



March 2018

# REMITTANCES TO FRAGILE COUNTRIES

## Treasury Should Assess Risks from Shifts to Non-Banking Channels

# GAO Highlights

Highlights of [GAO-18-313](#), a report to congressional requesters

## Why GAO Did This Study

The United States is the largest source of remittances, with an estimated \$67 billion sent globally in 2016, according to the World Bank. Many individuals send remittances through money transmitters, a type of business that facilitates global money transfers. Recent reports found that some money transmitters have lost access to banking services due to derisking—the practice of banks restricting services to customers to, in part, avoid perceived regulatory concerns about facilitating criminal activity.

GAO was asked to review the possible effects of derisking on remittances to fragile countries. This report examines (1) what stakeholders believe are the challenges facing money transmitters in remitting funds from the United States to selected fragile countries, (2) actions U.S. agencies have taken to address identified challenges, and (3) U.S. efforts to assess the effects of such challenges on remittance flows to fragile countries. GAO selected four case-study countries—Haiti, Liberia, Nepal, and Somalia—based on factors including the large size of U.S. remittance flows to them. GAO interviewed U.S.-based money transmitters, banks, U.S. agencies, and individuals remitting to these countries and also surveyed banks.

## What GAO Recommends

Treasury should assess the extent to which shifts in remittance flows to non-banking channels for fragile countries may affect Treasury's ability to monitor for financial crimes and, if necessary, should identify corrective actions. GAO requested comments from Treasury on the recommendation, but none were provided.

View [GAO-18-313](#). For more information, contact Thomas Melito at (202) 512-9601 or [MelitoT@gao.gov](mailto:MelitoT@gao.gov).

March 2018

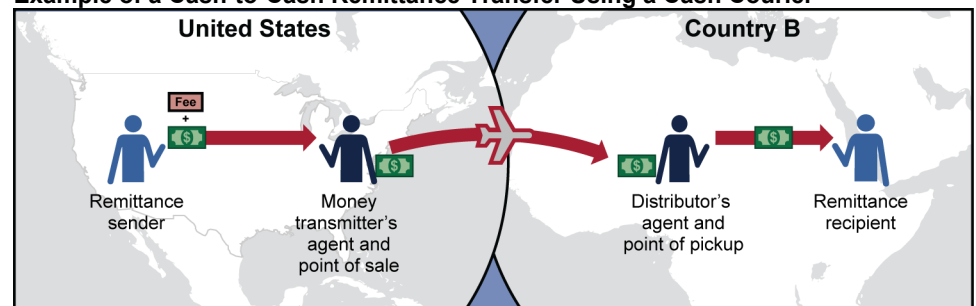
## REMITTANCES TO FRAGILE COUNTRIES

### Treasury Should Assess Risks from Shifts to Non-Banking Channels

## What GAO Found

Stakeholders, including money transmitters, banks, and U.S. Department of the Treasury (Treasury) officials, reported a loss of banking access for money transmitters as a key challenge, although remittances continue to flow to selected fragile countries. All 12 of the money transmitters GAO interviewed, which served Haiti, Liberia, Nepal, and particularly Somalia, reported losing some banking relationships during the last 10 years. As a result, 9 of the 12 money transmitters reported using channels outside the banking system (hereafter referred to as non-banking channels), such as cash couriers, to move funds domestically or, in the case of Somalia, for cross-border transfer of remittances (see figure). Several banks reported that they had closed the accounts of money transmitters because of the high cost of due diligence actions they considered necessary to minimize the risk of fines under Bank Secrecy Act regulations. Treasury officials noted that despite some money transmitters losing bank accounts, they see no evidence that the volume of remittances is falling.

#### Example of a Cash-to-Cash Remittance Transfer Using a Cash Courier



Remittance money

Source: GAO. | GAO-18-313

U.S. agencies have taken steps that may mitigate money transmitters' loss of banking access. For example, several agencies have issued guidance to clarify expectations for providing banking services to money transmitters. In addition, Treasury is implementing projects to strengthen financial institutions in some fragile countries. However, U.S. agencies disagreed with other suggestions, such as immunity from enforcement actions for banks serving money transmitters, since those actions could adversely affect goals related to preventing money laundering and terrorism financing.

Treasury cannot assess the effects of money transmitters' loss of banking access on remittance flows because existing data do not allow Treasury to identify remittances transferred through banking and non-banking channels. Remittance data that U.S. agencies collect from banks do not include transfers that banks make on behalf of money transmitters. Additionally, the information Treasury collects on transportation of cash from U.S. ports of exit does not identify remittances sent as cash. Therefore, Treasury cannot assess the extent to which money transmitters are shifting from banking to non-banking channels to transfer funds due to loss of banking access. Non-banking channels are generally less transparent than banking channels and thus more susceptible to the risk of money laundering and terrorism financing.

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## Abbreviations

AML	anti-money laundering
BSA	Bank Secrecy Act
BSA/AML	Bank Secrecy Act anti-money laundering
Call Reports	Consolidated Reports of Condition and Income
CMIR	Report of International Transportation of Currency or Monetary Instruments
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve
FinCEN	Financial Crimes Enforcement Network
GDP	gross domestic product
IRS	Internal Revenue Service
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
OTA	Office of Technical Assistance
Treasury	Department of the Treasury

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March 8, 2018

Congressional Requesters

The United States is the largest source of remittances to other countries,<sup>1</sup> with an estimated \$67 billion sent globally in 2016.<sup>2</sup> Remittances are the largest source of foreign currency for many receiving countries, often exceeding official development assistance from developed countries, according to the World Bank. Remittances can be sent through money transmitters as well as depository institutions, such as banks and credit unions, among other methods.<sup>3</sup>

In recent years, the World Bank and others have reported that some money transmitters have been losing access to banking services with depository institutions due to derisking.<sup>4</sup> In a prior report,<sup>5</sup> we identified 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, or other criminal

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<sup>1</sup>For purposes of this report, we define remittances as the transfer of funds from consumers in the United States to persons or businesses in a foreign country. The World Bank defines personal remittances as the sum of personal transfers and compensation of employees.

<sup>2</sup>This estimate is a World Bank staff calculation based on data from the International Monetary Fund Balance of Payments Statistics database and data releases from central banks, national statistical agencies, and World Bank country desks.

<sup>3</sup>The Department of the Treasury's (Treasury) Financial Crimes Enforcement Network (FinCEN) regulations define a money transmitter as a person or organization that provides money transmission services, which means the acceptance of currency, funds, or other value that substitutes for currency from one person and the transmission of currency, funds, or other value that substitutes for currency to another person or location by any means. The definition of money transmitter also includes any other person engaged in the transfer of funds. 31 C.F.R. § 1010.100(ff)(5).

<sup>4</sup>See the following reports: The World Bank, *Report on the G20 Survey on De-risking Activities in the Remittance Market*, 2015; International Monetary Fund, *The Withdrawal of Correspondent Banking Relationships: A Case for Policy Action*, 2016; and Center for Global Development, *Unintended Consequences of Anti-Money Laundering Policies for Poor Countries*, 2015.

<sup>5</sup>GAO, *Bank Secrecy Act: Derisking Along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Reviews*, [GAO-18-263](#) (Washington, D.C.: Feb. 26, 2018).

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activity, such as financing to terrorist groups.<sup>6</sup> Further, the International Monetary Fund has raised concerns that large depository institutions may be reducing correspondent banking relationships due to fear of risk exposure, which in turn may limit the ability of smaller depository institutions to provide remittance transfer services to their customers, including money transmitters. According to Oxfam America, constraints on money transmitters' access to banking services may have significant humanitarian, economic, and security implications, effectively cutting off a stable source of funds and isolating communities from the global financial system.

Financial institutions that provide international money transfers are subject to regulations to prevent financial crimes such as money laundering or terrorist financing. In a 2016 report, we described money laundering risks related to remittances, including risks involving agents, customers, geographic location, and products.<sup>7</sup> Remittances can be used to launder proceeds from different types of criminal activities, including drug trafficking, human smuggling, and consumer fraud.<sup>8</sup> Money transmitters and depository institutions are subject to the Bank Secrecy Act (BSA), an important tool in federal law enforcement efforts to detect and deter the use of financial institutions (including those that send remittances) for criminal activity, including money laundering and terrorist financing.<sup>9</sup> In another 2016 report, we found that from January 2009 to December 2015 the U.S. government collected over \$5 billion in

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<sup>6</sup>The term “derisking” can be defined in a variety of ways. For example, according to the Financial Action Task Force, derisking can be the result of various drivers, such as concerns about profitability, prudential requirements, anxiety after a global financial crisis, and reputational risk. See “FATF Clarifies Risk-Based Approach: Case-by-Case, Not Wholesale De-risking,” accessed February 28, 2018, <http://www.fatf-gafi.org/documents/documents/rba-and-de-risking.html>.

<sup>7</sup>GAO, *International Remittances: Money Laundering Risks and Views on Enhanced Customer Verification and Recordkeeping Requirements*, GAO-16-65 (Washington, D.C.: Jan. 15, 2016).

<sup>8</sup>Treasury has identified risks related to money transmitters in the following reports: *National Money Laundering Risk Assessment, 2015*; and *National Terrorist Financing Risk Assessment, 2015*.

<sup>9</sup>Bank Secrecy Act, Titles I and II of Pub. L. No. 91-508, 84 Stat. 1114 (1970) (codified as amended at 12 U.S.C. §§ 1829b, 1951-1959, and 31 U.S.C. § 5311 et seq.).



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penalties, fines, and forfeitures for various BSA violations, including the failure to identify or report suspicious activity.<sup>10</sup>

This is one of four reports addressing your request that we review the various effects of derisking, including on remittance senders in the United States.<sup>11</sup> This report examines (1) what stakeholders believe are the challenges facing money transmitters in remitting funds from the United States to selected fragile countries, (2) what actions U.S. agencies have taken to address identified challenges, and (3) U.S. efforts to assess the effects of such challenges on remittance flows to fragile countries.

To address our objectives, we identified four case-study countries: Haiti, Liberia, Nepal, and Somalia. We selected these countries based on their inclusion in the Organisation for Economic Co-operation and Development's States of Fragility reports from 2013 to 2015.<sup>12</sup> In addition, we limited our selection to countries that have a foreign-born population of 50,000 or more living in the United States. Finally, we considered the size of estimated total remittances from the United States relative to the recipient countries' gross domestic product (GDP). We rank ordered the 17 countries that met these criteria and selected the top four.

To identify what stakeholders believe are the challenges facing money transmitters in remitting funds from the United States to fragile countries, we interviewed officials from the U.S. Department of the Treasury (Treasury) and held semi-structured interviews with six small groups of remittance senders in the United States who remit to our case-study countries. The results of our interviews are not generalizable to all remittance senders to these countries. We interviewed 12 of the 18 money transmitters that the World Bank's Remittance Prices Worldwide database indicates account for about at least 80 percent of the market

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<sup>10</sup>See *Financial Institutions: Fines, Penalties, and Forfeitures for Violations of Financial Crimes and Sanctions Requirements*, [GAO-16-297](#) (Washington, D.C.: Mar. 22, 2016). Over that time period, the U.S. Department of Justice, FinCEN, and federal financial regulators assessed about \$5.2 billion against several financial institutions for Bank Secrecy Act (BSA) violations.

<sup>11</sup>Our other reviews related to derisking are on account terminations and bank branch closures in the U.S. southwest border region, access to banking services for money transmitters, and the provision of U.S. humanitarian assistance.

<sup>12</sup>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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transfers from the United States to each of our case-study countries. Eight of the 12 money transmitters we interviewed provided remittance services from the United States to one of our case study countries. Four larger money transmitters we interviewed provided remittance services from the United States to three or more of our case-study countries.

In addition, we used two methods—a web-based survey instrument and semi-structured interviews—to collect information to evaluate the extent to which banks are terminating accounts for money transmitters serving fragile countries, among other things. We administered the survey to a nationally representative sample of banks.<sup>13</sup> We also interviewed representatives of eight banks considered to be extra-large by asset size. These banks reported about 47 percent of all remittances by U.S. banks in their 2016 Consolidated Reports of Condition and Income (Call Reports).<sup>14</sup> In addition, we interviewed representatives of two credit unions that had terminated accounts of at least one of the money transmitters we interviewed.

To determine what actions U.S. agencies have taken to address identified challenges, we analyzed pertinent U.S. agency information, including relevant documentation and public statements, and interviewed officials from the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (Federal Reserve), the U.S. Department of State, the U.S. Agency for International Development, and key offices in Treasury including the Office of Financial Crimes Enforcement Network (FinCEN), the Office of the Comptroller of the Currency (OCC), and the Office of Technical Assistance (OTA). Additionally, we interviewed officials from the World Bank, as well as nongovernmental organizations including the Center for Global Development and Oxfam America.

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<sup>13</sup>See app. I for additional information about our survey methodology and app. II for aggregate responses for all close-ended survey questions related to this report. The survey included 44 questions, 16 of which were directly applicable to the research objectives in this report. The remaining questions will be published in related work we are conducting on account terminations and bank branch closures in the U.S. southwest border region and access to banking services for money transmitters.

<sup>14</sup>According to the Federal Deposit Insurance Corporation (FDIC), banks and savings associations are required to file Call Reports each quarter. These reports assist agencies in fulfilling their missions of ensuring the safety and soundness of financial institutions, among other things, and are the source of the most current statistical data for identifying areas of focus for on-site examinations and off-site monitoring.

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To examine U.S. agencies' efforts to assess the effects of such challenges on remittance flows to fragile countries, we analyzed data on remittances and interviewed relevant agency officials. Specifically, for available data on remittance flows through the banking channel, we analyzed Call Report data from the Federal Financial Institutions Examination Council.<sup>15</sup> For data on remittance flows through non-banking channels,<sup>16</sup> we obtained and analyzed data from filings of FinCEN's Form 105 – Report of International Transportation of Currency or Monetary Instruments (CMIR). We obtained the tabulated data from FinCEN by arrival country, state of U.S. exit port, and calendar year for 2006 through 2016. We also interviewed officials from FDIC, the Federal Reserve, OCC, and FinCEN. See appendix I for additional details about our scope and methodology.

We conducted this performance audit from September 2016 to March 2018 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

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### Remittance Transfer Methods

Remittances can be sent through money transmitters and depository institutions,<sup>17</sup> among other organizations. A typical remittance sent through a bank may be in the thousands of dollars, while the typical remittance sent by money transmitters is usually in the hundreds of

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<sup>15</sup>The Federal Financial Institutions Examination Council is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by its member agencies and to make recommendations to promote uniformity in the supervision of financial institutions. The member agencies are the FDIC, Federal Reserve, National Credit Union Administration (NCUA), OCC, Consumer Financial Protection Bureau, and State Liaison Committee, which consists of representatives from state regulatory agencies that supervise financial institutions.

