadequate oversight of the various entities involved. We and others have identified money-laundering and terrorist-financing risks associated with money transmitters, including risks related to agents, customers, geographic location, and products.<sup>21</sup>

- **Agents.** Money transmitters often work with multiple agents, and maintaining adequate oversight can be challenging, given the decentralized nature of the agent system. According to data collected by the Conference of State Bank Supervisors, as of December 31, 2018, 204 money transmitters reported that they had more than 440,000 agents—with nine of these money transmitters reporting that they had at least 10,000 agents.<sup>22</sup> These agents present money-laundering risks if they knowingly or unknowingly fail to follow BSA/AML requirements or the policies and programs established by the money transmitter. For example, an agent may not follow the recordkeeping requirements for transfers above the regulatory funds transfer threshold or above lower thresholds that a money transmitter has self-imposed. MSB principals are required to conduct risk-based monitoring of their agents.
- **Customers.** Certain customers may pose heightened risk because of the nature of their business, occupation, or anticipated transaction activity. Additionally, in certain instances, they may be able to launder money while remaining anonymous. For example, customers may use false identities or straw men (individuals hired to conduct transfers on behalf of others) to keep from being identified as the original source of the funds. Examples of suspicious customer activity that may indicate money laundering include identification documents that cannot be easily verified; the use of different taxpayer identification numbers with

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<sup>21</sup>See [GAO-16-65](#).

<sup>22</sup>The Conference of State Bank Supervisors is the nationwide organization of banking regulators from all 50 states, the District of Columbia, Guam, Puerto Rico, American Samoa, and the U.S. Virgin Islands. The Conference maintains the Nationwide Multistate Licensing System, the system of record for nondepository financial services licensing or registration in participating state and territorial agencies. As of December 31, 2018, the Conference reported that 41 states, the District of Columbia, and Puerto Rico were managing MSB licenses on the Nationwide Multistate Licensing System, with 40 states, the District of Columbia, and Puerto Rico instructing money transmitters licensed in their jurisdictions to report information on their authorized agents.

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variations of the same name; frequent or large transactions with no record of past or present employment; and reluctance to provide identification for transactions subject to identification requirements.

- **Geographic location.** Certain geographic locations may be more vulnerable to money laundering or terrorist financing via money transfers. High-risk geographic locations can be either international or domestic. According to FinCEN's MSB examination manual, examples of international high-risk geographic locations include countries subject to sanctions by the Office of Foreign Assets Control or countries and territories identified as being noncooperative.<sup>23</sup> Domestic high-risk geographic locations include High Intensity Drug Trafficking Areas (HIDTA) and High Intensity Financial Crime Areas (HIFCA).<sup>24</sup>
- **Products.** According to the FFIEC and FinCEN MSB examination manuals, certain products and services, such as money transfers, may pose a higher risk of money laundering because of the degree of anonymity they can offer. For example, the Financial Action Task Force identified money-laundering and terrorist-financing risks associated with mobile payments because these services can sometimes allow for anonymous transactions, depending on the level of AML measures the mobile payments provider has in place. The task force also reported that virtual currency—digital representations of value such as Bitcoin that are not government-issued legal

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<sup>23</sup>The Financial Action Task Force is an intergovernmental body that sets standards and promotes implementation of legal, regulatory, and operational measures for combating money laundering and terrorist financing.

<sup>24</sup>First authorized by the Anti-Drug Abuse Act of 1988, Pub. L. No. 100-690, § 1005(c) (1988) (codified as amended at 21 U.S.C. § 1706), the HIDTA program allows the Director of the Office of National Drug Control Policy to designate as HIDTAs areas within the United States that exhibit factors including serious drug trafficking problems and drug-related harmful impact on other areas of the country. Under the HIDTA program, the Director of the Office of National Drug Control Policy—after consulting certain other federal and state entities—may direct additional federal resources to those areas to help eliminate or reduce drug trafficking and its harmful consequences. HIFCAs, first announced in the 1999 National Money Laundering Strategy, were conceived in the Money Laundering and Financial Crimes Strategy Act of 1998, Pub. L. No. 105-310, § 2(a) (1998), as a means of concentrating law enforcement efforts at the federal, state, and local levels in high-intensity money laundering zones.

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tender—could facilitate international remittances as virtual-currency-based products and services are developed.<sup>25</sup>

Federal agencies and international organizations have identified instances where money transfers have been used to launder proceeds from illicit activities such as human smuggling and trafficking, drug trafficking, and consumer fraud, including the following examples:

- In 2017, a large money transmitter entered into a \$586 million settlement with the Department of Justice, the Federal Trade Commission, and the U.S. Attorney’s offices for several states after it was accused of, among other things, processing money transfers that were suspected of being used to pay human smugglers in China.<sup>26</sup>
- In 2012, the Department of Justice found that a large money transmitter’s agents knowingly participated in a scheme in which victims wired funds to the transmitter’s agents and outlets in response to fraudulent claims such as promising victims they would receive large cash prizes or lottery winnings, falsely offering various high-ticket items for deeply discounted prices, falsely promising employment opportunities, or posing as a relative of the victim and claiming to be in trouble and in urgent need of money.<sup>27</sup>
- In a 2011 case, seven people were sentenced for money laundering and drug trafficking involving the transfer of funds from the U.S. Virgin Islands to Alaska. Hundreds of thousands of dollars in payment for the drugs were sent using a large money transmitter in amounts averaging less than \$2,000 per wire transfer, a money-laundering

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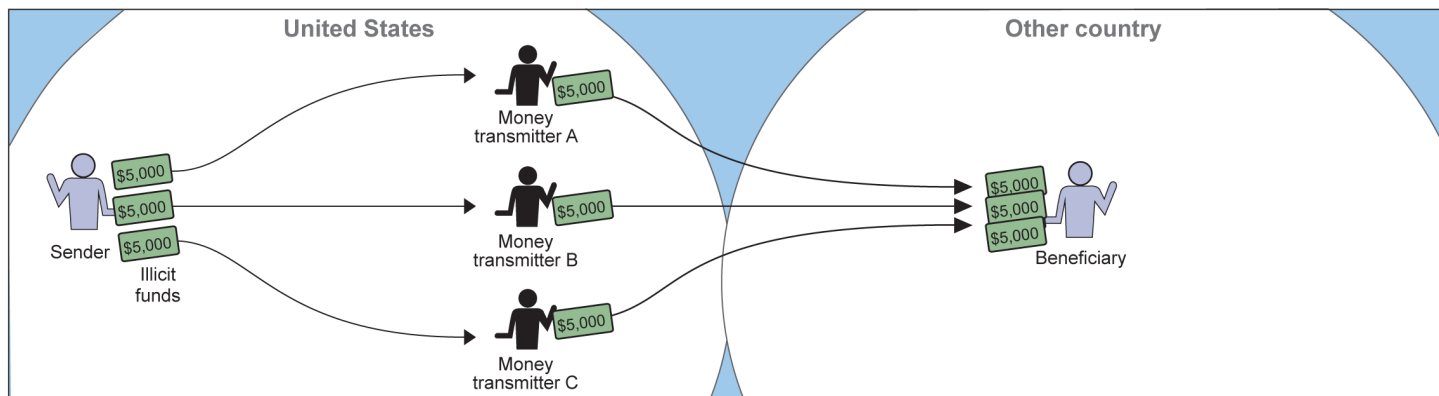
<sup>25</sup>FinCEN also recognizes money-laundering vulnerabilities in virtual currencies. In 2013, FinCEN issued guidance clarifying that administrators and exchangers of virtual currency are generally considered money transmitters and thus subject to the same BSA requirements. Financial Crimes Enforcement Network, *Application of FinCEN’s Regulations to Persons Administering, Exchanging, or Using Virtual Currencies*, FIN-2013-G001 (Mar. 18, 2013).

<sup>26</sup>Federal Trade Commission, “Western Union Admits Anti-Money Laundering Violations and Settles Consumer Fraud Charges, Forfeits \$586 Million in Settlement with FTC and Justice Department,” press release, January 19, 2017, <https://www.ftc.gov/news-events/press-releases/2017/01/western-union-admits-anti-money-laundering-violations-settles>.

<sup>27</sup>Department of Justice. “Moneygram International Inc. Admits Anti-Money Laundering and Wire Fraud Violations, Forfeits \$100 million in Deferred Prosecution,” press release no. 12-1336, November 9, 2012, <https://www.justice.gov/opa/pr/moneygram-international-inc-admits-anti-money-laundering-and-wire-fraud-violations-forfeits>.

method known as structuring. See figure 2 for an illustrated example of structuring.<sup>28</sup>

**Figure 2: Example of Structuring to Launder Illicit Funds**



Source: GAO analysis of information from money transmitters; images from Art Explosion. | GAO-20-46

<sup>28</sup>BSA/AML regulations ban structuring. See 31 C.F.R. § 1010.314. In its 2015 National Money Laundering Risk Assessment, Treasury identified structuring as a common money laundering method used in the United States and a money laundering vulnerability for money transmitters. Department of the Treasury, *2015 National Money Laundering Risk Assessment* (Washington, D.C.: 2015).

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## Requirements to Assess and Manage Money-Transmitter Risk Present Challenges for Some Banks

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### Banks Are Required to Assess Money-Transmitter Risks and Manage Risks through Due Diligence and Monitoring

In April 2005, FinCEN and the federal banking regulators issued interpretative guidance to further clarify BSA/AML requirements to banks that provide banking services to MSBs (including money transmitters) operating in the United States.<sup>29</sup> According to the interagency guidance, a bank's level and extent of due diligence beyond the minimum expectations should be based on an assessment of the individual customer's BSA/AML risks. If a particular MSB relationship indicates a low risk of money laundering or other illicit activity, the bank may not be routinely expected to perform further due diligence beyond minimum expectations. Minimum expectations include applying the bank's customer identification program and confirming FinCEN registration (if required), agent status (if applicable), and state and local licensing requirements (if applicable). Banks are also to conduct a basic BSA/AML risk assessment to determine the level of risk associated with the account and whether further due diligence is necessary. In order to properly assess risks, the interpretive guidance clarifies that banks should consider the purpose of the account, the types of products and services offered by the MSB, the locations and markets it serves, and the anticipated account activity (see text box).

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<sup>29</sup>See Financial Crimes Enforcement Network, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision, *Interagency Interpretive Guidance on Providing Banking Services to Money Services Businesses Operating in the United States* (Apr. 26, 2005). This guidance was later incorporated into the examination manual. The interpretive guidance describes the minimum steps that banks should take when providing banking services to MSBs and provides assistance to banks in assessing and minimizing the risk of money laundering posed by individual MSBs.

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**Examples of Basic Information Banks Should Consider When Assessing a Money Transmitter's Money-Laundering Risk, According to the Interagency Guidance**

**Purpose of account:** Whether the money transmitter needs the bank account to transfer funds to its principal U.S. account or to foreign-based agents in other countries.

**Products and services offered:** Whether the money transmitter is a principal with a fleet of agents, or is it an agent itself, and whether money transmission the customer's primary or ancillary business (such as a grocery store that derives a small fraction of its overall revenue from providing money transmission services).

**Locations served:** Whether the money transmitter's market domestic or international and whether it targets local residents or broad markets.

**Anticipated account activity:** Relevant considerations include the expected transaction amounts and whether the money transmitter is operating out of one location and using one bank branch, or whether it has several agents making deposits at multiple branches throughout the bank's network.

Source: 2005 Interagency Interpretive Guidance on Providing Banking Services to Money Services Businesses. | GAO-20-46

If a bank concludes from its risk assessment that the MSB customer presents a higher level of money-laundering or terrorist-financing risk, it will be expected to conduct additional due diligence in a manner commensurate with the heightened risk. According to the interagency guidance, the appropriate amount of due diligence depends in part on the level of perceived risk and the size and sophistication of the particular MSB. Appropriate due diligence can include reviewing the MSB's BSA/AML compliance program, the results of the MSB's independent testing of its program, and written agent management and termination practices for the MSB, as well as conducting on-site visits to the MSB.

The interagency guidance also provides examples of "risk indicators" to assist banks with their risk assessments. Examples of potentially lower-risk indicators include a money transmitter that primarily markets to customers that conduct routine transactions with moderate frequency in low dollar amounts; is an established business with an operating history; or only remits funds to domestic entities. Examples of potentially higher-risk indicators include a money transmitter that allows customers to conduct transactions in higher dollar amounts with moderate to high frequency; is a new business without an established operating history; offers only, or specializes in, cross-border transactions, particularly to countries posing heightened risk for money laundering or terrorism financing; or is located in an area designated as a HIFCA or HIDTA. The guidance notes that in determining the level of risk, a bank should not focus on any single indicator. Rather, an effective risk assessment should

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be a composite of multiple factors, and depending on the circumstances, certain factors may be weighed more heavily than others.

Banks' customer risk assessments also determine the level of ongoing monitoring for suspicious activity they must perform on each customer. The interagency guidance states that, based on the bank's assessment of the risks of its MSB customers (including money transmitters), monitoring should include periodic confirmation that initial projections of account activity have remained reasonably consistent over time. Examples of potentially suspicious activity include a money transmitter transferring funds to a different jurisdiction than expected or depositing currency significantly in excess of expected amounts without any justifiable explanation, such as an expansion of business activity or new locations.

Officials from several banks we spoke with described their additional due diligence procedures for implementing BSA/AML requirements when accepting new money transmitter customers or monitoring existing ones. These include obtaining and reviewing the money transmitter's BSA/AML policies, using questionnaires and interviews to collect detailed information from the money transmitter on its business operations—such as services offered, transaction volume, and cash activity—and site visits to verify the information collected.

