

Mobile And Emerging Payments: Anti-Money Laundering Risks and Legal Compliance issues

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New York ACAMS Meeting

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A Broader PerspectiveSM

Agenda

- Introduction : The Evolution of Emerging Payments - from Servicing to Transacting
- Law Enforcement Concerns
- New Products --- Mobile Payments
- New Products --- Remote Deposit Capture
- Industry Response to Concerns--- Key controls and risks assessments
- Legislative & Regulatory response
- Q&A

What are Mobile and Emerging Payments?

Same products but in different forms - -

- PAY BEFORE – Money Orders, Prepaid Cards
- PAY NOW – Cash*, Checks, Debit cards
- PAY LATER – Credit cards, payday loans, lines of credit

Law Enforcement Concerns

- Anonymity
- Speed
- High dollar limits
- International capabilities
- Lack of regulatory oversight
- Fraudsters and Criminal Rings

Industry Response

- How much evidence is there REALLY?
- No such thing as \$100,000 anonymous cards.
- Better to have people – even criminals - using trackable, cancellable prepaid payments than cash
- These products are almost entirely issued by or through banks - highly regulated.

Worst Case Scenario: NYCCU

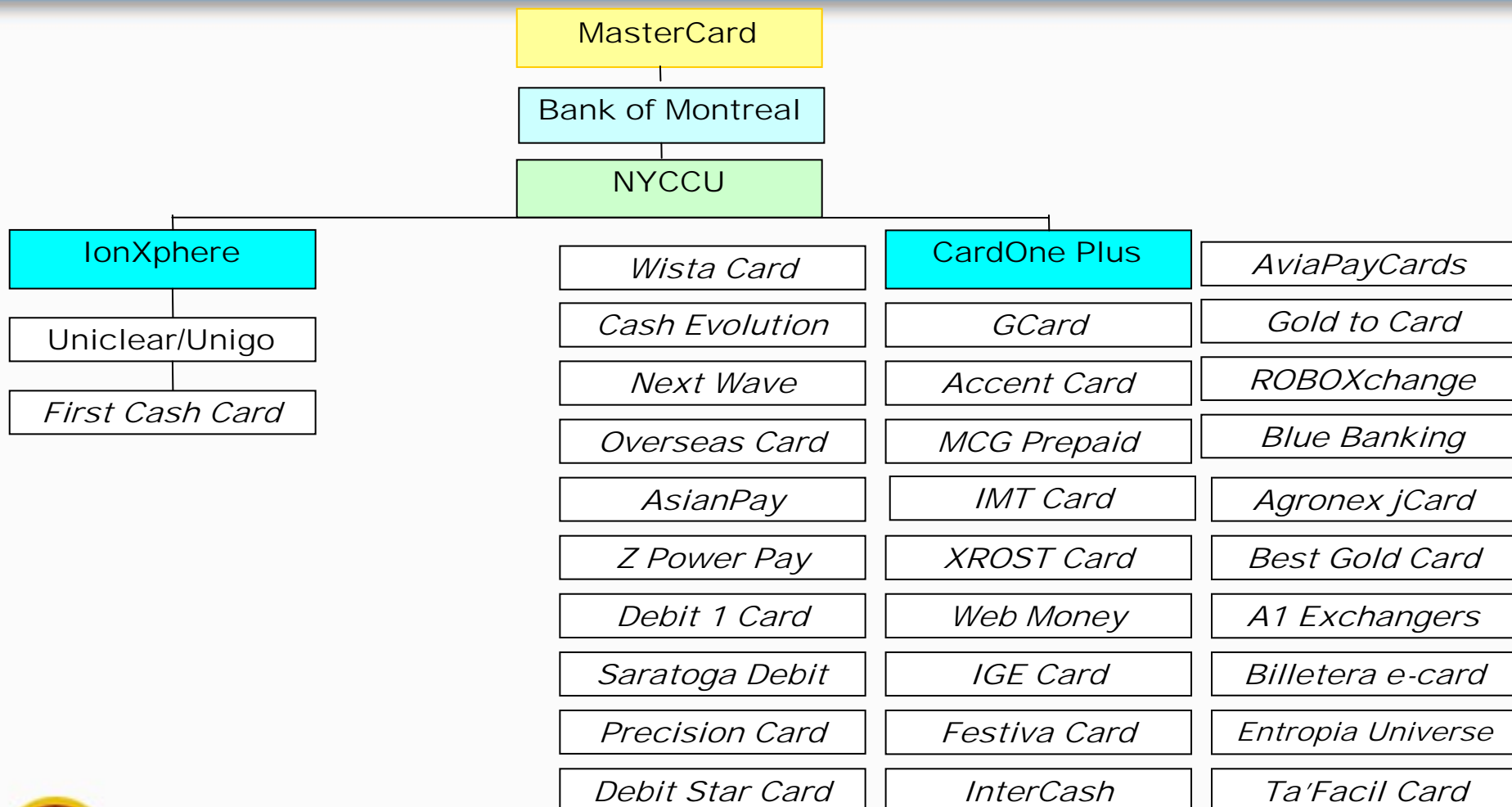


30+ different unauthorized global prepaid card programs

- Ontario-based North York Community Credit Union was an **unauthorized** card issuer
- MasterCard relied on Bank of Montreal to police NYCCU
- NYCCU cards generally involved:
 - No customer due diligence
 - High or no value limits on balances, loads, transfers, or withdrawals.
- Cited by Canadian authorities as “a rogue financial institution” for “behavior which is reckless in the extreme...”



NYCCU Prepaid Card Programs



Money Laundering & Fraud



- ICE-led El Dorado Task Force identified use of prepaid cards by drug dealers sending funds to suppliers
- FBI found prepaid cards used internationally to withdraw proceeds from stolen personal and corporate checks brought into the U.S. for deposit (April 2007 conviction)
- DEA investigation involved Colombians arrested in Panama City with more than 700 debit cards, withdrawing funds from ATMs
- Las Vegas police have had a number of cases involving prepaid cards funded through credit card numbers stolen online by unsophisticated meth addicts using "hacker kits" and wireless network "sniffers"