<sup>16</sup>For the purposes of this report, we refer to money transmitters' transfer of funds through any means that operate outside the banking system as "non-banking channels."

<sup>17</sup>For the purpose of this report, we will refer to depository institutions as banks, although the definition includes banks and credit unions.

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dollars. International remittances through money transmitters and banks may include cash-to-cash money transfers, international wire transfers, some prepaid money card transfers, and automated clearinghouse transactions.<sup>18</sup>

- *Transfers through money transmitters.* Historically, many consumers have chosen to send remittances through money transmitters due to convenience, cost, familiarity, or tradition. Money transmitters typically work through agents—separate business entities generally authorized to, among other things, send and receive money transfers. Most remittance transfers are initiated in person at retail outlets that offer these services. Money transmitters generally operate through their own retail storefronts, or through grocery stores, financial services outlets, convenience stores, and other retailers that serve as agents. In one type of common money transmitter transaction—known as a cash-to-cash transfer—a sender walks into a money transmitter agent location and provides cash to cover the transfer amount and fees. Generally, for transfers at or above \$3,000,<sup>19</sup> senders must provide basic information about themselves (typically a name and address, among other information) at the time of the transfer request.<sup>20</sup> The agent processes the transaction, and the money transmitter’s headquarters screens it for BSA compliance. The money is then transferred to a recipient, usually through a distributor agent in the destination country. The money may be wired through the money transmitter’s bank to the distributor agent’s bank (see fig. 1), 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.

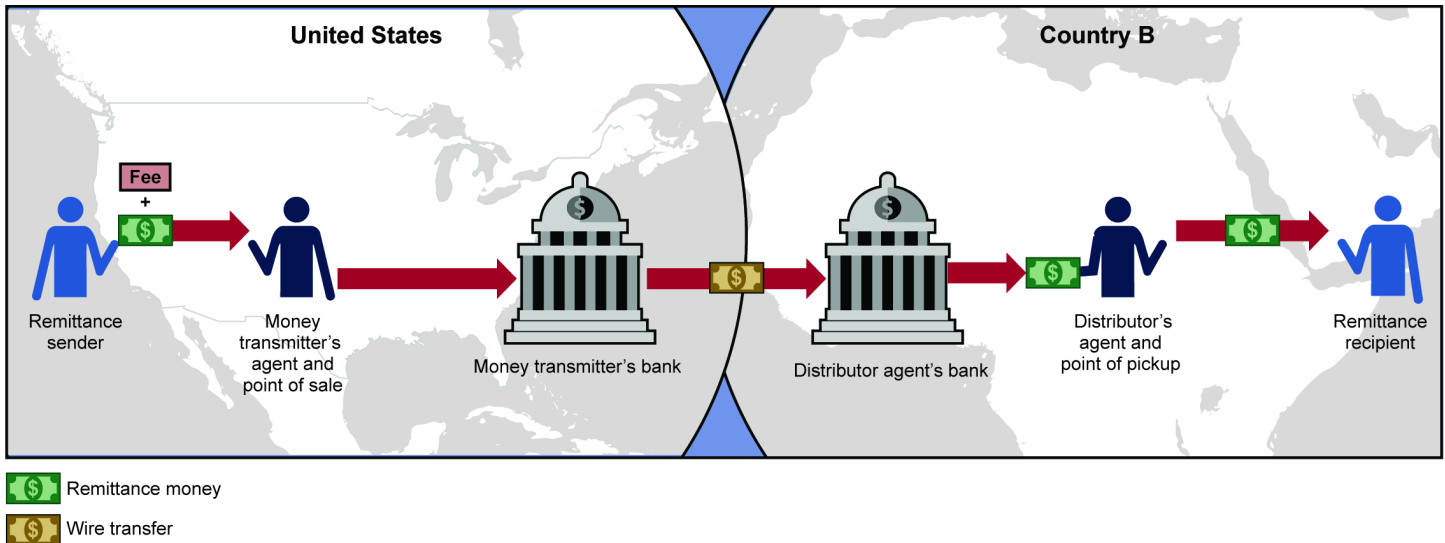
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<sup>18</sup>The automated clearinghouse is a system that clears and settles batched electronic transfers for participating depository institutions. International automated clearinghouse transactions make up a small but growing portion of remittance transfers. See [GAO-16-65](#).

<sup>19</sup>Money transmitters and depository institutions are not required to routinely obtain this information for established customers.

<sup>20</sup>According to Treasury officials, most companies request identifying information from remittance senders for amounts lower than \$3,000. In addition, Treasury officials stated that the typical remittance involving senders and money transmitters were for less than \$3,000.

**Figure 1: Example of Money Transmitter Cash-to-Cash Remittance Transfer Using a Bank Account**



Source: GAO. | GAO-18-313

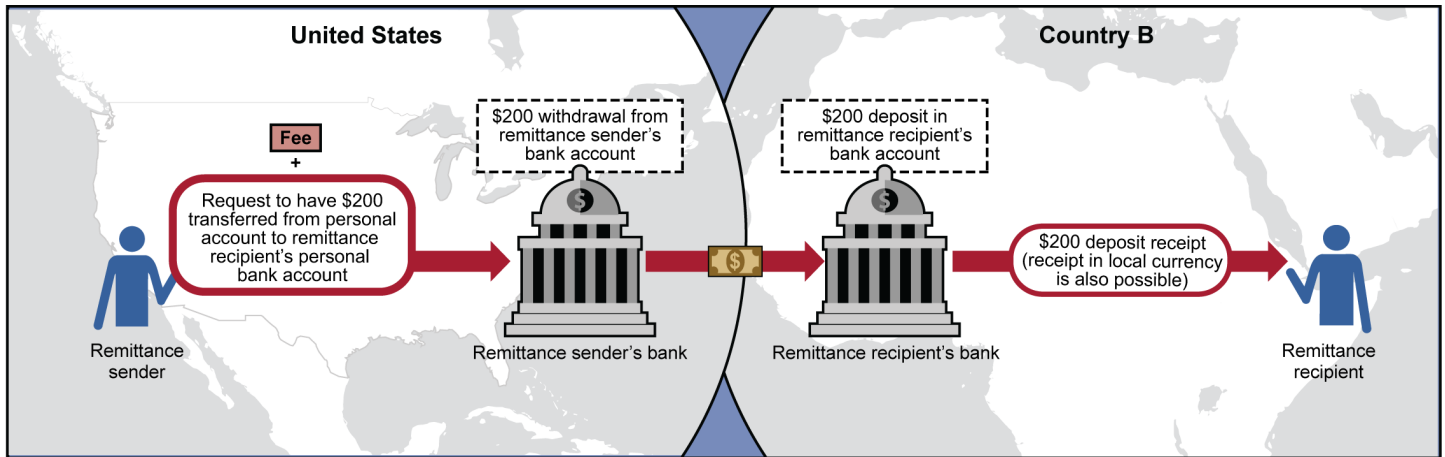
Note: The figure presents a stylized illustration of a remittance transfer. In actual terms, the U.S. and foreign money transmitters compensate each other on a periodic basis to settle any outstanding balances reflected after netting individual transactions. A settlement of any net balance owed by the money transmitter located in the United States or the recipient country will result in transfer of funds. According to the U.S. Department of Treasury, for fragile countries it is normal to expect that remittances mostly flow from the United States to those countries, creating a net outflow of funds from the United States after settlement.



Money transmitters also offer other transfer methods, including online or mobile technology, prepaid money cards or international money orders sent by U.S. Postal Service, cash courier services, or informal value transfer systems such as hawala.<sup>21</sup>

- *Transfers through banks.* Another method which remittance senders use to send funds is through bank to bank transfers. Figure 2 is an example of a simple funds transfer between two customers with only the remittance sender's and remittance recipient's banks involved.

<sup>21</sup>Under an informal value transfer system, a customer hands cash to a person known as a broker and requests that an equivalent amount be delivered in local currency to a recipient in a different country. The broker in the sending country then contacts a broker in the receiving country and asks that the funds be disbursed to the recipient. In most cases, fees are factored into the exchange rate or the amount that is disbursed. Settlements of debts between *hawala* brokers can take a variety of forms (such as goods, services, properties, transfers of employees, etc.), and need not take the form of direct cash transactions.

**Figure 2: Example of Bank-to-Bank Remittance Transfer**



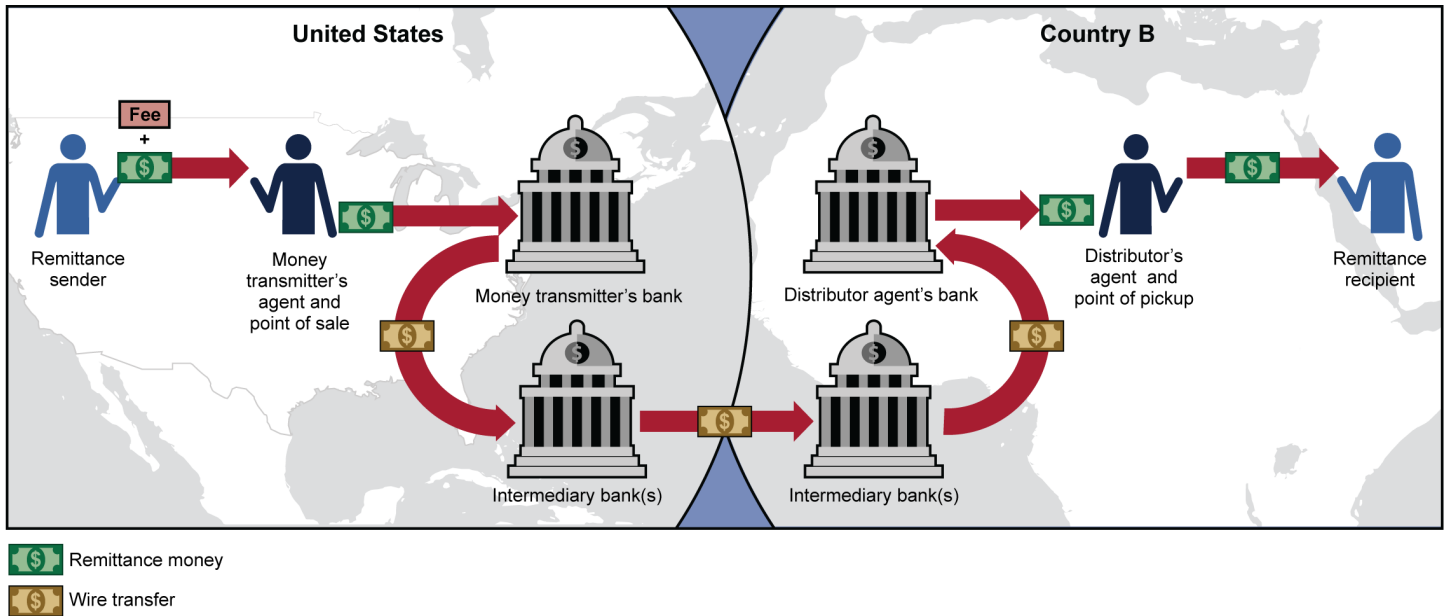
 Remittance money  
 Wire transfer

Source: GAO. | GAO-18-313

If a remittance sender's bank does not have a direct relationship with the remittance recipient's bank, the bank-to-bank transfer scenario becomes more complicated. In such cases, one or more financial institutions may rely upon correspondent banking relationships to complete the transaction, as illustrated in figure 3.<sup>22</sup>

<sup>22</sup>According to the International Monetary Fund, correspondent banking consists of a bilateral agreement, often involving a reciprocal cross-border relationship in multiple currencies. Consistent with the definition of a correspondent account in the PATRIOT Act, a correspondent account is any account established for a foreign financial institution to receive deposits from, or to make payments or other disbursements on behalf of, the foreign financial institution, or to handle other financial transactions related to such foreign financial institutions. See 31 U.S.C. § 5318(k)(1)(B) incorporating by reference 31 U.S.C. § 5318A(e)(1)(B).

**Figure 3: Example of a Remittance Transfer Using Multiple Intermediary Correspondent Banks**



Source: GAO. | GAO-18-313

## Federal and State Oversight of Money Transmitters and Banks

Both federal and state agencies oversee money transmitters and banks. In general, money transmitters must register with FinCEN and provide information on their structure and ownership.<sup>23</sup> According to Treasury, in all states except one, money transmitters are required to obtain licenses from states in which they are incorporated or conducting business.<sup>24</sup> Banks are supervised by state and federal banking regulators according to how they are chartered, and the banks provide related information when obtaining their charter.<sup>25</sup> The key federal banking regulators include

<sup>23</sup>31 U.S.C. § 5330; 31 C.F.R. § 1022.380.

<sup>24</sup>Money transmitters are not required to obtain a license to operate in the state of Montana.

<sup>25</sup>As part of the process for obtaining a charter from a federal or state chartering authority, a depository institution typically provides information about its structure and ownership, as well as financial and managerial information and plans for compliance with applicable laws, including the BSA.

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OCC, FDIC, the Federal Reserve, and National Credit Union Administration (NCUA).<sup>26</sup>

FinCEN often works with federal and state regulators. For example, as administrator of the BSA, FinCEN issues BSA regulations and has delegated examination authority for BSA compliance to the federal banking regulators for banks within their jurisdictions. Further, the federal banking regulators have issued regulations requiring institutions under their supervision to establish and maintain a BSA compliance program.<sup>27</sup> FinCEN has also delegated examination authority for BSA compliance for money transmitters to the Internal Revenue Service (IRS).<sup>28</sup> Money transmitters are subject to the BSA but are not examined by federal regulators for safety and soundness.<sup>29</sup>

To ensure consistency in the application of BSA requirements, in 2005 the federal banking regulators collaborated with FinCEN on a BSA examination manual that was issued by the Federal Financial Institutions Examination Council for federal bank examiners conducting BSA examinations of banks.<sup>30</sup> Similarly, in 2008 FinCEN issued a BSA

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<sup>26</sup>For the purposes of this report, we use “federal banking regulators” to refer collectively to these regulators of depository institutions (federally insured banks and credit unions). Although the Consumer Financial Protection Bureau also has supervisory and enforcement authority over federal consumer financial law for certain entities, including large banks and certain non-depository institutions, we did not include the bureau in our definition of federal banking regulators because it does not examine for compliance with or enforce the BSA. See 12 U.S.C. §§ 5514, 5515.