Officials from one bank told us that additional due diligence includes a review of the money transmitter's business location, longevity, principal owners, transaction volume, and cash activity. Bank staff collect this information via a questionnaire administered through an in-person interview at a branch. After reviewing the information, the bank's BSA/AML compliance department may choose to speak one-on-one with the potential money transmitter customer or conduct a site visit. When monitoring a new money transmitter customer for suspicious activity, compliance staff compare answers from the due diligence questionnaire against the customer's cash log and wire activity to determine if the activity is outside normal parameters. The compliance department investigates any suspicious leads and reports them to the bank's SAR committee to decide whether to file a SAR.

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**Federal Banking  
Examiners Determine  
Whether Banks  
Adequately Incorporate  
BSA/AML Risk into Their  
Compliance Programs**

Federal banking examiners determine whether a BSA/AML examination should include a review of a bank's money transmitter accounts based on the overall risk profile of the bank. The FFIEC examination manual directs examiners to tailor the BSA/AML examination scope and procedures to the specific risk profile of the bank. Examiners begin a BSA/AML examination by reviewing and assessing the adequacy of the bank's BSA/AML risk assessment. This review includes determining whether bank management has developed an accurate risk assessment that identifies significant risks to the bank (see text box). This determination is based on factors such as whether management has adequately considered all products, services, customers, transaction number and volume, and geographic locations, and whether management's assessment methodology within these specific risk categories was adequate.<sup>30</sup>

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<sup>30</sup>For the purposes of the examination, whenever the bank has not completed a risk assessment, or the risk assessment is determined to be inadequate, the examiner must complete a risk assessment based on available information.



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### **Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Procedures for Banks**

In order to effectively apply resources and ensure compliance with BSA requirements, the Federal Financial Institutions Examination Council (FFIEC) examination manual is structured to allow examiners to tailor the BSA/AML examination scope and procedures to the specific risk profile of the bank.

At a minimum, examiners are expected to follow core examination procedures to ensure that the bank has an adequate BSA/AML compliance program commensurate with its risk profile. The core procedures encompass four areas:

- **Scoping and planning:** Identifying the bank's BSA/AML risks, developing the examination scope, and documenting the plan.
- **BSA/AML risk assessment:** Assessing the BSA/AML risk profile of the bank and evaluating the adequacy of the bank's BSA/AML risk assessment process.
- **BSA/AML compliance program:** Determining whether the bank has developed, administered, and maintained an effective program for compliance with the BSA and all of its implementing regulations.
- **Developing conclusions and finalizing the examination:** Formulating conclusions, communicating findings to management, preparing report comments, developing an appropriate supervisory response, and closing the examination.

In addition to the core examination procedures, the examination manual also contains sections of expanded examination procedures that address specific lines of business, products, customers, or entities that may present unique BSA/AML compliance challenges and exposures for which banks should institute appropriate policies, procedures, and processes. As examples, the examination manual contains expanded examination procedures with respect to nonbank financial institutions, electronic banking, and funds transfers.

The examination manual indicates that not all of the core and expanded examination procedures are likely to be applicable to every bank. The specific examination procedures that need to be performed depend on the BSA/AML risk profile of the bank, the bank's history of BSA/AML compliance, and other relevant factors.

Source: GAO analysis of FFIEC BSA/AML Examination Manual. | GAO-20-46

Examiners also review the bank's written BSA/AML compliance program and determine whether the bank has adequately incorporated the risk it identified through its risk assessment into its BSA/AML compliance program. This review and determination include completing relevant core examination procedures for assessing key elements of the bank's compliance program, such as the customer identification program and policies, procedures, and processes related to customer due diligence, suspicious activity reporting, and currency transaction reporting. As part of these core examination procedures, examiners conduct risk-based transaction testing, which OCC staff noted allows examiners to evaluate the adequacy of the bank's compliance with regulatory requirements; determine the effectiveness of its policies, procedures, and processes;

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and evaluate suspicious activity monitoring systems. For example, examiners might determine to select and review a sample of customer accounts in testing the bank's compliance with its policies, procedures, and processes or for possible suspicious activity.

The FFIEC examination manual contains an expanded examination section for banks with significant relationships with nonbank financial institutions, which include MSBs. This expanded section references and incorporates the April 2005 interagency guidance for providing banking services to MSBs and includes related examination procedures. Consistent with this guidance, these procedures direct examiners to assess whether the bank has minimum due diligence policies, procedures, and processes in place for new or existing MSB accounts. Examiners are then to determine whether the bank's policies, procedures, and processes to assess MSB risks effectively identify higher-risk accounts and the amount of further due diligence necessary.

To assist in this effort, the manual directs examiners to perform risk-focused transaction testing on a sample of higher-risk MSB accounts. In discussion groups held with federal bank examiners, examiners from all discussion groups noted that their review of the transaction activity of money transmitter accounts is essential to determining whether the bank understands the money transmitter's business and has appropriately assessed the risk.<sup>31</sup> For example, one examiner said that customer due diligence procedures at account opening should include the appropriate qualitative and quantitative questions so that the bank can make a reasonable determination of the types and volumes of transactions that will be flowing in and out of the account.

Examiners from all discussion groups said that when assessing the bank's risk assessment of a money transmitter, they focus on whether the bank has considered the risk factors discussed in the examination manual, including geography, customer type, products, services, and transactional volume. In some discussion groups, examiners noted that they may review money transmitter accounts if these accounts are included in the sampling of bank customer accounts as part of the core examination procedures. One examiner said that because banks in her

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<sup>31</sup>For purposes of this report, we used the following terms to describe the number of discussion groups in which an issue is mentioned: "some" to describe two to three groups out of the eight discussion groups, "many" to describe four to five discussion groups, and "most" to describe six to seven discussion groups.

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region do not tend to specialize in money transmitters or have a significant degree of risk from them, the only time she reviews money transmitter accounts is if they are included in her sample for transaction testing. Examiners from one discussion group said that they may review money transmitters as part of expanded examination review procedures for nonbank financial institutions if the bank has a large portfolio of money transmitter accounts. For example, one examiner said he generally does not set out to look for and review money transmitter accounts when conducting a BSA/AML examination, but in one case his examination team learned that during the course of a merger, a bank acquired a number of nonbank financial institutions, including MSBs. As this bank did not have prior experience with these kinds of customers, the examination team decided to include them in the scope of their review. Examiners in all discussion groups said that they neither instruct nor recommend that banks close accounts with money transmitters or other types of MSBs.

Although IRS and state agencies also examine money transmitters and other MSBs, examiners from all discussion groups said that BSA/AML requirements and guidance do not allow banks to rely on IRS or state oversight. These examiners said these reports could provide banks with a useful additional source of information when conducting their due diligence on MSB customers. However, these examiners added that the reports would not substitute for or reduce the due diligence expected of banks in complying with BSA/AML compliance program requirements.. Examiners from most discussion groups observed that they know very little about the quality of state or IRS examinations of MSBs and their frequency.<sup>32</sup>

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<sup>32</sup>In a May 2016 white paper on state regulation and supervision of MSBs, the Conference of State Banking Supervisors and the Money Transmitters Regulatory Association stated that MSBs, including money transmitters important to the global flow of remittances, were losing access to traditional banking services. They noted that this decline in access may be partially the result of concerns about regulatory scrutiny, the perceived risks presented by MSB accounts, or the costs and burdens associated with maintaining such accounts, but that it 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 the May 2016 white paper was 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. The white paper discusses state regulatory requirements for MSBs related to customer protection and safety and soundness and BSA/AML and state supervisory programs that enforce these requirements. The white paper also outlines efforts by state regulators to work together and with FinCEN and IRS to further develop structures, processes, and systems to bring greater clarity and consistency to MSB supervision.

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## Examiners Identified BSA/AML Compliance Challenges for Some Banks with MSB Customers, Including Money Transmitters

Examiners in our discussion groups said the challenges that some banks face in ensuring BSA/AML compliance for their MSB customers include those related to customer due diligence, risk assessments, customer identification, and BSA/AML compliance staff and resources.

- **Customer due diligence.** Examiners from most discussion groups said that some banks do not fully understand the customer due diligence requirements for banking MSBs. Examiners in some discussion groups said that banks do not always fully review or understand the documents and information obtained from their MSB customers in conducting due diligence. One examiner described an instance where bank staff could not understand documentation collected from MSB customers in a foreign language. Examiners in some discussion groups said banks do not understand the need to conduct ongoing monitoring of MSB accounts, including of the flow and volume of customers' transactions. For example, one examiner in a different discussion group described an instance of a community bank that was unaware that an MSB account had \$2 billion flowing through annually even though the bank had only \$1 billion in assets. Examiners in some discussion groups said that banks also may not fully understand their automated software for monitoring suspicious activity or how to set the proper software parameters for capturing potentially suspicious transactions. One examiner in a different discussion group said that without proper monitoring, a bank would not know when sudden changes in MSB customers' transaction types or volumes would be considered suspicious and should be reported.
- **Risk assessment.** Examiners in many discussion groups said some banks do not appropriately assess their MSB customers' risk, either because they do not consider relevant risk factors or they rate all MSB customers at the same risk level. One examiner in a discussion group said he examined a bank with many money transmitter customers that transmitted funds to several countries and found that the bank did not assess the risk levels of the countries to which the money transmitters sent funds. An examiner in a different discussion group said that banks often assess all MSBs at the same level of risk because they do not understand the difference between the various risk levels. Another examiner in the same discussion group added that banks often do not understand the guidance clarifying that banks should assess each customer's risk individually. This statement was corroborated by our review of several banks' BSA policies that stipulated that all money transmitters and other MSBs should be considered high risk, contrary to the 2005 guidance.

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- **Customer identification.** Examiners from many discussion groups said banks do not always identify their MSB customers—for example, when a bank acquires another bank without being aware that the acquired bank has MSB customers. Examiners in some discussion groups said that failure to properly identify MSB customers stems partly from inadequate due diligence or risk assessment.
  - **BSA/AML compliance staff and resources.** Examiners in many discussion groups said that some banks do not have sufficient BSA/AML compliance staff or resources to manage their BSA/AML compliance programs. For example, an examiner in one discussion group described a bank with nearly 70 money transmitters and more than 200 check cashers but only four staff in its BSA/AML compliance department, which the examiner considered inadequate.

Examiners in many discussion groups said that BSA/AML deficiencies generally stem from overall weakness in a bank's BSA/AML compliance program or internal controls, and not from providing services to money transmitters or any particular customer type. An examiner from one discussion group noted that a bank with weak internal controls around money transmitters likely has weak internal controls across its BSA/AML compliance program. Examples of deficiencies provided by examiners across discussion groups include banks failing to follow written policies and procedures, rating entire categories of customers as high-risk rather than assessing individual customer risk, not conducting on-site customer reviews, failing to conduct other due diligence, and not properly monitoring and reporting suspicious activities. Moreover, our review of bank examination documents found that BSA/AML-related deficiencies mostly stemmed from weakness in banks' BSA/AML compliance programs and internal controls overall—for example, in customer identification programs, customer due diligence procedures and practices, and risk assessments—and not from a bank providing services to MSBs or any other customer type.

According to examiner discussion groups and examination documents we reviewed, not all banks with MSB customers experience BSA/AML compliance challenges. Examiners in some discussion groups noted that banks that successfully provide accounts to MSBs, including money transmitters, tend to have a strong BSA/AML compliance program. For example, examiners in some discussion groups said that such banks have internal controls commensurate with the BSA/AML risks of the MSB customers, including conducting appropriate monitoring and due diligence of customers, and understand the full scope of MSB customers' activities.

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The examiners stated that these banks also have sufficient BSA/AML compliance staff who received training. Similarly, our review of bank examination documents included examples of banks with MSB customers that complied with BSA/AML compliance program requirements, such as a community bank with 80 money transmitters. In the examination documents we reviewed, examiners noted that although the bank engaged in higher-risk business, it was managing the risk appropriately.

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## Some Examiners Identified Challenges in Assessing Banks' Due Diligence for Money Transmitters

While views among examiners in our discussion groups varied, examiners in some discussion groups identified challenges in assessing banks' customer due diligence for money transmitters and other MSB customers. As discussed earlier, the FFIEC examination manual includes an expanded examination section for nonbank financial institutions that provides procedures and guidance for examiners when assessing banks' compliance controls for MSB customers, including money transmitters. The procedures direct examiners to determine whether the banks' policies, procedures, and processes to assess risks posed by MSB customers allow the banks to effectively identify higher-risk accounts and the amount of further due diligence that is necessary. The expanded examination guidance provides examples of actions banks can take to meet the additional due diligence requirement for customers they deem to be higher risk. Examiners from many discussion groups said they believe these procedures and guidance are sufficient. One examiner noted that assessing controls is the same for a bank's MSB customers as for any other type of customer.

However, examiners from some discussion groups said it was unclear how much due diligence is reasonable to expect banks to conduct for their money transmitters and other MSB customers. An examiner in one discussion group said it was not clear from the examination procedures and guidance how much banks were expected to question and request information from their MSB customers or monitor their MSB customers' due diligence efforts without expecting banks to act as the de facto regulator for MSBs. Other examiners noted that although banks are responsible for understanding the kinds of transactions that flow through an MSB, to some extent banks do not have visibility into these individual transactions, as they are aggregated before flowing into the account at the bank. Similarly, another examiner said there was uncertainty about how critical an examiner should be of a bank's due diligence efforts in cases where a bank's documentation on an MSB customer's BSA/AML compliance program is lacking. One examiner noted that while the examination guidance provides examples of due diligence actions banks

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can consider performing, those actions are not requirements. The examiner said it was therefore not clear to what extent examiners should apply these examples as criteria and expect banks to have implemented them.

Further, examiners in some discussion groups said that it can be difficult to evaluate banks' risk assessments, including processes for identifying higher-risk customers that require additional due diligence. One examiner said that it is unclear from the examination procedures how to determine whether banks' risk assessment processes for identifying higher-risk customers are adequate. An examiner in a different discussion group said that in evaluating banks' risk assessment of new money transmitter customers, he looks for whether banks ask why new customers switched banks. However, other examiners in the same discussion group noted that this is not a standard question.