Digital Currency Dealers



Simon Davis



Douglas Jackson



Jim and Pam Fayed



Jim Turk



Andrei Trubitsyn



Gordon Hayes



Bernard von NotHaus



Dr. Habib Dahinden



Arthur Budovsky



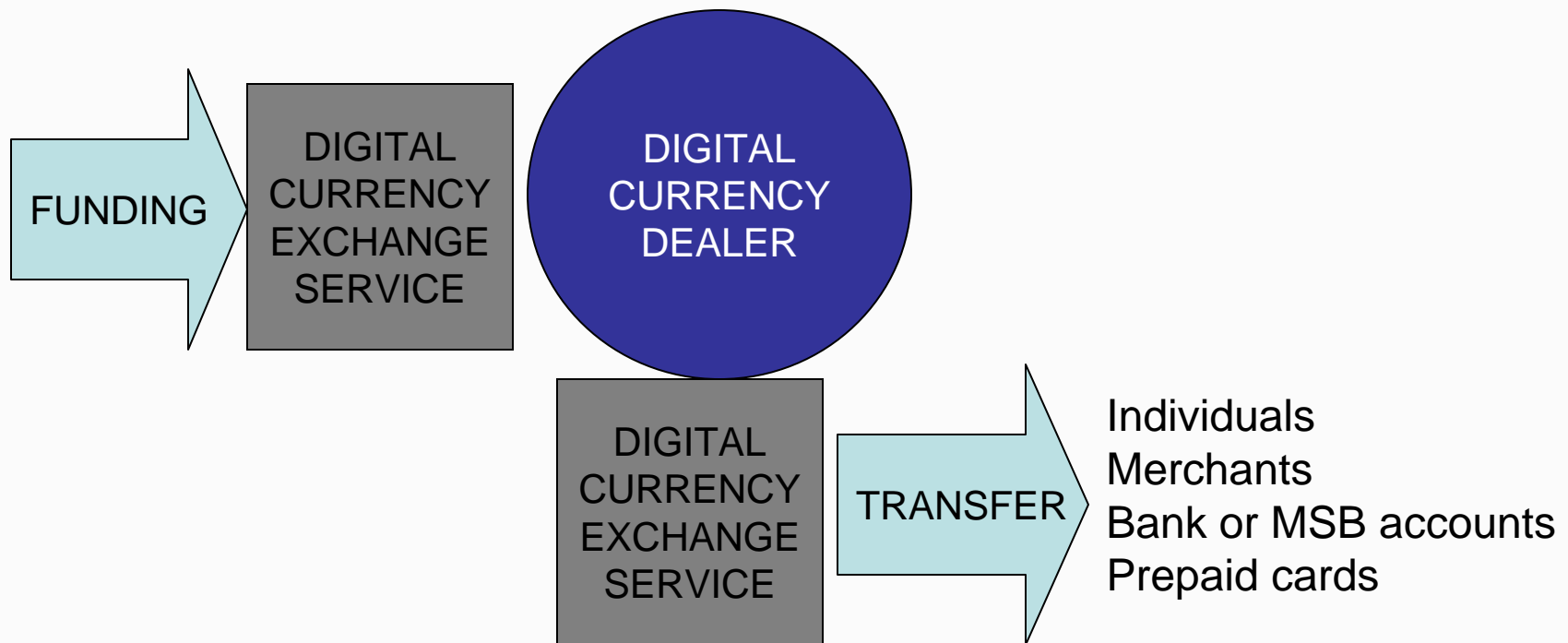
Digital Currency



- Online payment services that use gold, silver, platinum, and palladium as the store of value
- Digital exchange services act as intermediaries between digital currency dealers and buyers and sellers
- Used for speculation in commodities, person-to-person payments, commercial payments
- Potentially anonymous, reusable, untraceable, with instant settlement



How It Works



E-Gold Indicted



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Digital Currency Business E-Gold Indicted for Money Laundering and Illegal Money Transmitting

WASHINGTON – A federal grand jury in Washington, D.C. has indicted two companies operating a digital currency business and their owners on charges of money laundering, conspiracy, and operating an unlicensed money transmitting business, Assistant Attorney General Alice S. Fisher of the Criminal Division and U.S. Attorney for the District of Columbia Jeffrey A. Taylor announced today.



What DEA Is Seeing

- **Drugs purchased with open and closed loop cards**
- **Closed loop cards of multi-national retailers purchased in U.S. and sold at discount in Mexico**

With Thanks to Don Semetsky, Director, Drug Enforcement Administration

What DEA Is Seeing

- **Open loop cards requested in U/C operations**
- **Open loop cards purchased in U.S. and sent to Colombia and Mexico**
- **Unbranded card abuse**
 - **Moola Zoola investigation**

Moola Zoola Investigation

- **Crim. proceeds transferred from Europe to U.S. via Paypal**
- **Loaded on MZ cards in names of ID theft victims**
- **Funds transfers b/w MZ cards**
- **W/Ds at ATMs in U.S. and Russia**

What Other LEAs Are Seeing

- **Credit card fraudster being paid with retailer gift cards by co-conspirators who purchased mobile phones and sold in Mexico.**