<sup>27</sup>The appropriate federal regulators are to prescribe regulations requiring the insured depository institutions under their supervision to establish and maintain procedures reasonably designed to assure and monitor the institutions’ compliance with the BSA. 12 U.S.C. §§ 1786(q), 1818(s). Regulations requiring the establishment of BSA compliance programs are codified at 12 C.F.R. § 21.21 (OCC); 12 C.F.R. § 208.63 (Federal Reserve); 12 C.F.R. §§ 326.8, 390.354 (FDIC); 12 C.F.R. § 748.2 (NCUA).

<sup>28</sup>Certain entities are specifically excluded from the IRS’s examination authority, including brokers or dealers in securities, mutual funds, futures commission merchants, introducing brokers in commodities, and commodity trading advisors. 31 C.F.R. § 1010.810(b)(8).

<sup>29</sup>Federal and state banking regulators conduct safety and soundness examinations of depository institutions. These on-site examinations are done periodically and assess an institution’s adherence to laws and regulations such as the BSA, among other things. State regulators may examine depository institutions chartered within their jurisdiction. State regulators may also conduct safety and soundness examinations of non-depository financial institutions, such as money transmitters. The authority of states to regulate money transmitters varies from state to state.

<sup>30</sup>According to FDIC, state examiners were included in the drafting of this BSA examination manual, which state examiners also use to conduct examinations.



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examination manual to guide reviews of money transmitters, including reviews by the IRS and state regulators. The manual for BSA examinations of banks was updated in 2014 to further clarify supervisory expectations and regulatory changes.<sup>31</sup>

FinCEN has authority for enforcement and compliance under the BSA and may impose civil penalties and seek injunctions to compel compliance.<sup>32</sup> In addition, each of the federal banking regulators has the authority to initiate enforcement actions against supervised institutions for violations of law and also impose civil money penalties for BSA violations.<sup>33</sup> Under the BSA, the IRS also has authority for investigating criminal violations.<sup>34</sup> The U.S. Department of Justice prosecutes violations of federal criminal money laundering statutes and violations of the BSA, and several law enforcement agencies can conduct BSA-related criminal investigations.

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<sup>31</sup>Federal Financial Institutions Examination Council, *Bank Secrecy Act/ Anti-Money Laundering Examination Manual* (2014).

<sup>32</sup>For the source of FinCEN's overall enforcement and compliance authority, see 31 U.S.C. §§ 5320, 5321; 31 C.F.R. § 1010.810(a),(d). See 31 U.S.C. § 310; 67 Treasury Order 180-01, Fed. Reg. 64,697 (Sept. 26, 2002).

<sup>33</sup>See 12 U.S.C. §§ 1786(b), (q) (federally insured credit unions), 1818(b), (c), (s) (depository institutions other than credit unions) and 12 U.S.C. §§ 1786(k)(2) (federally insured credit unions), 1818(i) (depository institutions other than credit unions).

<sup>34</sup>31 C.F.R. § 1010.810(b)(8), (c)(2), (g). The authority to enforce certain provisions has been delegated from FinCEN to the Commissioner of Internal Revenue by means of a Memorandum Agreement between FinCEN and the IRS, which provides that the IRS has the authority to, among other things, assess and collect civil penalties under 31 U.S.C. § 5321 and 31 C.F.R. § 1010.810; investigate possible civil violations of these provisions; and issue administrative rulings under 31 C.F.R. pt. 1010, subpt. G. See 31 C.F.R. § 1010.810(g). The IRS's Small Business/Self-Employed Division conducts BSA compliance examinations of money transmitters, and can refer cases to IRS Criminal Investigations if the examiners believe that a willful criminal violation may be involved. IRS Criminal Investigations investigates, among other types of criminal violations, BSA criminal violations.

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## Components of Anti-Money Laundering Compliance Programs for Money Transmitters and Banks under the Bank Secrecy Act

Money transmitters and banks are subject to requirements under the BSA. They are generally required to design and implement a written anti-money laundering (AML) program, report certain transactions to Treasury, and meet recordkeeping and identity documentation requirements for funds transfers of \$3,000 or more. All financial institutions subject to the BSA—including banks and money transmitters—are required to establish an anti-money laundering program.<sup>35</sup> At a minimum, each AML program must

- establish written AML compliance policies, procedures, and internal controls;
- 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.

Bank Secrecy Act anti-money laundering (BSA/AML) regulations require that each financial institution tailor a compliance program that is specific to its own risks based on factors such as the products and services offered, customers, and locations served. BSA/AML compliance programs are expected to address 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. In addition, banks' Customer Identification Programs must also include risk-based procedures for verifying the identity of each customer to the extent reasonable and practicable.
- *Customer Due Diligence.* These procedures enable banks to predict, with relative certainty, the types of transactions in which a customer is likely to engage, which assists banks in determining when transactions are potentially suspicious. Banks must document their process for performing Customer Due Diligence.
- *Enhanced Due Diligence.* Customers who banks determine may pose a higher risk for money laundering or terrorist financing are subject to

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<sup>35</sup>31 U.S.C. § 5318(h)(1). For specific AML program requirements for banks, see 31 C.F.R. § 1020.210.

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these procedures. Enhanced Due Diligence for higher-risk customers helps banks understand these customers' anticipated transactions and implement an appropriate suspicious activity monitoring system. 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.

- *Suspicious Activity Monitoring.* Banks and money transmitters must also have policies and procedures in place to monitor and identify unusual activity. They generally use two types of monitoring systems to identify or alert staff of unusual activity: manual transaction monitoring systems, which involve manual review of transaction summary reports to identify suspicious transactions, and automated monitoring systems that use computer algorithms to identify patterns of unusual activity. Large-volume banks typically use automated monitoring systems.

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

- *Currency Transaction Report.* Banks and money transmitters must electronically file this type of report for each transaction in currency—such as a deposit, withdrawal, exchange, or other payment or transfer—of more than \$10,000.<sup>36</sup>
- *Suspicious Activity Report.* Banks and money transmitters are required to electronically 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

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<sup>36</sup>Certain types of currency transactions need not be reported. For example, money transmitters are not required to report transactions in excess of \$10,000 between the money transmitter and its bank (see 31 CFR 1010.315). Additionally, banks may exempt certain types of customers from currency transaction reporting requirements in accordance with 31 CFR 1020.315.

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transmitters), and (2) the institution knows, suspects, or has reason to suspect that the transaction is suspicious.<sup>37</sup>

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## Remittances to Case-Study Countries

Remittances from the United States are an important source of funds for our case-study countries—Haiti, Liberia, Nepal, and Somalia. The Organisation for Economic Co-operation and Development identified these countries as fragile states because of weak capacity to carry out basic governance functions, among other things, and their vulnerability to internal and external shocks such as economic crises or natural disasters.

- *Haiti.* Currently the poorest country in the western hemisphere, Haiti has experienced political instability for most of its history. In January 2010, a catastrophic earthquake killed an estimated 300,000 people and left close to 1.5 million people homeless. Haiti has a population of approximately 11 million, of which roughly 25 percent live on less than the international poverty line of \$1.90 per day. Nearly 701,000 Haitians live in the United States.<sup>38</sup> In 2015, estimated remittances from the United States to Haiti totaled roughly \$1.3 billion, or about 61 percent of Haiti's overall remittances. Official development assistance for Haiti in 2015 totaled slightly more than \$1 billion.
- *Liberia.* In 2003, Liberia officially ended a 14-year period of civil war but continued to face challenges with rebuilding its economy, particularly following the Ebola epidemic in 2014. Liberia has a population of nearly 5 million people, of which roughly 39 percent live on less than \$1.90 per day. There are roughly 79,000 Liberians in the United States. In 2015, remittances from the United States to Liberia were estimated to be roughly \$328 million, which represented over

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<sup>37</sup>A transaction is suspicious and requires reporting if (1) it may involve potential money laundering or other illegal activity, is designed to evade the BSA or its implementing regulations, has no business or apparent lawful purpose, or is not the type of transaction that the particular customer would normally be expected to engage in, and (2) the institution knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction. 31 C.F.R. § 1020.320(a)(2). Depository institutions are also required to file suspicious activity reports for criminal violations involving insider abuse of any amount, as well as violations aggregating \$5,000 or more when a suspect can be identified and \$25,000 or more even without a potential suspect. See 12 C.F.R. §§ 21.11(c)(1)-(3), 163.180(d)(3)(i)-(iii) (OCC); 12 C.F.R. § 208.62(c)(1)-(3) (Federal Reserve); 12 C.F.R. § 353.3(a)(1)-(3) (FDIC); 12 C.F.R. § 748.1(c)(1)(i)-(iii) (NCUA) .

<sup>38</sup>The foreign born population in the United States for Haiti, Liberia, Nepal, and Somalia are based on the 2015 American Community Survey by the Census Bureau on the size of U.S.-based foreign-born population.

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half of that country's estimated total remittances. In 2015, Liberia reported roughly \$1.1 billion in official development assistance.

- *Nepal*. In 2006, Nepal ended a 10-year civil war between Maoist and government forces, which led to a peace accord, and ultimately a constitution that came into effect 9 years later. In April 2015, Nepal was struck by a 7.8 magnitude earthquake, which resulted in widespread destruction and left at least 2 million people in need of food assistance from the World Food Programme 6 weeks following the earthquake. Nepal has a population of nearly 29 million people, of which 15 percent live on less than \$1.90 per day. In 2015, the foreign-born population of Nepalese in the United States was nearly 125,000, and roughly \$320 million in remittances flowed from the United States to Nepal. For 2015, Nepal received over \$1.2 billion in official development assistance.
- *Somalia*. Since 1969, Somalia has endured political instability and civil conflict, and is the third largest source of refugees, after Syria and Afghanistan. According to a 2017 State report, Somalia remained a safe haven for terrorists who used their relative freedom of movement to obtain resources and funds to recruit fighters, and plan and mount operations within Somalia and neighboring countries.<sup>39</sup> Somalia has an estimated population of over 11 million people, of which about half the population live on less than \$1.90 per day,<sup>40</sup> and roughly 82,000 Somalis reside in the United States. Oxfam estimated global remittances to Somalia in 2015 at \$1.3 billion, of which \$215 million originated from the United States. In 2015, Somalia received nearly \$1.3 billion in official development assistance.

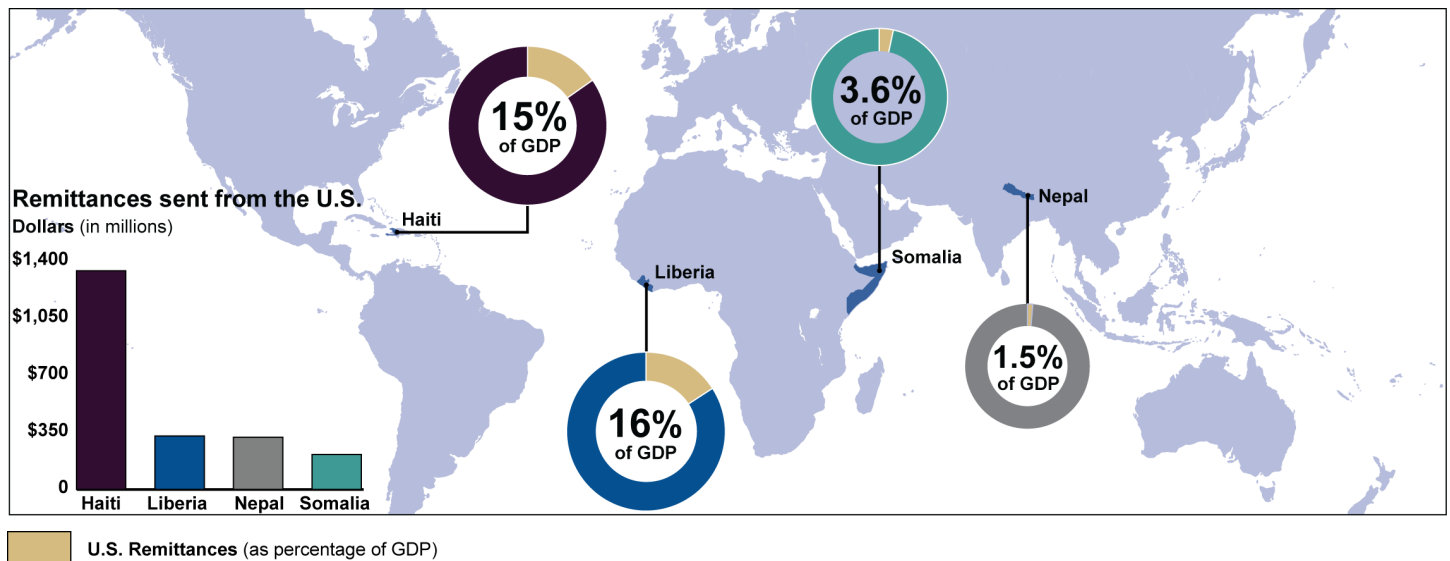
Figure 4 shows the estimated U.S. remittances to each of our case-study countries as a total amount in U.S. dollars and as a percentage of the country's GDP.

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<sup>39</sup>U.S. Department of State, *Country Report on Terrorism* (Washington, D.C.: 2017).

<sup>40</sup>For the population living on \$1.90 per day in Haiti, Liberia, and Nepal, see World Bank indicator "Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population)." For Somalia, see UNICEF, *Somali Poverty Profile 2016: Findings from Wave 1 of the Somalia High Frequency Survey* (June 2017). Data for this indicator for Haiti, Liberia, Nepal, and Somalia range from 2010 to 2016.

**Figure 4: Estimated Total U.S. Remittances, and Corresponding Percentage of GDP, to Case-Study Countries in 2015**



Legend: GDP= Gross Domestic Product

Source: GAO. | GAO-18-313

## Stakeholders Identified Money Transmitters' Loss of Banking Access as a Key Challenge, Although Remittances to Fragile Countries Continue to Flow

Money transmitters serving Haiti, Liberia, Nepal, and especially Somalia reported losing bank accounts or having restrictions placed on them, which some banks confirmed. As a result, some money transmitters have relied on non-banking channels, such as cash couriers, to transfer remittances. All of the 12 money transmitters we interviewed reported losing some banking relationships in the last 10 years. Some money transmitters, including all 4 that served Somalia, said they relied on non-banking channels, such as moving cash, to transfer funds, which increased their operational costs and exposure to risks. Further, in our interviews some banks reported that they had closed the accounts of money transmitters because of the high cost of due diligence actions they considered necessary to minimize the risk of fines under BSA/AML regulations. Treasury officials noted that despite information that some money transmitters have lost banking accounts, Treasury sees no evidence that the volume of remittances is falling or that costs of sending remittances are rising. In addition, U.S.-based remittance senders who send money to our case-study countries reported no significant difficulties in using money transmitters to remit funds.