Our review of the expanded examination section found a lack of examples of specific steps or processes that examiners can take in assessing banks' compliance for additional due diligence. For example, this section's procedures contain only a general reference that examiners should determine whether the banks' policies, procedures, and processes effectively allow the banks to identify and conduct risk-based due diligence for higher-risk customers and lack specific examples to assist examiners in evaluating additional due diligence activities. The section's guidance states that examiners could take actions, including reviewing an MSB's BSA/AML compliance program or conducting on-site visits to help evaluate a bank's compliance. But neither the guidance nor the procedures clarify what these reviews or visits might entail. In comparison, the expanded section's guidance and procedures include examples of specific steps that examiners can take when assessing banks' compliance with minimum due diligence requirements for MSB accounts, such as applying the bank's customer identification program and confirming FinCEN registration status and state licensing, if applicable.<sup>33</sup>

Officials from the Federal Reserve and OCC said that the examination manual is not intended to provide explicit criteria for examiners when they

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<sup>33</sup>Banks are required by law to implement a written customer identification program appropriate for their size and type of business that contains risk-based procedures for verifying the identity of each customer to the extent reasonable and practicable. See 31 C.F.R. § 1020.220.

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are assessing the adequacy of a bank's program. They said that establishing explicit criteria would result in a "check the box" approach to BSA/AML compliance, such that banks are given a uniform set of requirements to follow, irrespective of the money-laundering or terrorism-financing risks associated with their banking activities. They said that if banks only needed to meet specific requirements, such an approach would encourage banks to do the minimum to establish a BSA/AML compliance program and would not effectively detect and deter money laundering and terrorism financing. As discussed earlier, the examination manual is instead structured to allow examiners to tailor the BSA/AML examination scope and procedures to the specific risk profile of the bank. Staff from the federal banking regulators said that as a result, examiners are expected to apply their judgment in evaluating banks' BSA/AML compliance programs.

However, while regulators want compliance programs to be tailored to the unique risks a bank's operations present, examiners need sufficient guidance to determine whether a given bank's BSA/AML-related policies, processes, and procedures are adequate. Regulators and FinCEN issued the 2005 interagency guidance to clarify BSA/AML requirements and supervisory expectations for banks when providing banking services to money transmitters and other MSBs. Since then, examiners have relied on this guidance when reviewing banks' MSB customer accounts. However, the examination procedures and related guidance may not provide all of the information examiners need to conduct their assessments, as indicated by the examiners in some of our discussion groups who reported that it is not clear to them how to determine whether banks' due diligence efforts are adequate. Providing clarifying information would not compromise examiners' ability to exercise judgement during an examination. Rather, it would provide them with greater certainty that they are evaluating banks' compliance with BSA/AML requirements appropriately.

Federal internal control standards state that agencies should identify, analyze, and respond to risks related to achieving the defined objectives.<sup>34</sup> Unless federal banking regulators take steps to improve examiners' ability to evaluate banks' compliance controls with respect to money transmitter accounts, examiners may not be fully achieving the BSA/AML examination objectives of identifying and assessing risks and

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<sup>34</sup>[GAO-14-704G](#).



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banks' ability to manage risks, as set out in the examination manual in assessing banks' compliance with BSA/AML requirements. Internal control standards also state that agencies should internally communicate the necessary quality information to achieve their objectives. With respect to examiners, such communication could include providing updates to examination procedures, examiner training, or a combination of methods.

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## Terminating or Limiting Bank Accounts with Money Transmitters May Raise Derisking Concerns and Can Affect Their Operations

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### Survey Results Suggest That a Number of Banks Terminated or Limited Money Transmitters' Accounts in 2014–2016

We estimate that 32 percent of banks nationwide provided accounts to money transmitters from 2014 through 2016, based on the results of a survey we conducted jointly with other GAO work on derisking.<sup>35</sup> For calendar year 2016, of the 91 banks that reported having money transmitters as customers, 71 banks of varying asset sizes reported having 41,089 money transmitter accounts (see table 1).<sup>36</sup>

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<sup>35</sup>The 95 percent confidence interval for this estimate ranges from 22 percent to 43 percent. Money transmitter accounts include accounts with principals and agents. We conducted the survey jointly with our reviews of remittance transfers from the United States to selected fragile countries ([GAO-18-313](#)) and of account terminations in the Southwest border region ([GAO-18-263](#)).

<sup>36</sup>Of the 91 banks that responded to our survey indicating they had accounts with money transmitters, 71 banks responded to our survey question that asked how many accounts banks have with money transmitters. As previously noted, credit unions were not included in the sample of banks that we surveyed.

**Table 1: Banks That Reported Providing Accounts to Money Transmitters (by Asset Size), Including Number of Accounts, 2016**

<b>Size of banks</b>	<b>Reported number of banks providing accounts to money transmitters</b>	<b>Reported number of accounts with money transmitters</b>
Small (assets of less than \$1 billion)	21	67
Medium (assets of \$1 billion to less than \$10 billion)	33	1,193
Large (assets of \$10 billion to less than \$50 billion)	9	1,182
Extra-large (assets of \$50 billion or more)	8	38,647
<b>2016 Totals</b>	<b>71</b>	<b>41,089</b>

Source: GAO survey. | GAO-20-46

Notes: Overall, 91 banks that responded to our survey indicated they had accounts with money transmitters. The numbers in this table represent only the accounts of the 71 banks that responded to our survey question that asked how many accounts banks have with money transmitters and are not generalizable to the population of banks.

Overall, of the 91 banks that reported having money transmitters as customers, close to half of them (40 banks) terminated at least one of their money transmitter accounts and almost one-third of them (29 banks) limited the number of accounts with money transmitters, both for reasons related to BSA/AML risk, from 2014 through 2016 (see table 2).<sup>37</sup>

<sup>37</sup>For purposes of our report, we use “limitations” or “limited” to describe the results of our survey question that asked if a bank restricted the number or percentage of money transmitter accounts it manages. Of the 91 banks that responded to the survey that they had money transmitters as customers, 86 responded to the survey questions regarding account terminations of money transmitter customers, and 90 responded to the survey questions regarding limiting accounts. Due to survey response rates, results on account terminations and limitations are not projectable.

**Table 2: Banks That Reported Terminating or Limiting Accounts with Money Transmitters (by Asset Size), 2014–2016**

Size of banks	Reported number of banks that terminated accounts	Reported number of banks that limited accounts
Small (assets of less than \$1 billion)	5	6
Medium (assets of \$1 billion to less than \$10 billion)	18	16
Large (assets of \$10 billion to less than \$50 billion)	7	2
Extra-large (assets of \$50 billion or more)	10	5
<b>2014–2016 Totals</b>	<b>40</b>	<b>29</b>

Source: GAO survey. | GAO-20-46

Notes: Overall, 91 banks that responded to our survey indicated they had accounts with money transmitters. These numbers represent only the accounts of the 40 banks (that terminated accounts) and 29 banks (that limited the number of accounts) that responded to these survey questions and are not generalizable to the population of banks.

Because extra-large banks reported having a much greater number of accounts with money transmitters, these banks also reported a greater proportion of account terminations, compared with small and medium banks. Specifically, 18 banks of all sizes that responded to the survey reported that they terminated 1,098 accounts in 2016—with 89 percent of these account closures (976 out of 1,098) reported by six extra-large banks. In particular, one extra-large bank accounted for more than half (601 out of 1,098) of the account terminations in that year. See table 3 for more information on account terminations in 2016. See appendix II for more information on account terminations and limitations.

**Table 3: Banks That Reported Terminating Accounts with Money Transmitters (by Asset Size), Including Number of Accounts Terminated, 2016**

Size of banks	Reported number of banks that terminated accounts	Reported number of accounts terminated
Small (assets of less than \$1 billion)	1	1
Medium (assets of \$1 billion to less than \$10 billion)	6	97
Large (assets of \$10 billion to less than \$50 billion)	5	24
Extra-large (assets of \$50 billion or more)	6	976
<b>2016 totals</b>	<b>18</b>	<b>1,098</b>

Source: GAO survey. | GAO-20-46

Notes: Overall, 91 banks that responded to our survey indicated they had accounts with money transmitters. These numbers represent only the accounts of the 18 banks that responded to this survey question and are not generalizable to the population of banks.

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Although Some Account Terminations and Limitations Are Associated with Managing BSA/AML Risk, Some Raise Derisking Concerns

Some terminations and limitations of money transmitters' bank accounts appear to be associated with managing BSA/AML risk. However, some terminations and limitations raise derisking concerns.

Some Reasons for Terminating or Limiting Accounts Are Associated with Managing BSA/AML Risk

Some reasons that banks reported for terminating accounts were associated with managing BSA/AML-related risk, including the filing of SARs associated with the account and customers failing to provide information necessary for the bank to conduct adequate BSA/AML due diligence. Some banks also reported terminating accounts to reduce the risk that a customer's activity could harm a bank's reputation, known as reputational risk (see table 4). These survey results are consistent with the results of our prior work on banks in the Southwest border region.<sup>38</sup>

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<sup>38</sup>See [GAO-18-263](#). For our survey, the nationally representative sample of 406 banks in the United States included 115 banks in the Southwest border region—banks considered to be high-risk because they were located in an area identified as either a HIFCA, a HIDTA, or both. We also asked the Southwest border banks about the extent to which they terminated accounts, offered accounts on a limited basis, or did not offer accounts related to BSA/AML risk and the reasons for these decisions. The most commonly cited reasons for terminating accounts that Southwest border banks reported also included the filing of SARs associated with the account, the failure of customers to respond adequately to requests for information as part of a bank's customer due diligence process, and the bank's reputational risk. See app. I for more information about survey methodology. Also see app. II for information on survey results specific to money transmitters.

**Table 4: Most Common Reasons Banks Cited for Terminating Accounts with Money Transmitters That Were Associated with Managing Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Risk, 2014–2016**

Reasons for terminating accounts	Reported number of banks <sup>a</sup>
Suspicious Activity Reports filed associated with the accounts	30
Customer failed to provide information for the bank to conduct adequate BSA/AML due diligence	28
Bank’s reputational risk	18
Cost of BSA/AML compliance made the customer type unprofitable	12
Inability to manage the BSA/AML risk associated with the customer type	12

Source: GAO survey. | GAO-20-46

<sup>a</sup>Of the 91 banks that responded to our survey indicating they had accounts with money transmitters, 40 banks responded to our survey question on reasons for account terminations. Survey respondents could select as many of the reasons presented in the survey as were applicable. The table includes reasons that are generally associated with managing BSA/AML risk. See app. II for more information on survey results.

The most commonly cited reason in our survey for terminating accounts was the filing of SARs. Officials we interviewed from one bank told us that they investigate customers that have triggered multiple SAR filings and considered setting up controls to limit account activities. Officials of another bank told us that a federal bank examiner suggested that the bank consider closing an account with a money transmitter customer because of SAR filings associated with it.

The second most commonly cited reason for terminating accounts was that a customer failed to provide information requested by a bank for conducting BSA/AML due diligence. Officials we interviewed from two banks told us that customers may not be able to provide information and documentation or may not disclose that they are an MSB when opening new accounts. Officials of a bank that maintained accounts with money transmitters told us they terminated accounts in instances where a money transmitter did not submit required documentation.

Another commonly cited reason for terminating accounts was reputational risk—the potential that negative publicity regarding an institution’s business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions. One bank’s officials said in an interview that when examiners inquired as to whether bank officials factor reputational risk into their decision-making about money transmitters, they viewed such inquiries as implicit suggestions that the bank had an issue with reputational risk that needed to be addressed.

Examiners in our discussion groups also shared similar comments on suspicious activity monitoring and banks' requests for information. Specific to suspicious activities, one examiner noted that banks generally have an internal policy stating that if a specific number of SARs are filed on the customer, the bank will automatically terminate the account. Regarding banks' information requests, examiners in some discussion groups said they observed that banks may terminate an MSB's account if the MSB does not comply with the bank's request for due-diligence-related documentation.

Three of the most common reasons banks reported for limiting accounts with money transmitters were that (1) the cost of BSA/AML compliance made the customer type unprofitable, (2) the banks were unable to manage the BSA/AML risk associated with the customer type, and (3) the customer type fell outside of a bank's risk tolerance (see table 5).<sup>39</sup>

**Table 5: Most Common Reasons Banks Cited for Limiting Accounts with Money Transmitters That Were Associated with Managing Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Risk, 2014–2016**

Reasons for limiting accounts	Reported number of banks <sup>a</sup>
Cost of BSA/AML compliance made the customer type unprofitable	20
Bank was unable to manage the BSA/AML risk associated with the customer type	19
Customer type fell outside of bank's risk tolerance	19
Bank's reputational risk	14

Source: GAO survey. | GAO-20-46

<sup>a</sup>Of the 91 banks that responded to our survey indicating they had accounts with money transmitters, 29 banks responded to our survey question on reasons for limiting the number of accounts. Survey respondents could select as many of the reasons presented in the survey as were applicable. The table includes reasons that are generally associated with managing BSA/AML risk. See app. II for more information on survey results.

One of the most commonly cited reasons for limiting the number of accounts with money transmitters was compliance costs associated with managing BSA/AML risk. Officials of about two-thirds of the banks we

<sup>39</sup>The reasons banks cited in our survey were consistent with the commonly cited reasons Southwest border banks reported in [GAO-18-263](#) for limiting the number of accounts, including that the customer type fell outside of the bank's risk tolerance and the bank was unable to manage risks associated with a customer type. See app. II for information on survey results specific to money transmitters.