- **Gift cards mag strip re-encoded with stolen credit card information and used for fraudulent purchase**

What Other LEAs Are Seeing

- **Secret Service investigations uncovered prepaid cards funded with cash from stolen credit cards**
- **FBI found prepaid cards used internationally to withdraw proceeds from stolen personal and corporate checks brought into the U.S. for deposit**
- **Colombians arrested in Panama City withdrawing funds from ATMs. Colombians had over 700 debit cards.**

What Other LEAs Are Seeing

- **Manhattan DA indictment of three people on charges of operating an illegal check cashing and money transmittal business.**
 - **\$25 million flowed through the company's bank accounts**
 - **Four million dollars from illegally cashed checks.**
 - **Digital currency, stored value gift cards, and ATM cards provided to clients.**
 - **Over \$100,000 in cash and thousands of stored value gift cards recovered from the defendants' residence and other locations.**

What Other LEAs Are Seeing

- **April 2007: Defendants in N.D. Ohio convicted of committing bank fraud**
 - **Stealing third party checks**
 - **Loading bank fraud proceeds onto prepaid cards in amounts below \$10,000,**
 - **Withdrawing proceeds at foreign ATMs.**
- **Open system AAA global currency cards loaded and reloaded many times and funds withdrawn in Argentina and Uruguay.**
- **More than \$5 million in bank fraud proceeds laundered.**

Criminals and New Payment Products

- Looking for newer, less regulated products
- But newer products are often more trackable
- Identity theft and prepaid cards
- Sometimes, no or little ID verification
- Access to the global payment infrastructure

Final word from LEAs:

- -BANKS SHOULD BE SCRUTINIZING WIRE ACTIVITY AND ACH
- -BANKS SHOULD NOT ALLOW 3RD PARTY CARD COMPANY TO BECOME IT'S OWN ACH PROCESSOR
- -BANKS SHOULD NOT ALLOW 3RD PARTY CARD COMPANY TO SET UP OWN CIRCUIT/SWITCHES
- -KYC/DUE DILIGENCE IS CRITICAL
- -CONNECT THE DOTS ON SOURCE OF FUNDS – IS IT REALLY “PAYROLL”?