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## All Money Transmitters We Interviewed Had Lost Bank Accounts, Which for Many Resulted in Higher Costs and a Shift to Non-Banking Channels

All 12 money transmitters we interviewed reported that they or their agents had lost accounts with banks during the last 10 years. All 4 Somali money transmitters and many agents of the 2 Haitian money transmitters we spoke with had lost bank accounts and were facilitating remittance transfers without using bank accounts. Additionally, all 4 large money transmitters that process transfers globally (including to our case-study countries of Haiti, Liberia, and Nepal) also reported that their agents had lost accounts.<sup>41</sup> Almost all of the money transmitters said they also faced difficulties in getting new accounts. Somali money transmitters were most affected by the loss of bank accounts, as 2 of the 4 Somali money transmitters had lost all corporate accounts. While some money transmitters said the banks that closed their accounts did not provide a reason, in other cases, money transmitters said the banks told them that they had received pressure from regulators to terminate money transmitter accounts.<sup>42</sup>

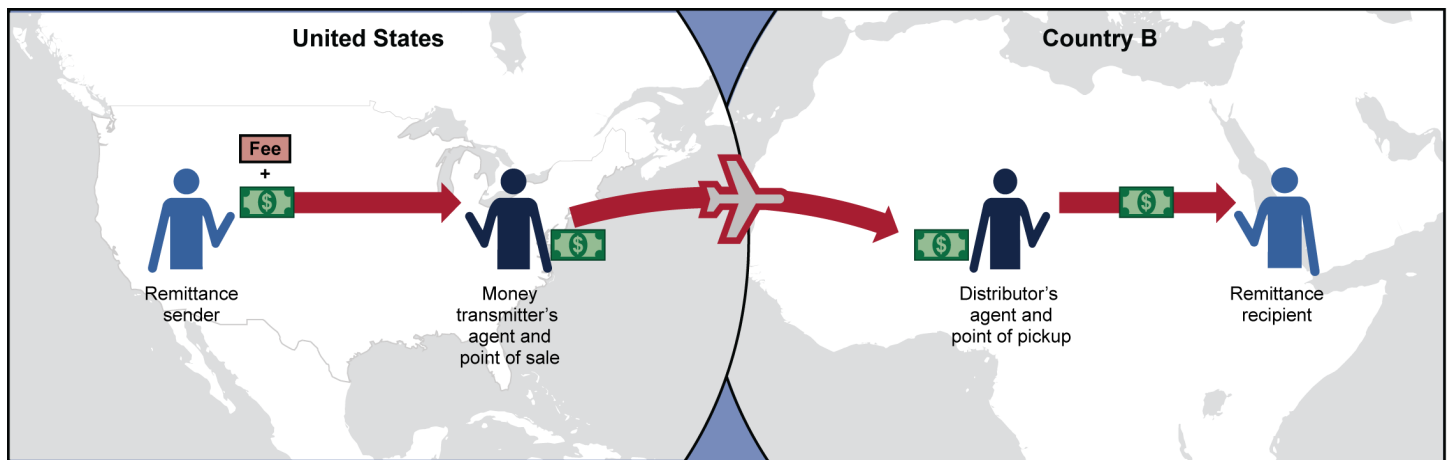
As a result of losing access to bank accounts, several money transmitters, including all of the Somali money transmitters, reported that they were using non-banking channels to transfer funds. In some cases the money transmitter was forced to conduct operations in cash, which has increased the risk of theft and forfeitures, and led to increased risk for agents and couriers. Nine of the money transmitters that we interviewed, including 3 of the 4 Somali money transmitters, some agents of one Haitian money transmitter, and some agents of the 4 larger money transmitters, rely on couriers or armored trucks to transport cash domestically (to the money transmitter's main offices or bank) or internationally (see fig. 5). Money transmitters use cash couriers either because the money transmitter or their agents had lost bank accounts or because it was cheaper to use armored trucks than banks to move funds. In addition to the safety risks money transmitters face when they only accept cash, customers who remit large sums of money also face safety risks because they must transport cash to the money transmitter. For example, in our interviews with remittance senders to Somalia, some of them shared concerns about having to carry cash to money transmitters.

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<sup>41</sup>One of the large money transmitters also facilitates remittances to Somaliland, a semi-autonomous region of Somalia.

<sup>42</sup>GAO is reviewing federal banking regulators' examination practices as part of its ongoing work reviewing money transmitters' access to banking services.

Figure 5: Example of Money Transmitter Cash-to-Cash Remittance Transfer Using a Cash Courier



 Remittance money

Source: GAO. | GAO-18-313

Money transmitters we interviewed reported increased costs associated with moving cash and bank fees. For example, one Haitian money transmitter reported that use of couriers and trucks has increased its cost of moving money from its agents to its primary bank account by about \$75,000 per month (increasing from approximately \$15,000 per month using bank transfers to move funds, to \$90,000 per month with the addition of couriers and trucks). Two of the money transmitters we spoke to stated that they did not have options other than to pay any fees the bank required due to the difficulty in finding new bank accounts. Money transmitters with access to bank accounts reported that bank charges for services such as cash counting, wire transfers, and monthly compliance fees had in some cases doubled or tripled, or were so high that it was less expensive to use a cash courier. For example, some money transmitters stated that their banks charged a monthly fee for compliance related costs that ranged from \$100 a month to several thousand dollars a month.

Over half of the money transmitters we interviewed said the loss of bank accounts limits their growth potential. The 4 larger money transmitters reported that in some cases, the relationship between the agent and money transmitter was terminated, either by the agent or the money transmitter, if the agent no longer had a bank account. In other cases, some large money transmitters compensated for their agents' lost bank



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accounts by using armored vehicles to transfer cash from the agents' locations to the bank. However, the agents need to have a high volume of transactions in order to make the expense of a cash courier worthwhile.

The money transmitters that we spoke with said that they have not passed their increased operational and banking costs on to remittance senders. Most said that they have not increased their fees for sending remittances or have increased fees only slightly. Some of the money transmitters said that they have compensated for higher costs by finding cost-savings in other areas or that they have reduced their profit margin.

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**Some Banks Reported Closing or Denying Accounts for Money Transmitters and Foreign Correspondent Banks, Citing Insufficient Profit to Offset Risks and Costs**

Most of the banks we interviewed expressed concerns regarding account holders who are money transmitters because they tend to be low-profit, high-risk clients. Some banks in our survey reported that constraints in accessing domestic and foreign correspondent banks were also a reason for restricting the number or percentage of money transmitter accounts.

- *Banks have closed accounts of money transmitters serving our case-study countries.* Some banks we surveyed reported terminating accounts of money transmitters who transfer funds to Haiti, Nepal, and Somalia. While 7 of the 193 banks that responded to our survey noted that during the 3-year period from 2014 to 2016 they provided services to money transmitters that facilitated transfers to at least one of our case-study countries, 3 of these 7 banks also reported closing at least one account of a money transmitter serving at least one of the case-study countries. Risks associated with the countries or regions that the money transmitter served was given as one reason (among others) for the closure of the account by 2 out of the 3 banks.
- *Money transmitters are generally low-profit clients for banks.* Most of the banks we interviewed that currently offer money transmitter services stated that BSA/AML compliance costs have significantly increased in the last 10 years due to the need to hire additional staff and upgrade information systems to conduct electronic monitoring of all transactions that are processed through their system. Some banks indicated in our survey and interviews that the revenue from money transmitter accounts was at times not sufficient to offset the costs of BSA/AML compliance, leading to terminations and restrictions on money transmitter accounts. A few banks we interviewed stated that they do not allow money transmitters to open accounts because of the BSA/AML compliance resources they require. Moreover, according to one credit union we interviewed, money transmitters require labor-intensive banking services—such as counting cash and processing

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checks—that are more expensive for the banks than providing basic services to businesses that are not cash intensive.

- *Banks expressed concerns over the adequacy of money transmitters' ability to conduct due diligence on the money transmitter's customers.* In our survey, one bank stated that being unable to verify the identity of beneficiaries, the source of the funds, or the subsequent use of the funds was a challenge the bank faced in managing accounts for money transmitters that remit to fragile countries such as Haiti, Liberia, Nepal, and Somalia. Another bank in our survey noted that it closed some money transmitter accounts because it was unable to get any detail on the purpose of individual remittances. In addition, another bank noted that unlike bank clients, money transmitters' customers may not have ongoing relationships with them, so money transmitters tend to know less about their customers than banks know about theirs. A few banks we interviewed expressed concern that they would be held responsible if, despite the bank carrying out due diligence, authorities detect an illicit transaction has been processed through the bank on behalf of a money transmitter. In addition, one extra-large bank indicated that differences in state regulators' assessments of money transmitters are a challenge for the bank.<sup>43</sup>
- *Banks we surveyed reported reduced access to correspondent banks.* Banks responding to our survey cited reduced access to correspondent banks as a reason for restricting the number of money transmitter accounts. Out of the 193 banks that answered our survey, 30 indicated they have relied on a correspondent bank to transfer funds to our case-study countries (25 to Haiti, 16 to Liberia, 23 to Nepal, and 9 to Somalia). While not specific to our case-study countries, of the 29 banks in our survey that said they had restricted the number or percentage of money transmitter accounts, 8 said that they did so because of difficulty in maintaining correspondent banking relationships, while 3 said they did so due to loss of a correspondent banking relationship.

The absence of direct relations with foreign banks can cause electronic money transfers to take longer to process or in some cases to be

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<sup>43</sup>Money transmitters are regulated by federal and state regulators, and generally must be licensed in each state in which the money transmitter operates. According to the Conference of State Bank Supervisors and the Money Transmitter Regulators Association, the regulations vary from state to state; federal officials noted that at a minimum, state regulations must meet the federal BSA/AML requirements. In 2008, FinCEN issued a BSA/AML manual to guide reviews of money transmitter exams to ensure consistency of application of BSA requirements.

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rejected. One bank official told us that the reduction in correspondent banking relations may not stop funds from being transferred but may increase the cost or time to process the transfer. However, one bank that responded to our survey identified multiple transactions with our case-study countries in recent years that were terminated because a correspondent bank could not be located or had closed.

- *Customer due diligence is a challenge for correspondent banks.* Some banks told us that exposure to risk related to the customers of banks they serve was a key challenge to providing foreign correspondent banking services. Some banks expressed concern that violations of anti-money laundering and terrorism financing guidelines by a customer's customer may result in fines for the bank even when the bank has conducted enhanced due diligence and monitoring of transactions. Two extra-large banks that do not provide foreign correspondent banking services cited due diligence concerns as one reason they choose not to offer such services. Some of the banks that provide correspondent banking services said they conduct more due diligence on the customers of the banks they serve than regulatory guidance requires. Several of the correspondent banks noted that this additional due diligence was challenging to conduct due to the distance between the correspondent bank and the customers of the banks they serve.<sup>44</sup> For example, one bank told us that the farther removed a customer is from being its direct customer, the greater the risk to the bank due to a lack of confidence in the originating institution's procedures to conduct due diligence on its customers.
- *Banks identified country-level risk as a factor.* For banks that responded to our survey, country-level risk was noted as a factor in account closures. Two out of the three banks that had closed accounts for money transmitters serving at least one of our case-study countries noted that risks associated with the countries or regions that the money transmitter served was a contributing reason for the account closures.

Additionally, in our interviews with extra-large banks that serve as a correspondent bank for foreign banks all said that they consider risk related to the country served by a foreign bank when deciding whether to allow the foreign bank to open and maintain accounts. However, most of

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<sup>44</sup>Correspondent banks may process transactions that have passed through multiple intermediary banks. As the number of intermediary banks increases, the "distance" between the remittance sender and the correspondent bank also increases.

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these extra-large banks also said that the country or region where a foreign bank is located is only one of several factors in determining whether the foreign bank is considered high risk. One of the extra-large banks noted that Somalia was an exception because the lack of a banking infrastructure, which compounded concerns that money transmitters serving Somalia pose a higher risk to the bank.

While banks in general told us that they did not make exit decisions regarding correspondent banking at the country level, seven of the eight extra-large banks we interviewed did not currently have correspondent banking relationships with any of our case-study countries, and the one remaining bank served only one country (Haiti).<sup>45</sup> Two of the extra-large banks mentioned closing correspondent banking relationships during the last 10 years in Haiti, Nepal, or Somalia. One extra-large bank indicated that, with the exception of Somalia, funds can still be sent to foreign countries with limited correspondent banking access through banking channels; however, the transaction may need to be routed through multiple banks in order to be processed.

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According to Treasury Officials, Remittance Flows to Fragile Countries Have Not Declined; U.S.-Based Remittance Senders Report Being Generally Satisfied with Their Ability to Remit

Treasury officials reported that remittances continue to flow to fragile countries even though money transmitters face challenges, including some evidence of money transmitter bank account closures. Furthermore, U.S.-based individuals we interviewed who send remittances to Haiti, Liberia, Nepal, and Somalia told us that they are still able to send funds to these countries using money transmitters.

- *Treasury reported money transmitters' banking access difficulties have not affected the estimated volume of remittance flows to fragile countries.* Treasury has collected information through engagement with money transmitters and banks about closures of money transmitter bank accounts and foreign correspondent banking relationships. Treasury officials indicated that remittance flows to fragile countries have not been impacted by such account closures. According to Treasury officials, World Bank estimates of remittance flows show that the volume of international transfers from the United

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<sup>45</sup>We classified banks by asset size from small to extra-large. Extra-large banks have assets of \$50 billion or greater, while small banks have less than \$1 billion in assets; medium banks, between \$1 billion and less than \$10 billion in assets; and large banks, between \$10 billion and less than \$50 billion in assets.

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States has continued to increase.<sup>46</sup> At the same time, World Bank data indicate that the global average cost of sending remittances has continued to decrease. In regards to our case study countries, Treasury officials noted that they were not aware of any decrease in remittance volume to any of these fragile countries. Citing these trends, and anecdotal evidence from Treasury's engagement with banks, the officials stated that there are no clear systemic impacts on the flow of remittances from closures of money transmitter bank accounts and correspondent banking relations.

Treasury officials added that the scope of money transmitter bank account closures is largely unknown, but they acknowledged that such closures can be a significant challenge for money transmitters that serve certain regions or countries, including Somalia. Regarding a possible reduction in the number of correspondent banks, which can make it more challenging to transfer remittances, Treasury officials noted that to the extent there has been consolidation in this sector, it could be a natural process unrelated to correspondent banking risk management processes. Moreover, if consolidation results in stronger banking institutions and lower compliance costs, that would be a positive development for the sector, according to these officials.