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interviewed said their BSA/AML compliance costs had increased over time, with eight institutions specifically citing past or planned upgrades to their monitoring software systems as one source of increasing costs. Moreover, officials of one bank said their compliance costs had increased in recent years as a result of regulatory scrutiny, which they said had increased as MSBs came to comprise a larger portion of their customer base. In response to this heightened scrutiny, officials said the bank had installed a new transaction-monitoring platform, which incurred a one-time migration cost and would incur higher monthly fees, and was considering expanding its compliance department.

Officials of three banks told us in interviews that 50 percent of their compliance costs stem from BSA/AML compliance. As we have reported previously, money transmitters are generally low-profit customers for banks, in that the revenue from their accounts may not be sufficient for some banks to offset the associated costs of BSA/AML compliance.<sup>40</sup> For example, officials of one bank said the bank spent about \$250,000 annually to maintain its BSA-related monitoring software and training, which they believed was a significant portion of the bank's \$25 million annual income. These officials told us that unlike the bank's other customers, which use the bank's other products and refer business, money transmitters are not the bank's core customers and do not use other products or services, so the bank would rather focus its time and resources on its core customers. Similarly, officials of another bank said they decided not to bank MSBs because any revenue generated would not cover the additional resource and compliance costs.

Banks' inability to manage BSA/AML risks associated with money transmitter customers was another commonly cited reason for limiting the number of accounts. For example, officials of one bank we interviewed said they did not accept any MSB customers, including money transmitters, because they were not willing or able to take on the required risk and level of BSA/AML monitoring. Another commonly cited reason for limiting accounts was that a customer type fell outside of a bank's risk tolerance. In interviews, banks expressed concerns about their MSB customers' ability to maintain an adequate BSA/AML compliance program. One bank's officials told us that owners of gas stations may offer check cashing or money transmission services to generate additional revenue, but they may not be aware that offering such services

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<sup>40</sup>See [GAO-16-65](#).

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would subject their business to BSA/AML compliance requirements. Another bank's officials also said that many business owners do not know that they have to register with FinCEN to operate as an MSB. Officials from a third bank said that some MSBs may not understand the BSA/AML regulations and, at their customers' request, may inadvertently commit a violation such as structuring that may generate a SAR (for example, by breaking up a money transfer in excess of \$10,000 into multiple transfers to avoid generating a Currency Transaction Report).

Similarly, examiners in many discussion groups said that the staffing and resource costs required for adequate monitoring and due diligence on MSB customers, including money transmitters, are reasons why some banks may choose not to bank MSBs. Moreover, examiners in many discussion groups also said some banks offer MSBs accounts and then find out that they do not have the necessary BSA/AML expertise or that the business is not profitable for them. For example, one examiner said that when a larger bank in his area terminated all of its money transmitter accounts, a number of smaller banks looking for profit offered accounts to these money transmitters. However, the examiner added that the smaller banks did not understand the level of customer due diligence and monitoring that was required for these accounts and the associated costs, and they terminated the accounts. In contrast, examiners in some discussion groups said that some community banks have accepted money transmitter customers as a way to generate potentially substantial fee income.

### Some Account Terminations and Limitations Raise Derisking Concerns

According to survey responses from banks, the most commonly cited reason for limiting the number of money transmitter accounts was that the customer type drew heightened BSA/AML regulatory oversight—behavior that would indicate derisking. Banks also commonly cited this reason for terminating money transmitter accounts.<sup>41</sup>

For example, officials from one bank told us that the bank no longer offered services to MSBs because it wanted to be viewed favorably by regulators. Officials of another bank said that money transmitter account

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<sup>41</sup>Of the 40 banks that responded that they had terminated a money transmitter customer's account, 19 banks cited "customer type drew heightened BSA/AML regulatory oversight" as a reason. Of the 29 banks that responded that they had limited the number of money transmitter customers' accounts, 21 banks cited "customer type drew heightened BSA/AML regulatory oversight" as a reason. Southwest border banks also commonly cited that the customer type drew heightened BSA/AML regulatory oversight as reason for terminating and limiting the number of accounts; see [GAO-18-263](#).



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closures were generally the result of onerous regulatory requirements and increased regulatory scrutiny. Officials from two banks we spoke with said that they received greater regulatory scrutiny after increasing their number of MSB customers, which affected their willingness to open additional accounts with MSBs. According to officials of one of the two banks, when the bank increased its MSB customers from one to two, the institution was assessed as high risk by examiners.

Related to heightened regulatory oversight, some banks' officials we interviewed also expressed concerns that some examiners' expectations go beyond what is described in the examination manual. For example, they said examiners expected banks to know their customers' customers—although BSA/AML regulations do not require banks to obtain information on their customers' customers. Bank officials said ascertaining such information was difficult because money transmitters' customers are one step removed from the bank. Some banks' officials also told us that they felt obligated to follow examiners' verbal suggestions, even when the suggestions did not appear in the final examination report as recommendations. Other banks' officials we interviewed stated that although examiners did not explicitly recommend that banks exit certain lines of business, officials felt pressure from the examiners to do so. For example, officials from one bank said examiners suggested that if the bank exited certain lines of business, the bank would not have deficiencies in its BSA/AML compliance program.

We reported similar concerns in our March 2018 report. About half of the banks we interviewed for that report said that the fear of regulatory scrutiny served as a disincentive for banks to maintain accounts with money transmitters.<sup>42</sup> Some banks' officials expressed uncertainty about the amount of due diligence required for regulatory purposes because regulations included ambiguous language or because examiner practices exceeded regulations. These bank officials suggested that regulators could provide more specific guidance for banks on risk management,

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<sup>42</sup>See [GAO-18-313](#). As part of the study, GAO interviewed eight banks and two credit unions.

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such as by including example scenarios and answers to frequently asked questions.<sup>43</sup>

Conversely, some banks we interviewed had a different experience. For example, officials of one bank told us that examiners' interpretation of BSA/AML principles did not differ from the bank's understanding of those principles. Officials added that when they initially began preparing risk assessments, they sought feedback and advice from their examiners and that examiners now use the bank's risk assessment as an example for other banks. Moreover, these officials said that if they need clarification on BSA/AML compliance requirements, they contact FinCEN, which has been responsive to their questions. Officials of another bank told us they have a good relationship with their federal regulator and said that examiners follow BSA guidance and have been consistent in conducting their examinations. Officials of two other banks told us that their BSA/AML examinations have been consistent with guidance and requirements and that examiners have not told officials what types of customers to avoid.

We also reported in February 2018 that recent BSA/AML law enforcement and regulatory enforcement actions have caused some banks to become more conservative in the types of businesses to which they offer accounts.<sup>44</sup> In our interviews for the February 2018 report, officials of three banks and an industry group expressed concerns about potential enforcement actions, including civil penalties, if banks' employees make mistakes in BSA/AML monitoring. In 2012, federal regulators assessed civil money penalties—including a \$500 million penalty assessed by OCC and a \$165 million penalty by the Federal Reserve—against HSBC Bank for, among other things, failing to maintain an effective BSA/AML compliance program and failing to conduct appropriate due diligence on

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<sup>43</sup>In October 2015, the World Bank recommended that regulators provide banks with new guidance on differentiating between higher- and lower-risk money transmitters, among other things. See World Bank Group, *Report on the G20 Survey on De-Risking Activities in the Remittance Market* (Washington, D.C.: October 2015). In a November 2015 report, the World Bank recommended that regulators provide detailed guidance to clarify the extent of banks' obligation to conduct due diligence on the customer's customer. See World Bank Group, *Withdrawal from Correspondent Banking: Where, Why, and What to Do About It* (Washington, D.C.: November 2015). See [GAO-18-313](#) for more information.

<sup>44</sup>See [GAO-18-263](#).

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foreign correspondent bank account holders.<sup>45</sup> As another example, in March 2018, OCC issued consent orders for civil penalties against three senior executives of the Merchants Bank of California for violations of consent orders related to monitoring BSA/AML compliance.<sup>46</sup> In our interviews, officials of an industry association told us that fines associated with BSA violations are especially difficult for community banks to absorb and could result in the bank going out of business.

Similarly, examiners from a discussion group said some banks may decide not to offer accounts to MSBs to avoid heightened regulatory scrutiny. For example, examiners said some banks likely want to avoid BSA/AML risk entirely when they decide not to offer MSBs accounts. One examiner thought that some banks lack understanding regarding the business models of MSBs and that it is easier for them not to provide them accounts. In some cases, banks offer MSBs bank accounts but on a limited basis. For example, examiners from one discussion group said that in some cases, banks manage their BSA/AML risks by maintaining existing MSB accounts but not offering accounts to new MSB customers.

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<sup>45</sup>A foreign correspondent bank account is an account established by a bank for a foreign bank to receive deposits or to make payments or other disbursements on behalf of the foreign bank, or to handle other financial transactions related to the foreign bank. These penalties were part of a coordinated action with the Department of Justice, the Federal Reserve, FinCEN, the Office of Foreign Assets Control, and other state and international actors. HSBC admitted that from 2006 to 2010, it “ignored the money laundering risks associated with doing business with certain Mexican customers and failed to implement a BSA/AML compliance program that was adequate to monitor suspicious transactions from Mexico.” According to the deferred prosecution agreement, HSBC’s failure resulted in at least \$881 million in drug trafficking proceeds being laundered through HSBC without being detected.

<sup>46</sup>The consent orders OCC issued against individual officers of Merchants Bank of California were based on findings that (1) the chief banking officer and former chief operating officer interfered with the bank BSA officer’s authority to terminate customer relationships and that she made false statements to OCC and encouraged other bank employees to do the same; (2) the former executive vice president and chief financial officer simultaneously served as the chief financial officer of a company owned and controlled by the bank’s chairman, president, and chief executive officer, and that she facilitated transactions with a currency dealer that the bank had rejected as a new customer, allowing the dealer to circumvent the bank’s account-opening procedures, customer-identification procedure, customer due diligence, and enhanced due diligence; and (3) the chairman of the bank’s board of directors was involved in violating previous OCC consent orders related to BSA/AML violations as well as continued violations of BSA regulations. See *In the Matter of Susan Cavano*, Consent Order, AA-EC-2017-77 (2018), <https://www.occ.gov/static/enforcement-actions/ea2018-020.pdf>; *In the Matter of Jane Chu*, Consent Order, AA-EC-2017-76 (2018), <https://www.occ.gov/static/enforcement-actions/ea2018-021.pdf>; *In the Matter of Philip Scott*, Consent Order, AA-EC-2017-80 (2018), <https://www.occ.gov/static/enforcement-actions/ea2018-022.pdf>.

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In a 2015 speech, a senior Treasury official noted banks' concerns about the cost of complying with BSA/AML requirements, uncertainty about supervisors' expectations regarding appropriate due diligence, and the nature of the enforcement and supervisory response if they make a mistake.<sup>47</sup> Moreover, the official stated that the banks held the perception that supervisory and enforcement expectations lack transparency, predictability, and consistency. The official also said that this perception feeds into higher anticipated compliance costs and may eclipse any potential economic gains of taking on new MSB customers. To address these concerns, the senior official stated that policymakers needed to continue to improve their understanding of the scope, nature, and drivers of the problem through better data collection and continue to explore ways to improve the effectiveness of their communication.

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**Effects of Account Terminations and Limitations on Money Transmitters Include Ceasing of Operations and Higher Costs for Services**

According to money transmitters we spoke with, effects of account terminations due to derisking include ceasing of operations, loss of revenue, higher costs for services provided, and failure of the business. For example, officials from one large money transmitter that operates in the United States and internationally said that in recent years, about 100 of the money transmitter's agents have lost accounts with their local and regional banks each month. The officials added that when banks terminate accounts with the money transmitter or its agents, the money transmitter cannot conduct the necessary transactions with its agents to facilitate the cash transfer. As a result, officials told us, account terminations can cause the money transmitter to cease operations in a particular country or cause the agents to go out of business. These officials also told us that some banks have terminated accounts with their institution while maintaining accounts with other money transmitters. These officials said they obtained legal injunctions for unfair competitor treatment in some of these cases.

Officials of a smaller, regional money transmitter said that they have experienced 10 account terminations since 2006. Moreover, the officials said that they have to switch banks every 2 to 3 years because of account terminations and that it is getting more difficult to find a bank willing to take on money transmitters as customers. For example, the officials said that they called about 300 banks in a state and only two banks were

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<sup>47</sup>"Remarks by Under Secretary Nathan Sheets at the Center for Global Development," Department of the Treasury press release, November 12, 2015, <https://www.treasury.gov/press-center/press-releases/Pages/jl0264.aspx>.

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willing to open accounts with them. The money transmitter's officials said it has had to cease operations in three states due to account terminations. The officials said that the money transmitter now focuses on opening accounts with community banks and credit unions, but these institutions may be too small to handle the money transmitter's volume of deposits.<sup>48</sup> Another money transmitter told us that it takes about 3 months to open an account with a bank. Moreover, as a result of account terminations and limitations by banks, the money transmitter has had to reduce its number of employees from 220 to 180 and has not been able to open new locations. Another money transmitter said that account terminations have affected its ability to obtain accounts with other banks.

In our March 2018 report, we found that some money transmitters—those that may be considered higher risk based on the 2005 interagency guidance—may utilize nonbank channels for transferring money as a response to account terminations.<sup>49</sup> Specifically, we reported that as a result of banks' account terminations and limitations, some money transmitters serving fragile nations have relied on nonbank channels, such as cash couriers and armored trucks, to transfer money domestically and abroad.<sup>50</sup> We further reported that using cash couriers or armored trucks to move money increases costs and risks of theft and safety.

Account terminations and limitations by banks also affect money transmitters that do not serve customers abroad—money transmitters that could be considered lower risk based on the 2005 interagency BSA

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<sup>48</sup>In an interview, one bank's officials explained that some money transmitters' cash needs and transaction volume may be too high and exceed the amount of cash that the bank keeps on hand, so the bank would not be able to meet those demands.