New Products

Mobile Payments

James Stubbs

New Products

Remote Deposit Capture

Judith Rinearson

Remote Deposit Capture

- The term “remote deposit capture” refers to the process of electronically capturing check images and data, transmitting that data for deposit and clearing, and truncating the original paper checks. This definition is evolving to include additional payment types, including card payments.
- <http://www.remotedepositcapture.com/files/webinars/RDC-WW-Risk-FFIEC-090204-Final.pdf>

Remote Deposit Capture – USAA Bank

- **DEPOSIT@HOME®** Introduced over three years ago
 - Uses a scanner, computer, and internet connection
- **DEPOSIT@MOBILE®** Introduced August 2009
 - Uses a camera enabled smartphone, cellular network or WiFi
 - On Jan 1, 2010 surpassed \$250 million in deposits via the iPhone (144th day in production).
- "I really have no need for a local bank. I like being able to do it all online." – Justin Moran member since 1997
- "Don't know how we made it before deposit@home...kinda like cell phones. – Anonymous Member October 29, 2009

With Thanks to Victor Pascucci III, Assistant Vice President, USAA Bank

Remote Deposit Capture - RISKS

- FRAUD
- ALTERATIONS
- LOSS OF EVIDENCE
- SPEED OF TRANSACTIONS
- REMOTE ACCESS (EASIER AND “SAFER” FOR CROOKS/LAUNDERERS)

Remote Deposit Capture – RISK MITIGANTS

- KYC/CIP – limit access to customers with solid history and background
- Collect data (especially phone data) and use it to monitor location and source of text message/call
- Follow up with emails to confirm transactions – communications with customers become more important
- Transaction monitoring
- Limits on amount and number of checks
- Contractual rights to suspend the service at any time

Industry Response to Concerns--- Key controls and risks assessments

James Stubbs



Emerging Payments: New Legislation and Regulations

Judith Rinearson

New Proposed FinCEN Regulations on Prepaid Access

CARD Act : Instructed the Department of Treasury's Financial Crime Enforcement Network (FinCEN) :

- to issue new anti-money laundering regulations regarding the “sale, issuance, redemption, or international transport of stored value, including stored value cards” by February 2010
- to determine whether “stored value” should be designated a “monetary instrument” for purposes of cross border regulation
- to consider “current and future needs and methodologies for transmitting and storing value in electronic form
- such new regulations must be issued in consultation with the Department of Homeland Security
- New PROPOSED Regulations issued June 21, 2010

New Proposed FinCEN Regulations on Prepaid Access

- New Proposed Regs require “providers and sellers” of “prepaid access programs” to register with Department of Treasury, file Suspicious Activity Reports (SARs), collect and retain certain ID data and transaction data
- Excluded: Payroll, Federal Benefit, and Healthcare cards, Closed Loop, and Cards which can never hold more than \$1000, provided the cards not useable outside US, cannot be reloaded except at banking institutions (except Closed Loop), and cannot be used for card to card transfers.
- Biggest concerns for industry: requirement for sellers to collect and report data; position that all programs have a nonbank “provider”; restrictions on programs with reloads.
- **Regulations are not final. Comments NOW due August 27, 2010.**

Other Pending AML Legislation

- Three new “cross-border” bills
 - Kirkpatrick
 - Giffords
 - Cornyn
- The Industry position on why treating prepaid payments at “monetary value” doesn’t make sense.

Other Pending Legislation Generally

- Extensions of Regulation “E” to cards other than payroll cards (General Purpose Reloadable, Government Benefits, etc)
- New regulator: The Consumer Financial Protection Bureau – under the Wall Street Reform legislation
- New state laws – abandoned property, money transmitter licensing, consumer protection *while at the same time, increasing restrictions on Preemption.*

Legislation not limited to “cards” – covers generally devices, codes, numbers and other virtual and digital products.

Qs & As

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