- *Treasury officials noted unique challenges in remitting funds to Somalia.* Officials acknowledged that U.S.-based money transmitters transferring funds to Somalia have lost accounts with U.S.-based banks. According to Treasury, Somalia's financial system is uniquely underdeveloped, as the country has not had a functioning government for about 20 years, and the terrorist financing threat is pronounced. Officials said that some Somali money transmitters have in the past moved money to assist al-Shabaab, a terrorist organization, increasing the need for stringent controls specific to anti-money laundering and combating terrorist financing efforts. As a result of these and other factors, Treasury officials stated that difficulties remitting to Somalia are not generalizable to other countries.

Further, Treasury officials said they were aware that some Somali money transmitters have resorted to non-banking channels by carrying cash

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<sup>46</sup>With the exception of Somalia, for which the World Bank does not publish remittance estimates, the World Bank estimates of remittance flows for the other fragile countries in our study show that the volume of international transfers from the United States to these countries has generally increased from 2010 to 2015. The World Bank estimates on remittances do not include the extent to which these funds are sent through banking or other channels.

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overseas. They noted that although physically moving cash is risky, it is not unlawful. Additionally, Treasury officials stated that the use of cash couriers to remit funds has not been a concern for regulators because this practice has not increased the remittance fees that money transmitters charge their consumers.

### Reasons Senders Reported General Satisfaction with Money Transmitters

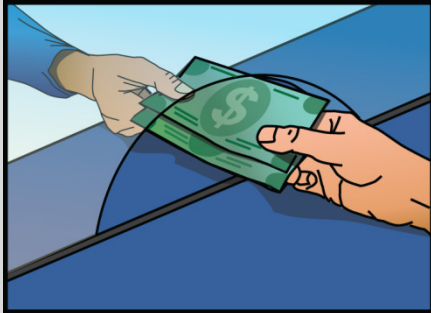
The remittance senders for Haiti, Liberia, Nepal, and Somalia told us that they are generally satisfied using money transmitters over other methods to transfer money abroad because money transmitters

- quickly deliver the funds to recipients;
- are cheaper than banks;
- can be used even if the recipient lacks a bank account; and
- tend to have more locations in recipient countries compared to banks.

Somali remittance senders told us that they preferred money transmitters that specialize in transfers to Somalia because

- specialized Somali money transmitters cost less than transmitters that serve many countries, and
- overseas agents of the Somali money transmitters are knowledgeable about the communities where they operate and have earned the trust of the community members.

### Remittances Provide Critical Support



Source: GAO. | GAO-18-313

Remittance senders told us that their families and friends use the money sent for many purposes, including to meet basic survival needs as well as to improve the quality of their lives.

Survival needs:

- Food
- Rent
- Medicine
- Medical care

Life improvements:

- School fees
- Business construction
- Purchasing property

Source: GAO. | GAO-18-313

- *U.S.-based remittance senders we interviewed are generally satisfied with their money transmitters.* The U.S.-based remittance senders we spoke with from each of our case-study countries reported that they frequently use money transmitters and have not encountered major difficulties in sending remittances. In general, these senders expressed satisfaction with their money transmitters and stated that they had not experienced major problems in sending money via money transmitters. Senders told us that they generally preferred using money transmitters because money transmitters were cheaper than banks and were quicker in delivering the funds. In addition, money transmitters were often more accessible for recipients collecting the remittances because the money transmitters had more locations than banks in recipient countries. However, some remittance senders told us that they experienced delays or were unable to send large amounts of money through money transmitters. In addition, some Somali senders told us that they were dissatisfied with being unable to use personal checks or online methods due to a requirement to pay in cash.

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## U.S. Agencies Have Taken Certain Steps That May Mitigate Banking Challenges Related to Remitting Funds to Fragile Countries but Disagreed with Other Proposed Actions

U.S. agencies, including Treasury, Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, and National Credit Union Administration (NCUA), have issued guidance to the financial institutions they regulate to clarify expectations for providing banking services to money transmitters. In addition, Treasury's Office of Technical Assistance (OTA) is engaged in long-term capacity building efforts in Haiti, Liberia, and Somalia to improve those countries' weak financial institutions and regulatory mechanisms, factors that may cause banks to consider money transmitters remitting to these countries to be more risky clients. However, agency officials disagreed with some suggestions for government action proposed by banks and others because such actions would contravene agencies' Bank Secrecy Act anti-money laundering (BSA/AML) compliance goals.

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## Agencies Have Taken Certain Steps That May Address Money Transmitters' Difficulties in Maintaining Banking Access

Treasury and Other Agencies Have Issued Guidance Intended to Prevent Widespread Termination of Banking Services for Money Transmitters, Among Other Goals

Treasury, including FinCEN and OCC, as well as FDIC, the Federal Reserve, and NCUA have issued various guidance documents intended to ensure BSA/AML compliance while mitigating negative impacts on money transmitter banking access.<sup>47</sup> Since 2011, Group of Twenty (G20) leaders,<sup>48</sup> including the U.S. government, have committed to increasing financial inclusion through actions aimed at reducing the global average cost of sending remittances to 5 percent. According to Treasury officials, financial inclusion and BSA/AML compliance are complementary goals. In

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<sup>47</sup>On their websites, Treasury and the World Bank define financial inclusion as access to financial products and services that are useful, affordable, and delivered in a responsible and sustainable way. Treasury's website states that access to these services "enables individuals and businesses to transfer money, make payments, manage income volatility, save for specific financial goals, access credit, and insure against risks."

<sup>48</sup>The G20 is a forum for international cooperation on global economic and financial issues. Its members include 19 countries and the European Union. The G20's objectives are to coordinate policy among its members to achieve global economic stability and sustainable growth; promote financial regulations that reduce risks and prevent future financial crises; and modernize the international financial architecture.



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published statements, Treasury has affirmed that money transmitters provide essential financial services, including to low-income people who are less likely or unable to make use of traditional banking services to support family members abroad. Treasury has also acknowledged that leaving money transmitters without access to banking channels can lead to an overall reduction in financial sector transparency to the extent that money transmitters resort to non-banking channels for transferring funds.

Nonetheless, Treasury officials we spoke to noted that in implementing BSA/AML regulations, banks retain the flexibility to make business decisions such as which clients to accept, since banks are in the best position to know whether they are able to implement controls to manage the risk associated with any given client. These officials indicated that Treasury pursues market-driven solutions and cannot order banks to open or maintain accounts. Treasury officials noted that Treasury works through existing multilateral bodies to promote policies that will support market driven solutions to banking access challenges and deepen financial inclusion globally.<sup>49</sup>

To clarify how banks assess BSA/AML risks posed by money transmitters and foreign banks, Treasury and other regulators have issued various guidance documents that, among other things, describe best practices for assessing such risks (see table 1). Some of the guidance emphasizes that risk should be assessed on a case-by-case basis and should not be applied broadly to a class of customers when making decisions to open or close accounts.

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<sup>49</sup>Treasury engages with international bodies such as the Financial Stability Board and Financial Action Task Force to address difficulties money transmitters and depository institutions face in remitting funds, including remitting to fragile countries. The board is an international body that promotes international financial stability by coordinating national financial authorities and international standard-setting bodies, encouraging coherent implementation of supervisory and regulatory policies, and monitoring and making recommendations about the global financial system. Treasury officials stated that Treasury has been involved in the board's Correspondent Banking Coordination Group, with some of its actions aimed at understanding and addressing the scope and drivers of correspondent banking decline by collecting data on the decline in correspondent banking, clarifying regulatory expectations for correspondent banking, providing technical assistance related to correspondent banking, and lowering BSA/AML compliance costs for banks. The Financial Action Task Force is an inter-governmental body that sets standards and promotes effective implementation by its members of regulations to counter money laundering and the financing of terrorism.

**Table 1: Key Guidance Issued by Treasury and Other Federal Regulators Addressing BSA/AML Risk Posed by Money Service Businesses, including Money Transmitters, and Foreign Banks**

Date	Guidance	Summary
Mar. 2005	FinCEN and Federal Banking Agencies' "Joint Statement on Providing Banking Services to Money Services Businesses"	FinCEN and the Federal Banking Agencies, including the Federal Reserve, OCC, FDIC, and NCUA, advised banks that the risk posed by money services businesses should be assessed on a case-by-case basis. The agencies noted that these businesses provide valuable financial services to individuals without access to the formal banking sector.
Mar. 2010	FinCEN, Federal Banking Agencies, and Securities and Exchange Commission Joint Release "Guidance on Obtaining and Retaining Beneficial Ownership Information"	FinCEN, the Federal Banking Agencies, and the Securities and Exchange Commission, in consultation with staff of the Commodity Futures Trading Commission, described how banks should approach BSA/AML customer due diligence for beneficial owners of certain legal entities, i.e., individuals who own, directly or indirectly, 25 percent or more of the legal entity, or with significant responsibility to control, manage, or direct the legal entity.
Nov. 2014	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 remittance services and financial services to populations that do not use traditional banking services.
Nov. 2014	OCC BULLETIN 2014-58 "Statement on Risk Management Associated With Money Services Businesses"	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.
Dec. 2014	NCUA SL 14-05 "Supervisory Letter on Money Services Businesses"	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.
Jan. 2015	FDIC FIL-5-2015 "Statement on Providing Banking Services"	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.
Jan. 2016	NCUA 16-CU-01 "Supervisory Priorities for 2016"	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.
Aug. 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, including 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 for details on such transactions.

Date	Guidance	Summary
Oct. 2016	OCC 2016-32 "Risk Management Guidance on Periodic Risk Reevaluation of Foreign Correspondent Banking"	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 identified best practices for banks including (1) treating foreign correspondent accounts based on periodic risk reevaluation; (2) considering financial inclusion concerns and access to financial services when making decisions to terminate such accounts; and (3) 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; FinCEN= Financial Crimes Enforcement Network

Source: GAO summary of guidance issued by the Department of the Treasury (Treasury), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Board of Governors of the Federal Reserve System (Federal Reserve), and the Office of the Comptroller of the Currency (OCC). | GAO-18-313

The agencies issuing these guidance documents have taken some steps to assess the impact of guidance on bank behavior. For example, Treasury officials told us that Treasury periodically engages with banks and money transmitters on an ad hoc basis to learn their views and gain insight into their concerns. According to Federal Reserve officials, anecdotal information suggests that some money transmitters lost bank accounts after issuance of the 2005 joint guidance summarized above in table 1, and that outcome was contrary to the regulators' intent. To address concerns about the guidance, according to these officials, Treasury held several public discussions on money transmitter account terminations. OCC officials stated that they have not conducted a separate assessment of the effects of their October 2016 correspondent banking guidance on banks' risk assessment practices. However, they noted that OCC examiners evaluate banks' policies, procedures, and processes for risk reevaluation, including processes for assessing individual foreign correspondent bank customer risks, as a part of OCC's regular bank examination process.

Bank officials we spoke to noted that while the guidance from regulators provides broad direction for banks' risk assessments of foreign banks and money transmitter clients, the guidance does not provide specific details to clarify how banks can ensure BSA/AML compliance for specific higher-risk clients.

Treasury Is Providing Technical Assistance to Build Financial Capacity in Haiti, Liberia, and Somalia

According to Treasury officials, there is no feasible short-term solution to address the loss of banking services facing money transmitters involved in transferring funds to certain fragile countries, especially Somalia. These officials explained that U.S. banks may be reluctant to transfer funds to fragile countries because key governmental and financial institutions in these countries have weak oversight and therefore may face difficulties in detecting and preventing money laundering and

terrorism financing. As of September 2017, Treasury’s OTA is providing capacity building support to fragile countries,<sup>50</sup> including Haiti, Liberia, and Somalia, with some of its efforts aimed at addressing long-term factors affecting these countries’ BSA/AML supervisory capability.

Table 2 identifies and describes the status of OTA projects in our case-study countries of Haiti, Liberia, and Somalia. OTA does not currently have a project in Nepal.

**Table 2: U.S. Department of the Treasury’s Office of Technical Assistance (OTA) Projects in Three of Our Case-Study Countries**

Location	Project description	Project start date and duration
Haiti	Assisting the government’s tax collection agency to improve information technology, strengthen strategic planning, improve management practices, and implement a new revenue management system.	OTA’s engagement signed a Terms of Reference (TOR) with the government of Haiti in February 2011 and is scheduled to conclude at the end of calendar year 2018.
Liberia	Assisting Liberia in effectively implementing its anti-money laundering and countering the financing of terrorism regime; in particular, improving the operation of the financial intelligence unit and financial sector supervision.	OTA signed a TOR with the government of Liberia in February 2016 and OTA’s Economic Crime Team will seek additional funding to continue the project in 2018.
Somalia	Providing assistance to the Central Bank of Somalia in bank supervision; in particular, improving bank staff’s capacity to understand financial institution operation and management and examine financial institutions.	OTA signed a TOR with the government of Somalia in June 2015. As of December 2017, the project is operating under its second interagency agreement. To date, OTA has conducted eight training sessions and will conduct another five sessions over the next 11 months. OTA’s next training session was delayed until at least January 2018 due to the Kenyan presidential election re-run.

Source: GAO summary of information provided by the Department of the Treasury. | GAO-18-313

<sup>50</sup>OTA only carries out activities at the request of host countries. If the host government request is deemed to fall within OTA’s mandate, OTA analyzes the request based on an on-the-ground needs assessment that considers whether the financial needs of the country are consistent with the support OTA provides, and whether there exists sufficient political will to implement reforms. OTA monitors project performance through a variety of methods, including monthly or trip reports, an end-of-tour report to capture specific advisors’ feedback, and an end-of-project report to evaluate long-term impact. OTA also evaluates impact of ongoing projects through an annual exercise and “customer surveys” given to host country counterparts, U.S. embassy staff, and other stakeholders.

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## U.S. Agency Officials Disagreed with Several Actions Proposed by Banks and Others, for Reasons Including Agencies' BSA/AML Compliance Goals

Banks, money transmitters, trade associations, and state regulators we interviewed,<sup>51</sup> as well as third parties such as the World Bank and Center for Global Development,<sup>52</sup> have proposed several actions to address banking access challenges money transmitters face in transferring funds through banks from the United States to fragile countries.