<sup>49</sup>See [GAO-18-313](#). According to the 2005 interagency guidance, examples of indicators of the potential for higher risk include a money transmitter offering multiple types of money services products or offering only, or specializing in, cross-border transactions, particularly to jurisdictions posing heightened risk for money laundering or terrorist financing or to countries identified as having weak anti-money laundering controls.

<sup>50</sup>See [GAO-18-313](#). In that study, we selected four case-study countries—Haiti, Liberia, Nepal, and Somalia—based on their inclusion in the Organisation for Economic Co-operation and Development's States of Fragility reports from 2013 to 2015. According to the Organisation for Economic Co-operation and Development, "a fragile region or state has weak capacity to carry out basic governance functions, and lacks the ability to develop mutually constructive relations with society."

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guidance.<sup>51</sup> For example, a company that acquired another business offering money transmission services to customers within the United States also experienced account terminations. When the company acquired the new business and thus the business's money transmission license, its bank refused to service the company because of its newly acquired status as a money transmitter. In another example, officials of a money transmitter that serves only U.S. customers told us they have difficulty opening accounts and have experienced account terminations often. Officials said that their business has stopped at times because they did not have any bank accounts to facilitate money transmission.

Additionally, account closures also may affect money transmitters' customers. For example, some money transmitters we interviewed said they passed on increased costs resulting from account closures to their customers. Specifically, officials of one large money transmitter said that because of derisking, banks that still do business with them are charging higher fees. The officials added that they try to absorb the higher fees but have passed on the increased costs to their customers in some markets. In contrast, some money transmitters told us in interviews that although their costs have increased, they have not increased customer fees.

Several money transmitters told us that banks did not always provide reasons for terminating their accounts. Some said they believe that banks terminate accounts due to regulatory pressure, compliance costs, or changes in a bank's policy or risk appetite. One money transmitter stated that the problem of account terminations due to derisking stems from banks being too afraid to bank MSBs, including money transmitters.

In response to banks' account terminations and limitations, some money transmitters—including those with characteristics considered to be higher and lower risk according to the 2005 interagency guidance—now maintain accounts with multiple banks to help ensure they can continue operating should a bank close their account. For example, officials of the company that acquired another business offering domestic money transmission services told us they maintain accounts with more than one bank, but they said it is difficult and costly to do so. Officials of another money transmitter said that to help prevent disruptions to their ability to

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<sup>51</sup>As previously discussed, according to the 2005 interagency guidance, examples of potentially lower risk indicators include that a money transmitter offers only a single line of MSB product, only remits funds to domestic entities, or only facilitates domestic bill payments.

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transfer funds when they experience an account closure, they try to have back-up accounts at other banks.

Some money transmitters also engage with their banks' management to better understand what banks expect from them in meeting compliance requirements. For example, an official from one money transmitter said the money transmitter tries to meet with its banks' financial crimes teams to better understand how it can help minimize the risk of facilitating money transfers for terrorist-financing and money-laundering purposes. Officials of another money transmitter told us that as a result of meeting with bank management, the money transmitter added additional employees to its compliance department and bought new monitoring software to fulfill its bank's requirement for monthly monitoring of transactions.

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## FinCEN and the Federal Regulators Have Taken Some Steps to Address Derisking Concerns but Have Not Fully Addressed Our Prior Recommendation

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### FinCEN and the Federal Regulators Have Issued Guidance to Banks Related to the Derisking of Money Transmitters

FinCEN and the federal banking regulators have responded to concerns about the derisking of money transmitters and other MSBs on a national level by issuing guidance to banks to clarify expectations for providing banking services to these customer types.<sup>52</sup> In March 2005, the federal banking regulators and FinCEN issued a joint statement noting that MSBs were losing access to banking services as a result of concerns about regulatory scrutiny, the risks presented by MSB accounts, and the costs and burdens associated with maintaining such accounts.<sup>53</sup> According to

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<sup>52</sup>FDIC, OCC, and the Federal Reserve participate in the Basel Committee on Banking Supervision's Anti-Money Laundering/Counter Financing of Terrorism Experts Group. Recent efforts of the group involved revising guidelines to update and clarify correspondent banking expectations. Also, Treasury leads the U.S. delegation to the Financial Action Task Force—an inter-governmental body that sets standards for combating money laundering, terrorist financing, and other related threats to the integrity of the international financial system—which has issued guidance on correspondent banking and MSBs. Moreover, Treasury participates in the efforts to combat derisking that are occurring through the Financial Stability Board's Correspondent Banking Coordination Group, the Global Partnership for Financial Inclusion, and the International Monetary Fund. The Federal Reserve and OCC also participate in the Correspondent Banking Coordination Group. Further, as we reported in February 2018, the federal banking regulators have also met with residents and businesses in the Southwest border region to discuss concerns related to derisking in the region. For example, FDIC officials hosted a BSA/AML workshop in Nogales, Arizona, in 2015 for banks, businesses, trade organizations, and others. Officials from the Federal Reserve and OCC also participated in the workshop, during which the regulators tried to clarify BSA/AML regulatory requirements and expectations (see [GAO-18-263](#)).

<sup>53</sup>Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Financial Crimes Enforcement Network, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision, *Joint Statement on Providing Banking Services to Money Services Businesses* (Mar. 30, 2005).



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the joint statement, these concerns might have stemmed, in part, from banks' misperception of the requirements of the BSA and the erroneous view that MSBs present a uniform and unacceptably high risk of money laundering or other illicit activity. The joint statement recognized that the MSB industry provides valuable financial services, especially to individuals who may not have ready access to the formal banking sector. It further noted that it is important that MSBs comply with the requirements of the BSA and applicable state laws and remain within the formal financial sector and be subject to appropriate AML controls. The joint statement announced the intent of the regulators and FinCEN to issue the interagency guidance for banks on providing services to MSBs, which, as previously discussed, was intended to clarify BSA requirements and supervisory expectations as applied to accounts opened or maintained for MSBs.

More recently, in November 2014, FinCEN issued a statement reiterating that banks can serve the MSB industry while meeting their BSA obligations and referring to the interagency guidance to banks on providing services to MSBs. The statement noted concerns that banks were indiscriminately terminating the accounts of all MSBs, or refusing to open accounts for any MSBs, thereby eliminating them as a category of customers. It noted, similar to the March 2005 joint statement, that regulatory scrutiny, the perceived risks presented by MSB accounts, and the costs and burdens associated with maintaining such accounts appeared to play a part in these decisions.

In the 2014 statement, FinCEN cautioned that a wholesale approach to MSB customers runs counter to the expectation that financial institutions can and should assess the risks of customers on a case-by-case basis. Similarly, it noted that a blanket direction by U.S. banks to their foreign correspondents not to process fund transfers of any foreign MSBs, simply because they are MSBs, runs counter to the risk-based approach. FinCEN stated that refusing financial services to an entire segment of the industry can lead to an overall reduction in financial sector transparency, and that such transparency is critical to making the sector resistant to the efforts of illicit actors. Federal banking regulators also issued separate statements addressing BSA/AML risk posed by MSBs and foreign banks. See table 6 for a summary of key statements and guidance related to MSBs issued in recent years by FinCEN and the federal banking regulators.

**Table 6: Key Recent Statements and Guidance Issued by Federal Regulators on Bank BSA/AML Risk Related to Money Services Businesses**

<b>Date</b>	<b>Guidance</b>	<b>Summary</b>
November 2014	FinCEN, "FinCEN Statement on Providing Banking Services to Money Services Businesses"	FinCEN cautioned against wholesale termination of money services business accounts, warning that such action could lead to a reduction in financial sector transparency and noting that money services businesses often provide money transfer and other financial services to populations that do not use traditional banking services.
November 2014	OCC, "Banking Money Services Businesses: Statement on Risk Management" (OCC Bulletin 2014-58)	OCC confirmed that while it does not direct banks to open, close, or maintain individual accounts, it expects OCC-regulated banks to assess the risk of each money services business client on a case-by-case basis and implement appropriate controls to manage the relationship.
December 2014	NCUA, "Supervisory Letter on Money Services Businesses" (SL No. 14-05)	NCUA listed indicators of higher and lower risk for money services businesses that maintain accounts with credit unions. NCUA named money transmitters remitting funds to countries with weak anti-money laundering controls as potentially higher-risk clients. NCUA listed minimum expectations for credit unions in conducting risk assessment of money services businesses, including money transmitters.
January 2015	FDIC, "Statement on Providing Banking Services" (FIL-5-2015)	FDIC encouraged financial institutions to take a risk-based approach toward customers on a case-by-case basis and implement controls necessary to manage the risk. FDIC noted that isolated violations did not generally prompt serious regulatory concern if the bank's controls were otherwise adequate.
January 2016	NCUA, "Supervisory Priorities for 2016" (Letter No. 16-CU-01)	NCUA reminded credit unions that money services businesses (including money transmitters) can pose unique risk exposure and established minimum expectations for controls to mitigate the risk of banking such clients.
August 2016	Treasury and federal banking agencies, "Joint Fact Sheet on Foreign Correspondent Banking: Approach to BSA/AML and OFAC Sanctions Supervision and Enforcement"	Treasury and other federal banking agencies—the Federal Reserve, FDIC, NCUA, and OCC—clarified that they do not expect banks to know their correspondent banks' customers. However, these agencies expect banks to follow up on specific suspicious transactions that are processed through their foreign correspondent banks.
October 2016	OCC, "Risk Management Guidance on Foreign Correspondent Banking: Risk Management Guidance on Periodic Risk Reevaluation of Foreign Correspondent Banking" (OCC Bulletin 2016-32)	OCC noted that in some cases, closures of foreign correspondent accounts may result in financial inclusion concerns by negatively affecting access to financial services in the foreign bank's home country. OCC reiterated its expectation that foreign correspondent accounts should be subject to periodic risk reevaluation. The guidance also identified best practices for banks, including (1) considering financial inclusion concerns and access to financial services when making decisions to terminate such accounts and (2) as risk allows, providing sufficient time for foreign banks to establish alternative banking relationships before closing correspondent accounts.

Legend:

- BSA/AML = Bank Secrecy Act/anti-money laundering
- FDIC = Federal Deposit Insurance Corporation
- Federal Reserve = Board of Governors of the Federal Reserve System
- FinCEN = Financial Crimes Enforcement Network
- NCUA = National Credit Union Administration
- OCC = Office of the Comptroller of the Currency
- OFAC = Department of the Treasury's Office of Foreign Assets Control
- Treasury = Department of the Treasury

Source: GAO summary of statements and guidance issued by FinCEN, Treasury, FDIC, the Federal Reserve, NCUA, and OCC. | GAO-20-46

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## Regulators Have Taken Some Steps to Address Concerns That May Be Influencing Banks to Derisk but Have Not Reviewed the Full Range of Factors

In 2018, we reported that regulators had taken only limited steps to understand how banks' regulatory concerns and BSA/AML compliance efforts may be influencing banks to derisk.<sup>54</sup> We reported that regulators had taken some actions in response to derisking, including issuing the guidance previously discussed, and that some agencies took steps aimed at trying to determine why banks may be terminating accounts.<sup>55</sup> We also reported that regulators had conducted retrospective reviews on some BSA/AML requirements. We noted that actions regulators had taken to address concerns raised in BSA/AML retrospective reviews had focused primarily on the burden resulting from the filing of Currency Transaction Reports and SARs. However, we noted that these actions had not been aimed at addressing—and, if possible, ameliorating—the full range of factors that influence banks to engage in derisking, particularly how banks' regulatory concerns and BSA/AML compliance efforts may be influencing their willingness to provide services.

We concluded that without a broader assessment of the full range of BSA/AML factors that may be influencing banks to derisk, FinCEN, the federal banking regulators, and Congress do not have the information needed to determine if BSA/AML regulations and their implementation are achieving their regulatory objectives in the most effective and least burdensome way. Therefore, we recommended that FinCEN and the federal banking regulators conduct a retrospective review of BSA regulations and their implementation for banks, with a focus on how

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<sup>54</sup>[GAO-18-263](#). This report evaluated how regulators—FinCEN, FDIC, OCC, and the Federal Reserve—assessed and responded to concerns about derisking by banks in the Southwest border region and elsewhere and the effectiveness of their efforts. Credit unions and the oversight of them performed by NCUA were outside the scope of the review.

<sup>55</sup>In January 2015, FDIC issued a memorandum to examiners establishing a policy that examiners document and report instances in which they recommend or require banks to terminate accounts during examinations. The memorandum noted that recommendations or requirements to terminate accounts must be made and approved in writing by the Regional Director before being provided to and discussed with bank management and the board of directors. In 2016, OCC reviewed how the institutions it supervises develop and implement policies and procedures for evaluating customer risks as part of their BSA/AML compliance programs and for making risk-based determinations to close customer accounts. OCC focused its review on certain large banks' evaluation of risk for foreign correspondent bank accounts. This effort resulted in OCC issuing guidance to banks on periodic evaluation of the risks of foreign correspondent accounts. See Office of the Comptroller of the Currency, *Risk Management Guidance on Foreign Correspondent Banking*, OCC Bulletin 2016-32 (October 2016).

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banks' regulatory concerns may be influencing their willingness to provide services.