- *Use of public sector transfer methods.* Most banks we spoke to mentioned regulatory risk as a challenge to creating or maintaining money transmitter accounts. These banks stated that the ultimate risk for conducting transactions for money transmitter accounts falls on the bank, and that banks face substantial risk of regulatory action for such transactions. Therefore, one extra-large bank and one credit union we spoke to suggested using public sector transfer methods such as the Fedwire Funds Service (Fedwire) or FedGlobal Automated Clearing House Payments (FedGlobal)<sup>53</sup> to process remittances to fragile

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<sup>51</sup>Some money transmitters, money transmitter associations, and regulators we interviewed suggested that federal regulators should consider ways to reduce the pressure on banks to not have money transmitters as clients. They suggested options to limit the banks' risk exposure due to money transmitter clients, such as by establishing uniform customer identification requirements for money transmitters, developing a money transmitter certification process, establishing conditions to provide banks regulatory immunity for certain remittances transfers, and establishing clearer guidance to help banks balance BSA/AML compliance and financial inclusion. However, some money transmitters stated that federal regulators are fulfilling their duties and that lack of harmonization among the various state regulators contributes to banks' hesitancy to bank money transmitters.

<sup>52</sup>In its March 2016 brief "Financial Regulations for Improving Financial Inclusion," the Center for Global Development suggested that less onerous know-your-customer regulations be applied to accounts processing small transactions. The center also suggested the establishment of safe corridors for pre-approved financial intermediaries and recipients involved in transferring money to particular countries deemed to pose severe risks to global financial integrity. In its November 2015 report *Unintended Consequences of Anti-Money Laundering Policies for Poor Countries*, the center recommended that national governments provide best practices documents on indicators of lower-risk money transmitters, in conjunction with clearer guidance from the Financial Action Task Force.

<sup>53</sup>The Fedwire Funds Service is the Federal Reserve's wire transfer service. Fedwire allows for immediate settlement of wire transfers between domestic institutions. In its 2015 report to Congress on Remittance Transfers to Foreign Countries, the Federal Reserve decided not to pursue an option to allow Fedwire Funds Service customers to send cross-border payments based on an analysis of the costs, benefits, and risks of this option. FedGlobal Automated Clearing House Payments (FedGlobal) is a Federal Reserve Bank service to process international remittance transfers and other cross-border payments. As of 2016, FedGlobal provided service to 25 countries in North America, Central America, and Europe. None of our case-study countries are served by FedGlobal.

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countries, thereby mitigating the regulatory risk posed to banks that transfer such funds.

- *Providing regulatory immunity, given appropriate oversight.* To mitigate the regulatory risk to banks posed by money transmitter clients that send remittances to fragile countries, one extra-large bank, one credit union, and several money transmitters we spoke to suggested that regulators provide forms of regulatory immunity or regulator assurances that banks would not face enforcement actions if they carried out a specified level of due diligence to process remittances to fragile countries.
- *Issuing more specific guidance.* About half of the banks we spoke to mentioned fear of regulatory scrutiny due to ambiguities in regulatory agencies' guidance or examiner practices. This fear of regulatory scrutiny served as a disincentive for these banks to maintain money transmitter accounts. While officials from about half of the banks we spoke to stated that additional guidance issued by Treasury and other agencies was helpful to clarify regulatory expectations and that examiner practices were consistent with guidance, others stated that they were uncertain about how much due diligence constituted enough for regulatory purposes, because regulations incorporated ambiguous language or because examiner practices exceeded regulations.<sup>54</sup> These bank officials suggested that regulators could provide more specific guidance for banks on risk management, for instance, by including example scenarios and answers to frequently asked questions. The World Bank recommended in 2015 that regulators provide banks with additional guidance on assessing the risk of different money transmitter clients.<sup>55</sup>

U.S. agency officials stated that they disagreed with implementing these proposals for reasons specific to each one, as discussed below.

- *Use of public sector transfer methods.* Treasury officials told us that they prefer market-based solutions to the challenges of transferring

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<sup>54</sup>We have ongoing work on bank examiner practices and money transmitter accounts with banks.

<sup>55</sup>In its October 2015 *Report on the G20 Survey on De-Risking Activities in the Remittance Market*, the World Bank recommended that regulators provide banks with new guidance on differentiating between higher- and lower-risk money transmitters and corridors to assist banks in providing and managing money transmitter accounts. In its November 2015 report *Withdrawal from Correspondent Banking: Where, Why, and What to Do About It*, the World Bank recommended that national supervisors provide detailed guidance to clarify the extent of due diligence on the customer's customer.

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remittances to fragile countries, rather than a solution in which the U.S. government assumes the risk in transferring these remittances, such as using the Federal Reserve to directly transfer payments from money transmitters. Federal Reserve officials told us that Fedwire is reserved for domestic wire transfers, and while the Federal Reserve continues to evaluate the scope of the FedGlobal service, no decisions have been made to expand the service to additional countries at this time. Federal Reserve officials told us they seek to increase remittance flows to the countries the program already serves.

- *Providing regulatory immunity, given appropriate oversight.* Treasury officials told us that while they would need to see the suggested duration and conditions pertaining to any proposal for regulatory immunity or exemptions in order to judge its feasibility, implementing this suggestion could raise a number of legal and policy concerns. Officials told us that while Treasury has the authority to provide regulatory exemptions,<sup>56</sup> creating particular conditions for regulatory immunity would stray from Treasury's intended risk-based approach to BSA/AML compliance, and bad actors might take advantage of any such exemptions for criminal activity.
- *Issuing more specific guidance.* OCC informed us that it is not currently considering implementing more specific guidance. Treasury officials told us that existing guidance clarifies that Treasury does not have a zero tolerance approach to BSA/AML compliance and that Treasury does not expect banks to know their customers' customers. These officials told us that they prefer not to issue further amplifying guidance with very specific examples as to what constitutes "compliance" by financial institutions, because Treasury does not wish to institute a "check the boxes" approach to regulatory compliance.

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<sup>56</sup>31 U.S.C. 5318(a) (7).

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## Existing U.S. Agency Information on Remittances Does Not Allow Treasury to Assess the Effects of Money Transmitters' Loss of Banking Access on Remittance Flows to Fragile Countries

Treasury cannot assess the effects of money transmitters' loss of banking access on remittance flows because existing data do not allow Treasury to identify remittances transferred through banking and non-banking channels. Recent efforts to collect international remittance data from banks and credit unions do not include transfers these institutions make on behalf of money transmitters. Since these data collection efforts are designed to protect U.S. consumers, the remittance data that banks and credit unions report are limited to remittances individual consumers send directly through these institutions. Additionally, a few state regulators recently began requiring money transmitters to report remittance data by destination country, but these data do not distinguish money transmitters' use of banking and non-banking channels to transfer funds. Finally, while Treasury has a long-standing effort to collect information on travelers transporting cash from U.S. ports of exit, this information does not identify cash transported for remittances. Without information on remittances sent through banking and non-banking channels, Treasury cannot assess the effects of money transmitter and foreign bank account closures on remittances, especially shifts in remittance transfers from banking to non-banking channels for fragile countries. Non-banking channels are generally less transparent than banking channels and thus more susceptible to the risk of money laundering and other illicit financial transactions.

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## Remittance Data from Financial Institutions Do Not Capture Money Transmitters' Use of Banking Channels to Transfer Funds

Banks and Credit Unions Do Not Report on Remittances They Transfer for Money Transmitters

Federal regulators recently began collecting data on international remittances from banks and credit unions by requiring these institutions to provide more information in pre-existing routine reports. However, these reports do not require banks and credit unions to include information on remittance transfers these institutions make on behalf of money transmitters, among other business clients. According to officials from the Office of the Comptroller of the Currency (OCC) and from the Consumer Financial Protection Bureau, the additional reporting requirements for remittances were intended to help regulators monitor compliance with rules aimed at protecting U.S. consumers who use remittance services offered by banks and credit unions. Furthermore, banks and credit unions



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are not required to report on destination countries for remittance flows. Specifically:

- Beginning in 2014, Federal banking regulators—FDIC, the Federal Reserve, and OCC— required banks to provide data on international remittances in regular reporting known as the Consolidated Reports of Condition and Income (Call Reports). These reports, which are required on a quarterly basis from FDIC-insured banks, generally include banks’ financial information such as assets and liabilities, and are submitted through the Federal Financial Institutions Examination Council, a coordinating body. Specifically, the agencies required banks to indicate whether they offered consumers mechanisms, including international wire transfers, international automated clearinghouse transactions, or other propriety services, to send international remittances. The Consumer Financial Protection Bureau uses the remittance data in Call Reports to better understand the effects of its rules regarding remittance transfers including its rules on disclosure, error resolution, and cancellation rights.<sup>57</sup> Additionally, according to bureau officials, they also use the data for other purposes, for example, to monitor markets and to identify banks for remittance exams and, if needed, additional supervision.

The Call Reports do not require a bank to report remittances for which the bank is providing such service to business customers, including money transmitters. According to OCC officials, because the remittance regulation that the Consumer Protection Financial Bureau enforces originated in response to consumer-focused legislation, a bank is required to report only those remittances for which the bank is the direct service provider to the individual consumer. Consequently, remittances reported in the Call Reports do not include remittances for which the banks served as a correspondent bank or as a provider for a money transmitter. Furthermore, banks are not required to report remittance data by destination country.

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<sup>57</sup>The Federal Financial Institutions Examination Council Task Force on Reports, of which the Consumer Financial Protection Bureau is a member, established a requirement for banks and credit unions to report remittance data in the bank Call Report and the credit union Call Report, respectively, after the Consumer Financial Protection Bureau implemented the remittance rule in subpart B of Regulation E. This regulation implements the Electronic Fund Transfer Act, which establishes a basic framework of the rights, liabilities, and responsibilities of participants in the electronic fund and remittance transfer systems. The added requirement to report remittance data in bank and credit union Call Reports is intended to aid with supervisory oversight and market monitoring as well as to inform any later policy decisions regarding remittance transfers, according to the Federal Register Notice in 78 Fed. Reg. 12,141 (Feb. 21, 2013).

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Money Transmitters Are Not Required to Report Whether the Remittances they Transfer are Through Banking or Other Channels

- In 2013, the National Credit Union Administration (NCUA) began requiring credit unions to provide data on the number of remittance transactions, but not data on the dollar amount transferred, in their Call Reports to NCUA.<sup>58</sup> Similarly, and consistent with its treatment of banks, the Consumer Financial Protection Bureau uses the remittance data submitted by credit unions in Call Reports, for example, to better understand the effects of its rules and for market monitoring. The credit unions are also not required to include transactions they process on behalf of business clients, such as money transmitters, and do not provide remittance data by destination country.

In 2017 some states began collecting remittance data from money transmitters by state and destination country through the Money Services Business Call Report. The purpose of these reports is to enhance and standardize the information available to state financial regulators concerning the activities of their Money Services Business licensees to effectively supervise these organizations.<sup>59</sup> However, money transmitters are not required to distinguish whether the remittances they transferred were sent through banking or other channels. Additionally, while these reports collect remittance data by destination country, these data are not comprehensive because, according to the Nationwide Multistate Listing System,<sup>60</sup> as of the first quarter of 2018, about half the states (24) had adopted the reports for money transmitters and of these 12 states had made it mandatory to report the remittances by destination country.

Due to a lack of reporting on money transmitters' use of banking channels to transfer remittances, Treasury cannot assess the extent of the decline in money transmitters' use of banking channels to transfer remittances to fragile countries, including the four we selected as case-study countries: Haiti, Liberia, Nepal, and Somalia.

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<sup>58</sup>Starting in 2013, the NCUA included a question on the number of international transfers originated year-to-date in the Call Report required of credit unions; however, information on the amount of those transfers is not collected.

<sup>59</sup>Licensees can complete the report directly in the Nationwide Mortgage Licensing System & Registry. The report includes information on national and state-specific Money Services Business activity that is submitted on a quarterly and annual basis.

<sup>60</sup>The Nationwide Multistate Licensing System is the system of record for non-depository financial services licensing or registration in participating state agencies, including the District of Columbia and U.S. Territories of Puerto Rico, the U.S. Virgin Islands, and Guam. In these jurisdictions, this system is the official system for companies and individuals seeking to apply for, amend, renew, and surrender license authorities managed through the system by 62 state or territorial governmental agencies.

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## U.S. Agency Efforts to Collect Data on Physical Transportation of Cash Are Not Designed to Track Flow of Remittances through Non-Banking Channels

While Treasury has a long-standing effort to collect information on travelers transporting cash from U.S. ports of exit, this information is not designed to enable Treasury to identify cash transported for remittances or the intended final destination of the cash. For financial transfers through non-banking channels, Treasury requires persons or businesses to report the export of currency and monetary instruments at ports of exit, which include remittances sent through money transmitters carried out in cash. Specifically, Treasury requires persons or businesses, including money transmitters, who physically transport currency or other monetary instruments exceeding \$10,000 at one time, from the United States to any place outside of the United States, to file a Report of International Transportation of Currency or Monetary Instruments (CMIR) with U.S. Customs and Border Protection at the port of departure.<sup>61</sup> The CMIR collects information such as the name of the person or business on whose behalf the importation or exportation of funds was conducted, the date, the amount of currency, U.S. port or city of arrival or departure, and country of origin or destination, among other information. The forms are filled out manually by individuals carrying cash. U.S. Customs and Border Protection officers collect the forms at ports of exit, and that agency's contractors manually enter the data reported on these forms into a central database.

Money transmitters and their agents who carry cash in excess of \$10,000 from the United States are required to submit the CMIR to U.S. Customs and Border Protection upon departure. Thus, to some extent, CMIR data include data on remittances transferred by money transmitters in cash; however, the CMIR is not intended to capture information specific to remittances, and thus its usefulness is limited for agencies in tracking the flow of remittances through non-banking channels. First, the destination country reported on the CMIR may not be the final destination of the cash or other monetary instrument being transported. For example, money transmitters we interviewed told us that they use cash couriers to transfer funds to Somalia via the United Arab Emirates, where the funds may enter a clearinghouse that can transfer the funds to Somalia. While the ultimate destination of the remittances is Somalia, the CMIR may list the

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<sup>61</sup>Title II, Chapter 2 of the Bank Secrecy Act of 1970 introduced three different and complementary reporting requirements: the CMIR, the Currency Transaction Report, and the Foreign Bank Account Report. The threshold for CMIR reporting was fixed by statute, initially at \$5,000 and then, in 1984, at \$10,000 in order to narrow the focus of law enforcement efforts to relatively large transactions.

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United Arab Emirates as the destination because it is the first destination out of the United States. Second, FinCEN officials acknowledged they do not know the extent of underreporting in general with regard to the CMIR; however, money transmitters we interviewed indicated that they have incentives to file CMIR for their own protection in case they have to file an insurance claim. Finally, CMIR does not ask if the currency or monetary instruments are remittances, which makes it difficult if not impossible to separate out the data on remittances from the overall data.