According to the federal banking regulators and FinCEN, they and Treasury established an interagency working group in early 2018 that they believe will address our recommendation. The interagency working group is intended to identify ways to improve the efficiency and effectiveness of BSA/AML regulations, supervision, and examinations while continuing to meet the requirements of the BSA and its implementing regulations, supporting law enforcement, and reducing BSA/AML compliance burden. Staff from FinCEN and the federal banking regulators identified several interagency statements that the working group has completed.<sup>56</sup>

- **Interagency Statement on Sharing BSA Resources (issued on October 3, 2018):** This statement clarified how banks may reduce the costs of meeting BSA requirements effectively by sharing employees or other resources in a collaborative arrangement with one or more banks.<sup>57</sup> The statement highlighted potential benefits to sharing resources and provided examples of resources that may be appropriate to share, such as certain internal controls, independent testing, and BSA/AML training functions. The statement also highlighted potential risks of sharing resources and cautioned that any collaborative arrangements should be designed and implemented according to each bank's risk profile.
- **Joint Statement on Innovative Efforts to Combat Money Laundering and Terrorist Financing (issued on December 3, 2018):** This statement clarified the working group's position with respect to innovative approaches in BSA/AML compliance and encouraged banks to consider such approaches.<sup>58</sup> For example,

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<sup>56</sup>Staff from FinCEN and the banking regulators noted other longer-term initiatives the working group is undertaking, such as evaluating the relative benefits of BSA reporting for law enforcement and the other agencies that utilize BSA data.

<sup>57</sup>Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Financial Crimes Enforcement Network, National Credit Union Administration, and Office of the Comptroller of the Currency, *Interagency Statement on Sharing Bank Secrecy Act Resources* (Oct. 3, 2018).

<sup>58</sup>Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Financial Crimes Enforcement Network, National Credit Union Administration, and Office of the Comptroller of the Currency, *Joint Statement on Innovative Efforts to Combat Money Laundering and Terrorist Financing* (Dec. 3, 2018).

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some banks are experimenting with artificial intelligence and digital identity technologies applicable to their BSA/AML compliance programs. The statement notes that these innovations and technologies can strengthen BSA/AML compliance approaches and that the regulators welcome these types of innovative approaches to further efforts to protect the financial system against illicit financial activity. According to the statement, pilot programs undertaken by banks to test and validate the effectiveness of innovative approaches should not subject banks to supervisory criticism even if the pilot programs ultimately prove unsuccessful.

- **Joint Statement on Risk-Focused Bank Secrecy Act/Anti-Money Laundering Supervision (issued on July 22, 2019):** This statement was intended to improve the transparency of the risk-focused approach used for planning and performing BSA/AML examinations.<sup>59</sup> In this statement, FinCEN and the banking regulators emphasized that they scope their examinations in response to the unique risk profile for each bank because banks vary in focus and complexity. The regulators also clarified common practices for assessing a bank's risk profile, including leveraging available information such as the bank's own risk assessment, contacting the banks between examinations, and considering the bank's ability to identify, measure, monitor, and control risks.

Federal banking regulators and FinCEN staff said the working group's focus on regulatory reform and on reducing the burden associated with BSA/AML compliance may indirectly address derisking concerns, including those related to money transmitters. In particular, they said these efforts may help agencies as they clarify their supervisory expectations for banks with respect to managing BSA/AML risk. For example, the staff said that the joint statement on the risk-focused approach to supervision clarifies that the role of the examiner is not to determine what level of risk a bank should assume. Instead, the examiners should review risk management practices to evaluate whether a bank has effective processes to identify, measure, monitor, and control risks and to assess the effectiveness of a bank's processes. They said that reminding examiners and institutions of the risk-focused approach will help dispel the perception that banks will be criticized for taking

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<sup>59</sup>Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Financial Crimes Enforcement Network, National Credit Union Administration, and Office of the Comptroller of the Currency, *Joint Statement on Risk-Focused Bank Secrecy Act/Anti-Money Laundering Supervision* (July 22, 2019).

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certain higher-risk customers when the bank is properly managing that risk. Similarly, they said that the joint statement on innovation could help address derisking concerns because it allows banks to leverage new technologies and innovative approaches to help reduce costs of implementing the strong risk management practices that may be necessary to provide banking services to some higher-risk customers.

The actions taken to date by the interagency working group are important steps toward improving the efficiency and effectiveness of BSA/AML regulations and supervision. As previously discussed, one reason some banks reported terminating or limiting money transmitter accounts was because of the cost associated with BSA/AML compliance. The interagency statements on sharing BSA resources and innovative efforts to combat money laundering and terrorist financing could help reduce banks' implementation costs associated with providing banking services to potentially higher-risk customers.

However, consistent with our prior work, our evidence demonstrates that banks terminate or limit customer accounts not only as a way to address legitimate money-laundering and terrorist-financing threats, but also as a way to manage regulatory concerns, which may indicate derisking. Reminding examiners and banks of the risk-focused examination approach may help to dispel the perception that banks will be criticized for taking certain higher-risk customers when the bank is properly managing that risk and may indirectly address some factors that influence banks to derisk. Nevertheless, the working group has not yet considered whether there are other supervisory concerns that factor into banks' decisions to derisk. As we stated in our prior work, it is important to evaluate and address the full range of factors that may be influencing banks to derisk. Therefore, we maintain that FinCEN and the banking regulators should continue to work toward implementing our prior recommendation to conduct a retrospective review of BSA/AML regulations focusing on how banks' regulatory concerns may be influencing their willingness to provide services.

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## Conclusions

Regulators and FinCEN issued the 2005 interagency guidance to clarify BSA/AML requirements and supervisory expectations with regard to accounts banks open or maintain for money transmitters and other MSBs. However, some examiners in our discussion groups said they were unclear about how much due diligence is reasonable to expect banks to conduct for their money transmitters. Improving examiners' ability to evaluate banks' BSA/AML compliance controls with respect to money

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transmitter accounts would help ensure that such evaluations are done in accordance with BSA/AML examination objectives of identifying and assessing risks and banks' ability to manage risks, as set out in the examination manual. Options for making such improvements could include providing examiners with more detailed examination procedures, enhanced information, additional training, or a combination of methods.

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## Recommendations

We are making a total of four recommendations to the Federal Reserve, OCC, FDIC, and NCUA:

The Board of Governors of the Federal Reserve System should, in coordination with the other federal banking regulators, and with input from BSA/AML examiners and other relevant stakeholders, take steps to improve examiners' ability to evaluate the effectiveness of banks' BSA/AML compliance controls with respect to money transmitter accounts. Steps may include providing updates to examination procedures, examiner training, or a combination of methods. (Recommendation 1)

The Comptroller of the Currency should, in coordination with the other federal banking regulators, and with input from BSA/AML examiners and other relevant stakeholders, take steps to improve examiners' ability to evaluate the effectiveness of banks' BSA/AML compliance controls with respect to money transmitter accounts. Steps may include providing updates to examination procedures, examiner training, or a combination of methods. (Recommendation 2)

The Chairman of the Federal Deposit Insurance Corporation should, in coordination with the other federal banking regulators, and with input from BSA/AML examiners and other relevant stakeholders, take steps to improve examiners' ability to evaluate the effectiveness of banks' BSA/AML compliance controls with respect to money transmitter accounts. Steps may include providing updates to examination procedures, examiner training, or a combination of methods. (Recommendation 3)

The Chairman of the National Credit Union Administration should, in coordination with the other federal banking regulators, and with input from BSA/AML examiners and other relevant stakeholders, take steps to improve examiners' ability to evaluate the effectiveness of banks' BSA/AML compliance controls with respect to money transmitter accounts. Steps may include providing updates to examination

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procedures, examiner training, or a combination of methods.  
(Recommendation 4)

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## Agency Comments

We provided a draft of this report to the Federal Reserve, FDIC, NCUA, OCC, and Treasury's FinCEN for review and comment. The federal regulators provided technical comments on the draft report, which we have incorporated as appropriate. The Federal Reserve, FDIC, NCUA, and OCC also provided written comments (reproduced in appendixes III through VI). They agreed with GAO's recommendations and expressed a commitment to implement them.

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We are sending copies of this report to the appropriate congressional committees, the Director of the Financial Crimes Enforcement Network, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the Chairman of the National Credit Union Administration. The report will also be available at no charge on our website at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-8678 or [clementsm@gao.gov](mailto:clementsm@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs are listed on the last page of this report. GAO staff who made major contributions to this report are listed in appendix VII.



Michael E. Clements  
Director, Financial Markets and Community Investment



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*List of Requesters*

The Honorable Catherine Cortez Masto  
United States Senate

The Honorable Wm. Lacy Clay  
House of Representatives

The Honorable Tom Emmer  
House of Representatives

The Honorable Gwen Moore  
House of Representatives

The Honorable Adam Smith  
House of Representatives

The Honorable Juan Vargas  
House of Representatives

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# Appendix I: Objectives, Scope, and Methodology

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This report (1) describes regulators' Bank Secrecy Act (BSA)/anti-money laundering (AML) supervisory expectations for banks that provide services to money transmitters and other money services businesses (MSB) and examiner views on bank challenges in complying with these requirements; (2) examines challenges reported by examiners in conducting BSA/AML assessments; (3) examines the extent to which banks are terminating or limiting money transmitters' access to banking services and the effects on money transmitters; and (4) evaluates how the Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) and the federal banking regulators have assessed and responded to concerns about the derisking of money transmitters. The federal banking regulators included in our review are the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration (NCUA).

We define "derisking" as the practice of banks limiting certain services or ending their relationships with customers to, among other things, avoid perceived regulatory concerns about facilitating money laundering. We developed this definition in our prior work addressing account terminations and branch closures in the U.S. Southwest border region.<sup>1</sup>

To describe regulators' BSA/AML supervisory expectations for banks that provide services to money transmitters and other MSBs and federal bank examiners' views on banks' challenges in complying with these requirements, we reviewed joint guidance issued by FinCEN and the federal banking regulators in April 2005 on banking MSBs and the Federal Financial Institutions Examination Council's (FFIEC) BSA/AML examination manual, which federal banking regulators use to examine banks for BSA/AML compliance.<sup>2</sup>

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<sup>1</sup>See GAO, *Bank Secrecy Act: Derisking along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Review*, [GAO-18-263](#) (Washington, D.C.: Feb. 26, 2018).

<sup>2</sup>Financial Crimes Enforcement Network, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision, *Interagency Interpretive Guidance on Providing Banking Services to Money Services Businesses Operating in the United States* (Apr. 26, 2005). Under FINCEN's BSA/AML regulations, money transmitters are a type of money services business. Other types of money services businesses include, subject to exception, dealers in foreign exchange, check cashers, issuers or sellers of traveler's checks or money orders, providers or sellers of prepaid access (such as prepaid cards), and the U.S. Postal Service. 31 C.F.R. § 1010.100(ff).

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We also interviewed the federal regulators named above. Further, we interviewed representatives of 16 banks, six credit unions, and relevant industry groups and trade associations. Because of our judgmental sampling, the views expressed by these groups may not be representative. To identify the universe of banks for interviews, we used data from FDIC's Statistics on Depository Institutions database as of December 31, 2016. Next, we excluded banks that did not offer the product types relevant to our study, including credit card banks and banks that offer nontraditional accounts; multiple subsidiaries of large holding companies; and federal branches of foreign banks. We also excluded banks with insufficient information to determine the types of accounts offered. In addition, we excluded banks selected to participate in a web-based survey (we describe our survey methodology below). After these exclusions, our initial list consisted of 5,922 banks.

Because the primary regulators (Federal Reserve, OCC, and FDIC) do not track which banks have money transmitter customers, we used a judgmental sample to randomly select banks to interview from each of the primary regulators based on asset size (small, medium, and large). For small and medium banks, we interviewed one bank of each size from each of the three regulators. For large banks, all were regulated by OCC, and we interviewed two of these banks. We defined banks' asset-size categories as follows: (1) "small" consisted of banks with assets of less than \$1 billion, (2) "medium" consisted of banks with assets of \$1 billion to less than \$10 billion, and (3) "large" consisted of banks with assets of \$10 billion to less than \$50 billion.

Once we selected our sample, we contacted each bank to confirm that it had money transmitter or other types of MSB customers. If a bank did not have money transmitter or other MSB customers or declined to speak with us, we selected another bank in the same asset-size category. We initially selected nine banks to interview—three in each asset-size category—but one large bank declined to speak with us. Because there were no other large banks in our sample, we interviewed two large banks, for a total of eight small, medium, or large banks. We also jointly

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interviewed eight extra-large banks (with assets of \$50 billion or more) in coordination with our other work on derisking.<sup>3</sup>

Because NCUA tracks which credit unions have money transmitter customers, we obtained data from NCUA on credit unions that served money transmitters as of April 2017 and stratified them according to small, medium, and large asset-size categories. We defined credit unions' asset-size categories as follows: (1) "small" consisted of credit unions with assets of less than \$100 million, (2) "medium" consisted of credit unions with assets of \$100 million to \$500 million, and (3) "large" consisted of credit unions with assets of more than \$500 million. We chose three credit unions with the largest numbers of money transmitter customers and randomly selected one credit union from each asset-size category, for a total of six credit unions. From our initial selection, we emailed or called each of the six credit unions to ascertain if it had a money transmitter customer. If a credit union did not have a money transmitter customer or declined to speak with us, we selected another credit union in the same asset-size category.

We then conducted two discussion groups per regulator with bank examiners from the Federal Reserve, OCC, FDIC, and NCUA to understand how they applied the FFIEC manual in assessing BSA/AML compliance controls of banks with money transmitter customers.<sup>4</sup> To determine the composition of the discussion groups, we identified BSA/AML specialists or subject-matter experts from the district and regional offices of each federal banking regulator located in geographic areas with relatively large numbers of money transmitters. To do this, we first identified the states with the largest numbers of registered money transmitters by analyzing FinCEN money transmitter registration data

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<sup>3</sup>We jointly interviewed extra-large banks in coordination with our work on account terminations and bank branch closures in the U.S. Southwest border region ([GAO-18-263](#)) and remittance transfers from the United States to selected fragile countries ([GAO-18-313](#)). For these reports, we selected extra-large banks based on a number of factors, including the number of bank branches in the Southwest border region and whether a bank had terminated accounts with money transmitters. See [GAO-18-263](#) and GAO, *Remittances to Fragile Countries: Treasury Should Assess Risks from Shifts to Non-Banking Channels*, [GAO-18-313](#) (Washington, D.C.: Mar. 8, 2018) for more details.

<sup>4</sup>The group discussions covered three topics: (1) challenges examiners encountered and violations identified during BSA/AML examinations, (2) BSA/AML examination-related training and experience, and (3) views on money transmitters' access to banking services.

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from January 2015 through May 2017.<sup>5</sup> We then requested rosters of staff designated as BSA/AML subject-matter experts and specialists from each regulator for each district or regional office in those states.

We administered a questionnaire to the individuals on each roster asking about their experience with examining banks with money transmitter customers and other questions, such as years of experience in conducting bank examinations. We excluded from consideration BSA/AML subject-matter experts and specialists who either self-identified as supervisors or who had not examined a bank with a money transmitter customer in the past 3 years. We then randomized and selected BSA/AML subject-matter experts and specialists for participation in our discussion groups. Depending on scheduling and availability, the number of participants for each discussion group ranged from six to 14. Each session was digitally recorded and transcribed by an outside vendor, and we used the transcripts to summarize participants' responses. An initial coder assigned a code that best summarized the statements from discussion group participants and provided an explanation of the types of statements that should be assigned to a particular code. A separate individual reviewed and verified the accuracy of the initial coding. The initial coder and reviewer discussed orally and in writing any disagreements about code assignments and documented consensus on the final analysis results.

Discussion groups were intended to generate in-depth information about the reasons for the participants' views on specific topics. The opinions expressed by the participants represent their points of view and may not represent the views of all BSA/AML subject-matter experts and specialists at the federal banking regulators. For purposes of this report, we used the following terms to describe the number of discussion groups in which an issue is mentioned: "some" to describe two to three groups out of the eight discussion groups, "many" to describe four to five discussion groups, and "most" to describe six to seven discussion groups.

To examine challenges reported by federal bank examiners in assessing banks' BSA/AML compliance controls around money transmitters, we asked examiners in our discussion groups to identify any challenges they encountered when assessing these compliance controls. We also

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<sup>5</sup>Based on analysis of FinCEN's MSB registration data, we identified the following states as having the highest numbers of active MSBs: California, Texas, Michigan, Illinois, Florida, New York, Georgia, and North Carolina.

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reviewed examination guidance and procedures for assessing BSA/AML compliance controls around money transmitters. We assessed this information against federal internal control standards related to identifying risks and communicating information.<sup>6</sup>

We also reviewed bank examination and related documentation from the federal BSA/AML examinations of 56 selected banks and credit unions to gain additional context about BSA/AML examinations, including BSA/AML compliance violations—10 from FDIC, 12 from the Federal Reserve, 22 from OCC, and 12 from NCUA.<sup>7</sup> For the documentation review, we selected a nongeneralizable sample of banks and credit unions based on asset-size categories and geographic location (based on each regulator’s field, district, or regional offices) from each federal banking regulator. For banks, we used the same asset-size categories described earlier for our interview selection process. We also included six banks that were issued final BSA/AML enforcement actions—two each from OCC, FDIC, and the Federal Reserve—for calendar years 2014 through 2016. For credit unions, we selected randomly from the same asset-size categories we used for selecting credit unions for interviews—along with geographic locations—and randomly selected four credit unions from each asset-size category, for a total of 12 credit unions. To obtain geographic representation, we ensured that each bank and credit union selected within each asset-size category also represented multiple geographic locations.

For each of the 56 banks and credit unions, we requested and reviewed bank examination reports and related workpaper documentation for 2014, 2015, and 2016, including scoping and planning memorandums, bank- or examiner-prepared BSA/AML risk assessments, and conclusion memorandums or documents that summarized BSA examiner findings. For some banks, we also received banks’ BSA policies as part of the examination report and supplemental documentation package.

To examine the extent to which banks are terminating or limiting money transmitters’ access to banking services and their reasons why, we

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<sup>6</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

<sup>7</sup>Federal banking regulators identify violations of BSA/AML requirements as part of the bank examination process. In some cases, a bank regulator may allow the bank to remedy the violation as part of its supervisory process. In appropriate circumstances, however, the bank regulator may take either informal or formal actions to address violations.

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administered a web-based survey to a nationally representative sample of banks in the United States for a total survey sample of 406 banks. We did not include credit unions in our sample. In the survey, we asked banks about terminations of money transmitter accounts and limitations on account offerings related to BSA/AML risk and the reasons for these decisions for the 3-year period from January 1, 2014, to December 31, 2016. We obtained a weighted survey response rate of 46.5 percent. While we designed the survey to be nationally representative of all banks in the United States, some results are statistically nongeneralizable because of the relatively low number of banks that reported having money transmitters as customers. For survey questions that are statistically nongeneralizable, we present only the number of responses to each survey question, and these results are not generalizable to the population of banks. Moreover, not all banks responded to every survey question or provided information for every year covered by our survey; therefore, we are not able to provide trend information from 2014 through 2016. We administered the survey from July 2017 to September 2017.<sup>8</sup>

To obtain information on the effects of bank account terminations on and limitations in the number of accounts with money transmitters, we interviewed a nongeneralizable sample of representatives from 11 money transmitters. To select the money transmitters, we obtained money transmitter licensure data from the Conference of State Banking Supervisors' Nationwide Multistate Licensing System. Using the number of state licenses as a proxy for the size of the money transmitter, we developed five size categories and selected the top four money transmitters in the first stratum (40 or more licenses) along with one money transmitter in the second, third, and fourth strata (20–39, 10–19, and 2–9 licenses, respectively) and four money transmitters in the fifth stratum (one license).

To evaluate how FinCEN and the federal banking regulators have assessed and responded to concerns about derisking of money transmitters, we reviewed agency documentation and guidance the agencies issued to banks related to derisking and MSBs, and we interviewed agency management. We also reviewed a prior GAO report that evaluated regulators' response to derisking along the Southwest

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<sup>8</sup>We used the results of the survey in multiple GAO studies on derisking, including [GAO-18-313](#) and [GAO-18-263](#).

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border and assessed actions regulators have taken to respond to a recommendation we made in that report.<sup>9</sup>

We utilized multiple data sources throughout our review. We assessed the reliability of FDIC's Statistics on Depository Institutions database by reviewing related documentation and conducting electronic testing for missing data, outliers, or any obvious errors. Furthermore, we used NCUA data that track which credit unions bank money transmitters, the Nationwide Multistate Licensing System, and FinCEN's MSB registration database to help select our nongeneralizable samples of credit unions and money transmitters to interview. We did not assess the data reliability of these sources because we used these data purely to inform our sampling population, and once we selected our samples, we took additional steps to confirm that the institutions we selected had MSB or money transmitter customers and were willing to speak to us.

For FinCEN's MSB registration database, as previously discussed, we used the data to help identify which states had the most money transmitters registered. In analyzing the data, we found a clear difference in the number of MSB registrations between the top five states (California, Texas, Michigan, Florida, and Illinois) with the most MSBs (ranging from close to 800 to almost 4,000 MSBs) and the remaining states (all with fewer than 500 MSBs). Because we used these data to help facilitate the identification of BSA/AML subject-matter experts and specialists who had experience examining banks with money transmitter customers, we did not need to confirm the exact number of MSBs registered. As a result, we did not assess the reliability of FinCEN's registration database. We concluded that all applicable data were sufficiently reliable for the purposes of describing BSA/AML risks and compliance challenges and identifying banks to survey on account terminations and limitations.

We conducted this performance audit from August 2016 to December 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>9</sup>[GAO-18-263](#).



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# Appendix II: Responses to Selected Questions from GAO's Survey of Banks on Account Terminations and Limitations

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From July 2017 through September 2017, we administered a web-based survey to a nationally representative sample of banks.<sup>1</sup> In the survey, we asked banks about account terminations and restrictions (also referred to as limitations) for reasons associated with managing Bank Secrecy Act/anti-money laundering (BSA/AML) risk; whether banks are terminating or limiting accounts with money transmitters; and the reasons for these decisions. We collected information for the 3-year period from January 1, 2014, to December 31, 2016. Responses to selected questions from our survey that are directly applicable to the research objectives in this report are shown in tables 7–19 below.<sup>2</sup> While we designed the survey to be nationally representative of all banks in the United States, results specific to money transmitters are statistically nongeneralizable because of the relatively low number of banks that reported having money transmitters as customers. Because these survey questions are statistically nongeneralizable, we present only the number of responses to each survey question, and the results are not generalizable to the population of banks. Moreover, not all banks responded to every survey question or provided information for every year covered by our survey; therefore, we are not able to provide trend information from 2014 through 2016. Our survey included multiple-choice and open-ended questions. For a more detailed discussion of our survey methodology, see appendix I.

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<sup>1</sup>The sample of banks that we surveyed did not include credit unions.

<sup>2</sup>Overall, the survey included 44 questions, seven of which we include in this appendix because these questions are directly applicable to the research objectives in this report. The remaining questions have been published in related work we conducted on derisking, including reports on remittance transfers from the United States to selected fragile countries ([GAO-18-313](#)) and account terminations in the U.S. Southwest border region ([GAO-18-263](#)). See GAO, *Remittances to Fragile Countries: Treasury Should Assess Risks from Shifts to Non-Banking Channels*, [GAO-18-313](#) (Washington, D.C.: Mar. 8, 2018) and *Bank Secrecy Act: Derisking along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Review*, [GAO-18-263](#) (Washington, D.C.: Feb. 26, 2018).

**Table 7: Between January 1, 2014, and December 31, 2016, did the bank have money transmitters as customers? (Question 24)**

Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
Yes	32.3	21.9	42.7
No	67.7	57.3	78.1

Source: GAO survey. | GAO-20-46

**Table 8: As of December 31 of each year below, what was the total number of money transmitter checking, savings, and money market accounts domiciled in the bank’s U.S. branches? (Question 25)**

Calendar year	Reported number of accounts
2014	33,627
2015	38,927
2016	41,089

Source: GAO survey. | GAO-20-46

Note: This question was only asked of the 91 banks that answered “yes” to having money transmitters as customers (question 24). These numbers represent only the accounts of the 68 banks (2014), 66 banks (2015), and 71 banks (2016) that responded to this survey question and are not generalizable to the population of banks.

**Table 9: Number of Banks That Reported Having Accounts with Money Transmitters (by Asset Size), Including Number of Accounts, 2014 (Question 25)**

Size of banks	Reported number of banks having accounts	Reported number of accounts with money transmitters
Small (assets of less than \$1 billion)	21	68
Medium (assets of \$1 billion to less than \$10 billion)	32	1,096
Large (assets of \$10 billion to less than \$50 billion)	8	1,034
Extra-large (assets of \$50 billion or more)	7	31,422
<b>2014 Totals</b>	<b>68</b>	<b>33,627</b>

Source: GAO survey. | GAO-20-46

Notes: This question was only asked of the 91 banks that answered “yes” to having money transmitters as customers (question 24). These numbers represent only the accounts of the 68 banks that responded to this survey question for 2014 and are not generalizable to the population of banks.

**Table 10: Number of Banks That Reported Having Accounts with Money Transmitters (by Asset Size), Including Number of Accounts, 2015 (Question 25)**

Size of banks	Reported number of banks having accounts	Reported number of accounts with money transmitters
Small (assets of less than \$1 billion)	19	65
Medium (assets of \$1 billion to less than \$10 billion)	32	1,205
Large (assets of \$10 billion to less than \$50 billion)	8	1,011
Extra-large (assets of \$50 billion or more)	7	36,646
<b>2015 Totals</b>	<b>66</b>	<b>38,927</b>

Source: GAO survey. | GAO-20-46

Notes: This question was only asked of the 91 banks that answered “yes” to having money transmitters as customers (question 24). These numbers represent only the accounts of the 66 banks that responded to this survey question for 2015 and are not generalizable to the population of banks.

**Table 11: Number of Banks That Reported Having Accounts with Money Transmitters (by Asset Size), Including Number of Accounts, 2016 (Question 25)**

Size of banks	Reported number of banks having accounts	Reported number of accounts with money transmitters
Small (assets of less than \$1 billion)	21	67
Medium (assets of \$1 billion to less than \$10 billion)	33	1,193
Large (assets of \$10 billion to less than \$50 billion)	9	1,182
Extra-large (assets of \$50 billion or more)	8	38,647
<b>2016 Totals</b>	<b>71</b>	<b>41,089</b>

Source: GAO survey. | GAO-20-46

Notes: This question was only asked of the 91 banks that answered “yes” to having money transmitters as customers (question 24). These numbers represent only the accounts of the 71 banks that responded to this survey question for 2016 and are not generalizable to the population of banks.

**Table 12: Does the bank restrict the number or percentage of money transmitter checking, savings, or money market accounts it manages? (Question 26)**

Responses	Number of responses
Yes	29
No	61
No response	1

Source: GAO survey. | GAO-20-46

Note: This question was only asked of the 91 banks that answered “yes” to having money transmitters as customers (question 24).

**Table 13: Does the bank restrict the number or percentage of money transmitter checking, savings, or money market accounts it manages for the following reasons? (Question 27)**

<b>Responses</b>	<b>Reported number of responses</b>	
27a. Cost of Bank Secrecy Act/anti-money laundering (BSA/AML) compliance made the customer type unprofitable	Yes	20
	No	8
	Don't know	0
	No response	1
27b. Customer type drew heightened BSA/AML regulatory oversight	Yes	21
	No	7
	Don't know	0
	No response	1
27c. Inability to manage the BSA/AML risk associated with the customer type (e.g., resource constraints)	Yes	19
	No	8
	Don't know	0
	No response	2
27d. Potential personal liability for BSA/AML compliance professionals	Yes	6
	No	20
	Don't know	1
	No response	2
27e. Difficulties maintaining correspondent banking relationships	Yes	8
	No	17
	Don't know	2
	No response	2
27f. Loss of correspondent banking relationships	Yes	3
	No	21
	Don't know	3
	No response	2
27g. Customer type fell outside of the bank's risk tolerance	Yes	19
	No	9
	Don't know	0
	No response	1
27h. Bank's reputational risk	Yes	14
	No	12
	Don't know	1
	No response	2

27i. Compliance risks other than BSA/AML associated with the customer type	Yes	7
	No	19
	Don't know	1
	No response	2

Source: GAO survey. | GAO-20-46

Note: This question was only asked of the 29 banks that answered “yes” to restricting money transmitter accounts (question 26).