Existing data do not enable Treasury to identify remittances transferred by money transmitters through banking and non-banking channels. Non-banking channels are generally less transparent than banking channels and thus more susceptible to the risk of money laundering and terrorist financing. FinCEN's mission is to safeguard the financial system from illicit use, combat money laundering, and promote national security by, among other things, receiving and maintaining financial transactions data and analyzing that data for law enforcement purposes. Additionally, federal standards for internal control state that agency managers should comprehensively identify risks and analyze them for their possible effects.<sup>62</sup>

A lack of data on remittances sent through banking and non-banking channels limits the ability of Treasury to assess the effects of money transmitter and foreign bank account closures on remittances, in particular shifts of remittances to non-banking channels for fragile countries. The risks associated with shifts of remittances to non-banking channels may vary by country and are likely greater for fragile countries such as Somalia where the United States has concerns about terrorism financing.

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## Conclusions

Remittances continue to flow to fragile countries, but the loss of banking services for money transmitters, as well as a decline in foreign banking relationships, has likely resulted in shifts to non-banking channels for remittances to some of these countries. While money transmitters who have lost bank accounts may adapt by moving remittances in cash or other non-banking channels, the lack of a bank account presents operational risks for these organizations. Moreover, the flow of funds such

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<sup>62</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

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as remittances from banking to non-banking channels decreases the transparency of these transactions. While U.S. regulators have issued guidance to banks indicating that they should not terminate accounts of money transmitters without a case-by-case assessment, several banks we contacted remain apprehensive and are reluctant to incur additional costs for low-profit customers such as money transmitters. At the same time, senders of remittances still prefer to use money transmitters to send funds, which the senders regard as a critical lifeline for family and friends in fragile countries. Although federal and state regulators have undertaken recent efforts to obtain remittance data from financial institutions such as banks and money transmitters, these efforts are designed for consumer protection and the regulatory supervision of financial institutions, rather than to track remittances sent by money transmitters using banking channels. As a result, the available data are not sufficient for the purposes of tracking changes in money transmitters' use of banks to transfer funds. Similarly, while Treasury has a long-standing effort to collect information on large amounts of cash physically transported by travelers at U.S. ports of exit, this information collection is not intended to track the flow of remittances through non-banking channels. Consequently, to the extent money transmitters losing banking access switch to non-bank methods to transport remittances, Treasury may not be able to monitor these remittance flows. This, in turn could increase the risk of terrorism financing or money laundering, especially for remittances to fragile countries where risks related to illicit use of funds are considered higher.

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## Recommendation for Executive Action

We are making one recommendation to Treasury.

The Secretary of Treasury should assess the extent to which shifts in remittance flows from banking to non-banking channels for fragile countries may affect Treasury's ability to monitor for money laundering and terrorist financing and, if necessary, should identify corrective actions.

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## Agency Comments

We provided a draft of this product for comment to Treasury, FDIC, the Federal Reserve, CFPB, U.S. Customs and Border Protection, Commerce, NCUA, State, and USAID. Treasury, FDIC, the Federal Reserve, CFPB, and U.S. Customs and Border Protection, provided technical comments, which we have incorporated, as appropriate. We requested that Treasury provide a response to our recommendation, but

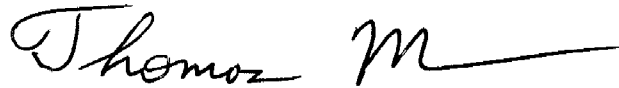
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Treasury declined to do so. Commerce, NCUA, State, and USAID, did not provide comments on the draft of this report.

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We are sending copies of this report to the appropriate congressional committees; the Secretary of the Treasury; the Chairman of the Federal Deposit Insurance Corporation; the Chair of the Board of Governors of the Federal Reserve System; the Acting Director of the Consumer Financial Protection Bureau; the Secretaries of Commerce, Homeland Security, and State; the Administrators of the U.S. Agency for International Development and the National Credit Union Administration; and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have questions about this report, please contact me at (202) 512-9601, or [melitot@gao.gov](mailto:melitot@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

A handwritten signature in black ink that reads "Thomas M" followed by a long horizontal flourish.

Thomas Melito  
Director, International Affairs and Trade

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*List of Requesters*

The Honorable Wm. Lacy Clay  
Ranking Member  
Subcommittee on Financial Institutions and Consumer Credit  
Committee on Financial Services  
House of Representatives

The Honorable Gwen Moore  
Ranking Member  
Subcommittee on Monetary Policy and Trade  
Committee on Financial Services  
House of Representatives

The Honorable Jeff Flake  
United States Senate

The Honorable Catherine Cortez Masto  
United States Senate

The Honorable Keith Ellison  
House of Representatives

The Honorable Tom Emmer  
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 examines (1) what stakeholders believe are the challenges facing money transmitters in remitting funds from the United States to selected fragile countries, (2) what actions U.S. agencies have taken to address identified challenges, and (3) U.S. efforts to assess the effects of such challenges on remittance flows from the United States to fragile countries.

To address the objectives, we identified four case-study countries: Haiti, Liberia, Nepal, and Somalia. We selected these countries based on their inclusion in the Organisation for Economic Co-operation and Development's States of Fragility reports from 2013 to 2015. In addition, we limited our selection to countries that have a foreign-born population of 50,000 or more living in the United States. Finally, we considered the size of estimated total remittances from the United States relative to the recipient countries' gross domestic products (GDP). We rank ordered the 17 countries that met these criteria and selected the top four.

For our first objective, to understand the challenges that stakeholders believe money transmitters face in remitting funds from the United States to fragile countries, we surveyed banks and interviewed U.S. agency officials, money transmitters, banks, credit unions, and remittance senders. To obtain insights from U.S. agency officials, we interviewed and received written responses from officials of the Department of the Treasury (Treasury)—including the Office of Technical Assistance (OTA), the Financial Crimes Enforcement Network (FinCEN), the Office of Terrorism and Financial Intelligence, and the Office of the Comptroller of the Currency (OCC).

To obtain insights from money transmitters, we used the World Bank's Remittance Prices Worldwide database to select U.S.-based money transmitters serving our case-study countries. The World Bank database includes a sample of money transmitters, which the World Bank reported it selected to cover the maximum remittance market share possible and survey a minimum aggregated market share of 80 percent for each country. We attempted to contact the 18 money transmitters that the World Bank identified as the major service providers for our case-study countries. We interviewed 12 of these 18 money transmitters, of which 8 provided services to only one of our case-study countries (2 money transmitters provided services to Haiti, 4 provided services to Somalia, and 2 provided services to Nepal) and 4 provided remittance services from the United States to at least three of our case-study countries.



To obtain insights from individuals that remit to fragile states, we conducted six small-group interviews, and one additional interview, of individuals that remit to our selected case-study countries. From 3 to 6 individuals participated in our small group interviews. We interviewed one Haitian small group, one Liberian small group, one Nepali small group, and three Somali small groups.

To set up these interviews, we identified community-based organizations (CBOs) and other groups that work with remittance senders to these countries and obtained contact information for these groups. We identified the CBOs through searching Internal Revenue Service (IRS) lists of tax-exempt community organizations for the names of our case-study countries or their populations. To focus our search efforts, we concentrated on the five areas in the United States with the largest populations of immigrants from each case-study country. The five areas were identified using information on immigrant populations from the U.S. Census Bureau's 2015 American Community Survey 1-year Public Use Microdata Samples. We sent emails outlining our research goals and soliciting interest in participating in interviews to 287 CBOs and related groups and obtained positive responses from 46. Of the 46 that responded positively, we were able to schedule meetings with seven CBOs covering the four case-study countries. The groups that agreed to participate in our interviews cannot be considered representative of all CBOs and remittance senders to the four selected countries, and their views and insights are not generalizable to those of all individuals that remit to these four countries. We asked the CBO points-of-contact to invite individuals with experience remitting funds to the case-study countries to participate in telephone interviews.

We pre-tested our methodology by emailing contacts at the CBOs and requesting they provide feedback on the questions. We also pre-tested the questions with a group located in Virginia because the location was close to the GAO headquarters and allowed for in-person testing. In the interviews, we asked semi-structured questions about the ease or difficulty of remitting funds to the participants' home countries, the costs of remitting, and any recent changes they had noticed. We asked the participants to provide us with their personal experiences rather than to speak for their CBO, group, or community.

We used two methods—a web-based survey of a nationally representative sample of banks and semi-structured interviews of bank officials—to examine what banks identify as challenges, if any, in offering bank accounts for money transmitters and correspondent banks serving

fragile countries. In the survey, we asked banks about limitations and terminations of accounts related to BSA/AML risk, the types of customer categories being limited or terminated, and the factors influencing these decisions. We administered the survey from July 2017 to September 2017, and collected information for the 3-year time period of January 1, 2014 to December 31, 2016. Aggregate responses for the close-ended survey questions that are related to this report are included in appendix II. The survey also collected information for two additional GAO reports: one reviewing closure of bank branches along the southwest border of the United States, and another assessing the causes of bank account terminations involving money transmitters.

To identify the universe of banks, we used the bank asset data from FDIC's Statistics on Depository Institutions database. Our initial population list contained 5,922 banks downloaded from FDIC's Statistics on Depository Institutions database as of December 31, 2016. We stratified the population into five sampling strata, and used a stratified random sample. In order to meet the sampling needs of related reviews, we used a hybrid stratification scheme.<sup>1</sup> First, banks that did not operate in the Southwest border region were stratified into four asset sizes (small, medium, large, and extra-large).<sup>2</sup> Next, by using FDIC's Summary of Deposit database we identified 115 Southwest border banks as of June 30, 2016.

Our initial sample size allocation was designed to achieve a stratum-level margin of error no greater than plus or minus 10 percentage points for an attribute level at the 95 percent level of confidence.<sup>3</sup> Based upon prior surveys of financial institutions, we assumed a response rate of 75

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<sup>1</sup>Sampling strata are two or more mutually exclusive subdivisions of a population defined in such a way that each sampling unit can belong to only one subdivision or stratum.

<sup>2</sup>We classified non-southwest border banks by asset size where small banks have less than \$1 billion in assets; medium banks, between \$1 billion and less than \$10 billion; large banks, between \$10 billion and less than \$50 billion; and extra-large banks, \$50 billion or greater in assets.

<sup>3</sup>We applied a finite population correction factor as part of the sample size calculation for the three asset-based size strata that were not certainty take-all strata.

percent to determine the sample size for the asset size strata.<sup>4</sup> Because there are only 17 extra-large banks in the population, we included all of them in the sample. We also included the entire population of 115 Southwest border banks as a separate certainty stratum.<sup>5</sup> We reviewed the initial population list of banks in order to identify nontraditional banks not eligible for this survey.<sup>6</sup> We treated nontraditional banks as out-of-scope. In addition, during the administration of our survey, we identified 27 banks that were either no longer in business or that had been bought and acquired by another bank, as well as 2 additional banks that were nontraditional banks and, therefore, not eligible for this survey. We treated these sample cases as out-of-scope; this adjusted our population of banks to 5,805 and reduced our sample size to 406. We obtained a weighted survey response rate of 46.5 percent.<sup>7</sup>

Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval (for example, plus or minus 7 percentage points). This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. Confidence intervals are provided along with each sample estimate in the report. For survey questions that are not statistically

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<sup>4</sup>To encourage survey participation, we conducted pre-administration notification and followed up with banks. Before administering the survey, we obtained contact information (phone numbers and e-mail addresses) for the sample of banks from their primary bank regulators. We then sent notification letters and e-mails to these banks, and for those whose e-mails were undeliverable, we called representatives to correct the e-mail addresses and confirm the points of contact. During survey administration, we called sampled banks that had not completed the survey (nonrespondents) to update their contact information, answer any questions or concerns they had about taking the survey, and obtain their commitment to take the survey. We also sent e-mails and letters to nonrespondents with reminders and instructions for taking the web-based survey.

<sup>5</sup>A certainty sample is a sample for which information is gathered or analyzed for the entire population. Since the southwest border banks were selected based on geographic criteria, this stratum contains banks from all four categories of asset size.

<sup>6</sup>We considered banks nontraditional if they did not offer the types of accounts that we were surveying banks about: checking, savings, or money market accounts.

<sup>7</sup>The overall response rate is weighted to take into account unequal sampling rates between strata.

reliable, we present only the number of responses to each survey question and the results are not generalizable to the population of banks.<sup>8</sup>

The practical difficulties of conducting any survey may introduce errors, commonly referred to as nonsampling errors. For example, difficulties in interpreting a particular question or sources of information available to respondents can introduce unwanted variability into the survey results. We took steps in developing the questionnaire, collecting the data, and analyzing the results to minimize such nonsampling error. We conducted pretests with four banks. We selected these banks to achieve variation in geographic location and asset size (small, medium, large, extra-large). The pretests of the survey were conducted to ensure that the survey questions were clear, to obtain any suggestions for clarification, and to determine whether representatives would be able to provide responses to questions with minimal burden.

To supplement the results of the survey, we conducted interviews with eight extra-large banks regarding correspondent banking and money transmitter accounts and with two credit unions regarding money transmitter accounts. We selected the eight banks to interview using the following criteria: (1) the bank was in the extra-large asset size group (banks with greater than \$50 billion in assets), and (2) the bank was mentioned by at least one of the money transmitters that we interviewed as terminating accounts with them or the bank was listed in an internal Treasury study on correspondent banking.<sup>9</sup> Of the banks in the extra-large asset size group, 7 were mentioned in our interviews with money transmitters as having closed accounts with them. Nearly all of these banks, plus one additional bank were also mentioned as correspondent banks in the Treasury study. In addition, we selected two credit unions to interview based on information from our interviews with money transmitters. Money transmitters identified four credit unions in our interviews; of these, we selected for interviews two that were mentioned as closing accounts with money transmitters. We did not contact the other two credit unions that currently have money transmitter accounts. The results of the survey and the interviews only provide illustrative examples and are not generalizable to all banks or credit unions.

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<sup>8</sup>Any estimate with a margin of error larger than plus or minus 15 percentage points at the 95 percent level of confidence was deemed to be statistically unreliable.

<sup>9</sup>Office of the Comptroller of the Currency, *BSA/AML Risk Evaluation Range of Practices Executive Summary* (unpublished memorandum dated July 22, 2016).