**Table 14: Between January 1, 2014, and December 31, 2016, did the bank terminate any money transmitter checking, savings, or money market accounts? (Question 28)**

Responses	Reported number of responses
Yes	40
No	46
No response	5

Source: GAO survey. | GAO-20-46

Note: This question was only asked of the 91 banks that answered “yes” to having money transmitters as customers (question 24).

**Table 15: Between January 1, 2014, and December 31, 2016, did the bank terminate any money transmitter checking, savings, or money market accounts for the following reasons? (Question 29)**

Responses	Reported number of responses	
29a. Suspicious Activity Reports filed associated with the accounts	Yes	30
	No	4
	Don't know	2
	No response	4
29b. Cost of Bank Secrecy Act/anti-money laundering (BSA/AML) compliance made the customer type unprofitable	Yes	12
	No	23
	Don't know	1
	No response	4
29c. Customer type drew heightened BSA/AML regulatory oversight	Yes	19
	No	17
	Don't know	1
	No response	3
29d. Inability to manage the BSA/AML risk associated with the customer type (e.g., resource constraints)	Yes	12
	No	23
	Don't know	1

Responses	Reported number of responses	
	No response	4
29e. Customer failed to provide information for the bank to conduct adequate BSA/AML due diligence	Yes	28
	No	7
	Don't know	2
	No response	3
29f. Potential personal liability for BSA/AML compliance professionals	Yes	7
	No	28
	Don't know	1
	No response	4
29g. Difficulties maintaining correspondent banking relationships	Yes	4
	No	29
	Don't know	3
	No response	4
29h. Loss of correspondent banking relationships	Yes	1
	No	32
	Don't know	3
	No response	4
29i. Risks associated with the country(ies)/corridor(s) that the money transmitter serves	Yes	9
	No	24
	Don't know	3
	No response	4
29j. Bank's reputational risk	Yes	18
	No	16
	Don't know	3
	No response	3
29k. Negative news associated with the customer	Yes	12
	No	21
	Don't know	3
	No response	4
29l. Compliance risks other than BSA/AML associated with the customer type	Yes	11
	No	22
	Don't know	3
	No response	4

Source: GAO survey. | GAO-20-46

Note: This question was only asked of the 40 banks that answered "yes" to terminating money transmitter accounts (question 28).

**Table 16: As of December 31 for each year below, approximately how many money transmitter checking, savings, and money market accounts did the bank terminate for reasons related to BSA/AML risk? (Question 30)**

Calendar year	Reported number of accounts
2014	1,165
2015	1,234
2016	1,098

Source: GAO survey. | GAO-20-46

Notes: This question was only asked of the 40 banks that answered “yes” to terminating money transmitter accounts (question 28). These numbers represent only the accounts of the 16 banks that responded to this survey question for 2014 and the 18 banks that responded for 2015 and 2016 and are not generalizable to the population of banks.

**Table 17: Number of Banks That Reported Terminating Accounts with Money Transmitters (by Asset Size), Including Number of Accounts Terminated, 2014 (Question 30)**

Size of banks	Reported number of banks that terminated accounts	Reported number of accounts terminated
Small (assets of less than \$1 billion)	1	1
Medium (assets of \$1 billion to less than \$10 billion)	8	121
Large (assets of \$10 billion to less than \$50 billion)	2	51
Extra-large (assets of \$50 billion or more)	5	992
<b>2014 Totals</b>	<b>16</b>	<b>1,165</b>

Source: GAO survey. | GAO-20-46

Notes: This question was only asked of the 40 banks that answered “yes” to terminating money transmitter accounts (question 28). These numbers represent only the accounts of the 16 banks that responded to this survey question for 2014 and are not generalizable to the population of banks.

**Table 18: Number of Banks That Reported Terminating Accounts with Money Transmitters (by Asset Size), Including Number of Accounts Terminated, 2015 (Question 30)**

Size of banks	Reported number of banks that terminated accounts	Reported number of accounts terminated
Small (assets of less than \$1 billion)	2	68
Medium (assets of \$1 billion to less than \$10 billion)	7	136
Large (assets of \$10 billion to less than \$50 billion)	3	25
Extra-large (assets of \$50 billion or more)	6	1,069
<b>2015 Totals</b>	<b>18</b>	<b>1,234</b>

Source: GAO survey. | GAO-20-46

Notes: This question was only asked of the 40 banks that answered “yes” to terminating money transmitter accounts (question 28). These numbers represent only the accounts of the 18 banks that responded to this survey question for 2015 and are not generalizable to the population of banks.

**Table 19: Number of Banks That Reported Terminating Accounts with Money Transmitters (by Asset Size), Including Number of Accounts Terminated, 2016 (Question 30)**

Size of banks	Reported number of banks that terminated accounts	Reported number of accounts terminated
Small (assets of less than \$1 billion)	1	1
Medium (assets of \$1 billion to less than \$10 billion)	6	97
Large (assets of \$10 billion to less than \$50 billion)	5	24
Extra-large (assets of \$50 billion or more)	6	976
<b>2016 Totals</b>	<b>18</b>	<b>1,098</b>

Source: GAO survey. | GAO-20-46

Notes: This question was only asked of the 40 banks that answered “yes” to terminating money transmitter accounts (question 28). These numbers represent only the accounts of the 18 banks that responded to this survey question for 2016 and are not generalizable to the population of banks.



# Appendix III: Comments from the Board of Governors of the Federal Reserve System



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF SUPERVISION  
AND REGULATION

October 31, 2019

Michael E. Clements  
Director  
Financial Markets and Community Investment  
United States Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Clements:

Thank you for providing the Board of Governors of the Federal Reserve System ("Federal Reserve") with an opportunity to review the final draft of the Government Accountability Office ("GAO") report, *Bank Secrecy Act: Examiners Need Better Understanding of How to Assess Banks' Compliance Controls for Money Transmitter Accounts* (GAO-20-46). The report reviews the extent to which banks are terminating or limiting services for money transmitters and the effects thereof on money transmitters, challenges in assessing banks' Bank Secrecy Act and anti-money laundering ("BSA/AML") compliance related to money transmitters, and regulators' actions to address derisking concerns.

The report highlights actions the regulators have taken to address derisking of money transmitter accounts. This includes guidance issued by the Federal Reserve, along with FinCEN and the other federal regulators, directly related to the derisking of money transmitters by banks. Further, the report notes more interagency working group efforts including statements on resource sharing, innovation and risk-focused supervision, which we believe will indirectly address derisking. We appreciate the report's recognition of the efforts made by the Federal Reserve to clarify BSA/AML regulatory requirements and expectations.

The report recommends that the Federal Reserve "in coordination with the other federal banking regulators, and with input from BSA/AML examiners and other relevant stakeholders, take steps to improve examiners' ability to evaluate the effectiveness of banks' BSA/AML compliance controls with respect to money transmitter accounts," which "may include providing updates to examination procedures, examiner training, or a combination of methods."

The Federal Reserve accepts the recommendation and is committed to ensuring that our examiners have the information and tools necessary to evaluate the effectiveness of banks' BSA/AML compliance with respect to money transmitter accounts. To address this recommendation, the Federal Reserve plans to work collaboratively with the other federal regulators, and with input from BSA/AML examiners and other relevant stakeholders, (i) to assess steps to improve examiners' ability to evaluate the effectiveness of banks' BSA/AML

compliance controls with respect to money transmitter accounts; and (ii) to take any such steps determined to be necessary or appropriate.

The Federal Reserve is committed to continuing to improve the BSA/AML compliance regime. We appreciate the GAO's review of institutions' requirements to assess and manage money transmitter risk, for their professional approach to the review, and for the opportunity to comment.

Sincerely,



Jennifer Burns  
Deputy Director

# Appendix IV: Comments from the Federal Deposit Insurance Corporation



**Federal Deposit Insurance Corporation**  
550 17th Street NW, Washington, D.C. 20429-9990

Division of Risk Management Supervision

November 4, 2019

Lawrance Evans, Jr.  
Managing Director  
Financial Markets and Community Investment Team  
United States Government Accountability Office  
Washington, D.C. 20548

Dear Mr. Evans:

Thank you for the opportunity to comment on the U.S. Government Accountability Office's (GAO's) draft audit report titled, *Bank Secrecy Act: Examiners Need Better Understanding of How to Assess Banks' Compliance Controls for Money Transmitter Accounts: GAO-20-46* (Report).

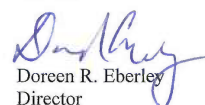
We appreciate the Report's recognition of steps the FDIC has taken in response to derisking concerns, such as issuing a statement to encourage financial institutions to take a risk-based approach in assessing individual customer relationships rather than declining to provide banking services to entire categories of customers. We also appreciate the Report's recognition of interagency efforts on derisking and additional efforts toward improving the efficiency and effectiveness of Bank Secrecy Act (BSA)/anti-money laundering (AML) regulations and supervision through the issuance of statements on risk-focused BSA/AML supervision, sharing BSA resources, innovative efforts to combat money laundering (ML) and terrorist financing (TF), and the issuance of a joint fact sheet on foreign correspondent banking.

The Report recommends that the FDIC, in coordination with the other federal banking regulators and with input from BSA/AML examiners and other relevant stakeholders, take steps to enhance and clarify examiner instructions regarding evaluation of the effectiveness of banks' BSA/AML compliance controls with respect to money transmitter accounts. Steps may include providing updates to examination procedures, examiner training, or a combination of methods.

The FDIC is committed to working collaboratively with the other federal banking agencies to improve examiner instructions regarding money transmitter accounts in relation to banks' BSA/AML compliance programs. We will coordinate with the other agencies to address this recommendation.

We appreciate the GAO's review of money transmitters and the opportunity to comment. If you have any questions relating to the FDIC management response, please contact Lisa D. Arquette, Associate Director at 202-898-8633.

Sincerely,

  
Doreen R. Eberley  
Director

# Appendix V: Comments from the National Credit Union Administration



National Credit Union Administration  
Office of the Executive Director

October 28, 2019

SENT BY EMAIL

Michael E. Clements  
Director, Financial Markets and Community Investment  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548  
[clementsm@gao.gov](mailto:clementsm@gao.gov)

Dear Mr. Clements:

We reviewed your draft report entitled "Bank Secrecy – Examiners Need Better Understanding of How to Assess Banks' Compliance Controls for Money Transmitter Accounts." The report indicates that examiners are unsure of the level of due diligence required or expected of financial institutions providing service to money transmitters. The report provides one recommendation to the NCUA Chairman:

*"The Chairman of the National Credit Union Administration should, in coordination with the other federal banking regulators, and with the input from BSA/AML examiners and other relevant stakeholders, take steps to improve examiners' ability to evaluate the effectiveness of banks' BSA/AML compliance controls with respect to money transmitter accounts. Steps may include updates to examination procedures, examiner training or a combination of methods."*

Even though credit unions may not have participated in de-risking, we stand ready to collaborate with the other federal banking regulators to enhance training and knowledge within the BSA/AML supervisory space as it pertains to money transmitters.

Thank you for the opportunity to comment on the draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Treichel".

Mark Treichel  
Executive Director

1775 Duke Street – Alexandria, VA 22314-6113 – 703-518-6320

# Appendix VI: Comments from the Office of the Comptroller of the Currency



Office of the Comptroller of the Currency

Washington, DC 20219

October 31, 2019

Mr. Michael E. Clements  
Director, Financial Markets and Community Investment  
U. S. Government Accountability Office  
Washington, DC 20548

Dear Mr. Clements:

Thank you for providing the Office of the Comptroller of the Currency (OCC) an opportunity to review the Government Accountability Office's (GAO) draft report titled *Bank Secrecy Act: Examiners Need Better Understanding of How to Assess Banks' Compliance Controls for Money Transmitter Accounts (GAO-20-46)*. Technical edits have been provided separately.

As part of this review, the GAO has provided the following recommendation:

*The Comptroller of the Currency should, in coordination with other the federal banking regulators, and with input from BSA/AML examiners and other relevant stakeholders, take steps to improve examiners' ability to evaluate the effectiveness of banks' BSA/AML compliance controls with respect to money transmitter accounts. Steps may include providing updates to examination procedures, examiner training, or a combination of methods.*

To address this recommendation, the OCC plans to work collaboratively with the other federal banking regulators, and with input from BSA/AML examiners and other relevant stakeholders, to evaluate and implement steps, as appropriate, to improve examiners' ability to evaluate the effectiveness of banks' BSA/AML compliance controls with respect to money transmitter accounts.

If you need additional information, please contact me at (202) 649-5401.

Sincerely,

A handwritten signature in blue ink that reads "G. N. Gardineer".

Grovetta N. Gardineer  
Senior Deputy Comptroller for Bank Supervision Policy

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# Appendix VII: GAO Contact and Staff Acknowledgments

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## GAO Contact

Michael E. Clements. (202) 512-8678 or [clementsm@gao.gov](mailto:clementsm@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Stefanie Jonkman (Assistant Director), Kun-Fang Lee (Analyst-in-Charge), Carl Barden, Lilia Chaidez, Giselle Cubillos-Moraga, Joshua Garties, Toni Gillich, Shamiah Kerney, Jill Lacey, Patricia Moye, Aku Shika Pappoe, Jennifer Schwartz, Jena Y. Sinkfield, Tyler Spunaugle, Verginie Tarpinian, and Deme Yoo made key contributions to this report.

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