For our second objective, we analyzed U.S. agency information and documentation about relevant projects and activities. We also interviewed officials and obtained relevant guidance documents from Treasury, including OCC, OTA, FinCEN, and Terrorism and Financial Intelligence; the Federal Deposit Insurance Corporation (FDIC); the U.S. Department of State; the U.S. Agency for International Development; the Board of Governors of the Federal Reserve System (Federal Reserve); and the National Credit Union Administration (NCUA). Additionally, we also interviewed officials from the World Bank and International Monetary Fund to understand the data, methodology, and findings contained within reports by those organizations, as well as to understand the International Monetary Fund's role in technical assistance in our case-study countries. To gather information on solutions proposed by banks and others to address challenges money transmitters face in transferring funds through banks from the United States to fragile countries, we interviewed banks and credit unions as noted above. We also reviewed reports by the World Bank, the Center for Global Development, and Oxfam to gather recommendations addressing challenges in transferring remittances to fragile countries. We interviewed officials from Treasury, FDIC, the Federal Reserve, and the U.S. Agency for International Development to gain their perspectives on these proposed solutions.

For our third objective on U.S. agencies' efforts to assess the effects of challenges facing U.S. money transmitters on remittance flows to fragile countries, we interviewed agency officials and analyzed available data on flows going through banking and non-banking channels. For available data on flows through the banking channel, we analyzed the Consolidated Reports of Condition and Income (Call Report) data from the Federal Financial Institutions Examination Council, which started collecting these data in 2014. These remittance data are reported on a semiannual basis. We also reviewed Call Report data on remittances for credit unions, which started to be collected in 2013, as well as data collected from Money Service Businesses, which some states started collecting in 2017. For data on remittance flows through non-banking channels, we obtained and analyzed data on filings of FinCEN's Form 105 – Report of International Transportation of Currency or Monetary Instruments. This report is required of individuals who physically transport currency or other monetary instruments exceeding \$10,000 at one time from the United States to any place outside the United States, or into the United States from any place outside the United States. The paper form is collected by the Department of Homeland Security's U.S. Customs and Border Protection at the port of entry or departure. We obtained the tabulated Form 105 data from FinCEN by arrival country, state of U.S. exit port, and

for calendar years 2006 through 2016. We also interviewed officials and obtained written responses from FinCEN and the Federal Financial Institutions Examination Council. We compared the results of our data analysis and information from interviews with agency officials against FinCEN's mission to safeguard the financial system from illicit use by, among other things, obtaining and analyzing financial transactions data. Additionally, we also compared the results of our analysis and information obtained from agencies against the federal standards for internal control, which state that agency managers should comprehensively identify risks and analyze them for their possible effects.

We conducted this performance audit from September 2016 to March 2018 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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# Appendix II: Selected Results from the GAO Survey of Banks on Money Transmitter Account Terminations

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From July 2017 to September 2017, we administered a web-based survey to a nationally representative sample of banks. In the survey, we asked banks about the number of account terminations for reasons related to Bank Secrecy Act anti-money laundering (BSA/AML) risk; whether banks are terminating, limiting, or not offering accounts to certain types of customer categories; and the factors influencing these decisions. We collected information for the 3-year period from January 1, 2014, to December 31, 2016. We obtained a weighted survey response rate of 46.5 percent.<sup>1</sup> The survey included 44 questions, 16 of which were directly applicable to the research objectives in this report.

Responses to the questions that were directly applicable to the research objectives in this report are shown below (see tables 3 through 16).<sup>2</sup> When our estimates are from a generalizable sample, we express our confidence in the precision of our particular estimates as 95 percent confidence intervals. Survey results presented in this appendix are aggregated for banks of all asset sizes, unless otherwise noted. Results for some of the survey questions were not statistically reliable.<sup>3</sup> In those cases we present only the number of responses to each survey question. These results are not generalizable to the population of banks. Our survey included closed- and open-ended questions. We do not provide information on responses provided to the open-ended questions. For a more detailed discussion of our survey methodology, see appendix I.

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<sup>1</sup>The overall response rate is weighted to take into account unequal sampling rates between strata. Dividing the number of respondents by the total sample size will not result in the response rate due to weighting.

<sup>2</sup>Questions 1-23, and questions 25, 30, 42, 43, and 44, are not addressed in this report. Question 44 asks respondents if the survey is complete and ready for submission. The remaining questions will be published in related work we are conducting on account terminations and bank branch closures in the U.S. southwest border region and reduced access to banking services for money transmitters.

<sup>3</sup>Any estimate with a margin of error larger than plus or minus 15 percentage points at the 95 percent level of confidence was deemed to be statistically unreliable.

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**Table 3: Between January 1, 2014, and December 31, 2016, did the bank have money transmitters as customers? (Check one.) (Question 24)**

Response	Number of responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
Yes	91	32.3	21.9	42.7
No	97	67.7	57.3	78.1

Source: GAO. | GAO-18-313

Notes: Estimated percentages are calculated using the sample weights. The survey defined a money transmitter as “a person that provides money transmission services, which means the acceptance of currency, funds, or other value that substitutes for currency from one person and the transmission of currency, funds, or other value that substitutes for currency to another person or location by any means. Our definition of money transmitters includes a business that acts as an agent for a principal or principals engaged in money transmitter activities.”

**Table 4: Between January 1, 2014, and December 31, 2016, did the bank have money transmitters as customers? (Check one.) (Question 24) – grouped by bank asset size**

Asset size group	Response	Number of responses
Small banks	Yes	27
	No	53
Medium banks	Yes	42
	No	26
Large banks	Yes	10
	No	11
Extra-large banks	Yes	12
	No	7

Source: GAO. | GAO-18-313

Notes: All the percentage estimates for this question are not statistically reliable. Small banks have less than \$1 billion in assets; medium banks, between \$1 billion and less than \$10 billion in assets; large banks, between \$10 billion and less than \$50 billion in assets; and extra-large banks, \$50 billion or greater.

**Table 5: Does the bank restrict the number or percentage of money transmitter checking, savings, and money market accounts it manages? (Check one.) (Question 26)**

Response	Number of responses
Yes	29
No	61

Source: GAO. | GAO-18-313



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Notes: This question was only asked to banks that responded "Yes" to having money transmitters as customers (question 24). All the percentage estimates for this question are not statistically reliable.

**Table 6: 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)**

	Response	Number of responses
27e. Difficulties maintaining correspondent banking relationships	Yes	8
	No	17
	Don't know	2
27f. Loss of correspondent banking relationships	Yes	3
	No	21
	Don't know	3

Source: GAO. | GAO-18-313

Notes: This question was only asked to banks that responded "Yes" to having restricted money transmitters accounts (question 26). Those banks that selected "Other" (27j) were prompted to answer the open-ended question: What was the other reason(s) the bank limits the number or percentage of money transmitter accounts? Responses 27a through 27d and 27g through 27i were not addressed in this report. All the percentage estimates for this question are not statistically reliable.

**Table 7: Between January 1, 2014, and December 31, 2016, did the bank terminate any money transmitter checking, savings, or money market accounts? (Check one.) (Question 28)**

Response	Number of responses
Yes	40
No	46

Source: GAO. | GAO-18-313

Notes: This question was only asked to banks that responded "Yes" to having money transmitters as customers (question 24). All the percentage estimates for this question are not statistically reliable.

**Table 8: 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? (Check all that apply.) (Question 29)**

	Response	Number of responses
29g. Difficulties maintaining correspondent banking relationships	Yes	4
	No	29
	Don't know	3
29h. Loss of correspondent banking relationships	Yes	1
	No	32

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Response	Number of responses
Don't know	3

Source: GAO. | GAO-18-313

Notes: This question was only asked to banks that responded "Yes" to having restricted money transmitters accounts (question 28). Those banks that selected "Other" (29m) were prompted to answer the open-ended question: What was the other reason(s) related to BSA/AML risk that the bank terminated money transmitter personal or business accounts? Responses 29a through 27df and 27i through 27l were not addressed in this report. All the percentage estimates for this question are not statistically reliable.

**Table 9: Between January 1, 2014, and December 31, 2016, did the bank have any money transmitter customers whose business involved remitting funds to Haiti, Liberia, Nepal, or Somalia? (Check one.) (Question 31)**

Response	Number of responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
Yes	7	2.3	0.7	5.4
No	59	n/r	n/r	n/r
Don't Know	21	n/r	n/r	n/r

Source: GAO. | GAO-18-313

Notes: This question was only asked to banks that responded "Yes" to having money transmitters as customers (question 24). The "n/r" indicates that we are not reporting an estimate because it was not considered statistically reliable. Estimated percentages are calculated using the sample weights.

**Table 10: Which of the following countries did the bank's money transmitter customers serve? (Check all that apply.) (Question 32)**

Response	Number of responses
Haiti	4
Liberia	4
Nepal	6
Somalia	4

Source: GAO. | GAO-18-313

Notes: This question was only asked to banks that responded "Yes" to having money transmitter customers whose business involved remitting funds to Haiti, Liberia, Nepal, or Somalia (question 31). All the percentage estimates for this question are not statistically reliable.

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**Table 11: Between January 1, 2014, and December 31, 2016, did the bank terminate any checking, savings, or money market accounts for money transmitters whose business involved remitting funds to Haiti, Liberia, Nepal, or Somalia? (Check one.) (Question 33)**

<b>Asset size</b>	<b>Response</b>	<b>Number of responses</b>
Medium banks	Yes	2
Extra-large banks	Yes	1
Total	Yes	3

Source: GAO. | GAO-18-313

Notes: This question was only asked to banks that responded “Yes” to having money transmitters as customers (question 24). All the percentage estimates for this question are not statistically reliable.

The following open-ended question was only asked to banks that responded “Yes” to question 33: Please provide any additional comments or challenges the bank may face in managing accounts for money transmitters that remit to fragile countries such as Haiti, Liberia, Nepal or Somalia. (Question 36)

**Table 12: For which of the following countries that money transmitters remit funds to did the bank terminate any checking, savings, or money market accounts? (Check all that apply.) (Question 34)**

<b>Response</b>	<b>Number of responses</b>
Haiti	1
Liberia	0
Nepal	2
Somalia	1

Source: GAO. | GAO-18-313

Notes: This question was only asked to banks that responded “Yes” to having terminated any accounts for money transmitters whose business involved remitting funds to Haiti, Liberia, Nepal, or Somalia (question 33). All the percentage estimates for this question are not statistically reliable.

**Table 13: Between January 1, 2014, and December 31, 2016, did the bank terminate any checking, savings, or money market accounts for money transmitters whose business involved remitting funds to Haiti, Liberia, Nepal, or Somalia for the following reasons? (Check all that apply.) (Question 35)**

	<b>Response</b>	<b>Number of responses</b>
35a. Suspicious Activity Reports filed associated with the accounts	Yes	1
	No	2
	Don't know	0

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	<b>Response</b>	<b>Number of responses</b>
35b. Cost of BSA/AML [Bank Secrecy Act anti-money laundering] compliance made the customer type unprofitable	Yes	0
	No	2
	Don't know	0
35c. Customer type drew heightened BSA/AML regulatory oversight	Yes	2
	No	1
	Don't know	0
35d. Inability to manage the BSA/AML risk associated with the customer type (e.g., resource constraints)	Yes	1
	No	2
	Don't know	0
35e. Customer failed to provide information for the bank to conduct adequate BSA/AML due diligence	Yes	1
	No	2
	Don't know	0
35f. Potential personal liability for BSA/AML compliance professionals	Yes	0
	No	3
	Don't know	0
35g. Difficulties maintaining correspondent banking relationships	Yes	1
	No	1
	Don't know	1
35h. Loss of correspondent banking relationships	Yes	0
	No	2
	Don't know	1
35i. Compliance with Office of Foreign Assets Control (OFAC) requirements	Yes	0
	No	2
	Don't know	1
35j. Risks associated with the country(ies)/corridor(s) that the money transmitter serves	Yes	2
	No	1
	Don't know	0
35k. Bank's reputational risk	Yes	2
	No	1
	Don't know	0
35l. Negative news associated with the customer	Yes	1
	No	2
	Don't know	0
35m. Compliance risks other than BSA/AML associated with the customer type	Yes	0
	No	3
	Don't know	0

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	<b>Response</b>	<b>Number of responses</b>
35n. Other	Yes	1
	No	1
	Don't know	0

Source: GAO. | GAO-18-313

Notes: This question was only asked to banks that responded "Yes" to having terminated any accounts for money transmitters whose business involved remitting funds to Haiti, Liberia, Nepal, or Somalia (question 33). Those banks that selected "Other" (35n) were prompted to answer the open-ended question: What was the other reason(s) related to BSA/AML risk that the bank terminated personal or business accounts of money transmitters whose business involved remitting funds to Haiti, Liberia, Nepal, or Somalia? All the percentage estimates for this question are not statistically reliable.

**Table 14: Between January 1, 2014, and December 31, 2016, did your bank rely on a correspondent bank to facilitate the transfer of funds to Haiti, Liberia, Nepal, or Somalia? (Check one.) (Question 37)**

<b>Response</b>	<b>Number of responses</b>	<b>Estimated percentage</b>	<b>95 percent confidence interval—lower bound (percentage)</b>	<b>95 percent confidence interval—upper bound (percentage)</b>
Yes	30	8.8	3.8	16.9
No	149	90.6	82.6	95.7
Don't know	7	0.6	0.2	1.3

Source: GAO. | GAO-18-313

Notes: For Somalia, banks were asked to include transfers to banks in other locations (such as the United Arab Emirates) if Somalia was the final destination of the funds. Estimated percentages are calculated using the sample weights. The survey instructions defined a correspondent banking relationship as "a relationship in which one financial institution provides services on behalf of another financial institution, such as facilitating wire transfers, conducting business transactions, accepting deposits and gathering documents on behalf of another financial institution."

The following open-ended question was only asked to banks that responded "Yes" to question 37: Please provide any additional comments on how changes (increase or decrease) in correspondent banking services facilitating the transfer of funds to Haiti, Liberia, Nepal or Somalia has impacted your bank's ability to provide services to money transmitters. (Question 41)

**Table 15: For which of the following countries has your bank relied on a correspondent bank to facilitate the transfer of funds? (Check all that apply.) (Question 38)**

<b>Response</b>	<b>Number of responses</b>
Haiti	25

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Liberia	16
Nepal	23
Somalia	9

Source: GAO. | GAO-18-313

Notes: This question was only asked to banks that responded “Yes” to having relied on a correspondent bank to facilitate the transfer of funds to Haiti, Liberia, Nepal, or Somalia (question 37). For Somalia, banks were asked to include transfers to banks in other locations (such as the United Arab Emirates) if Somalia was the final destination of the funds. The percentage estimates for this question are not statistically reliable.

The following open-ended question was only asked to banks that responded “Yes” to using a correspondent bank to facilitate the transfer of funds Somalia (question 38, response d): If your bank relied on a respondent bank to facilitate the transfer of funds to Somalia, in what country was the respondent bank located? (Question 39)

**Table 16: Between January 1, 2014, and December 31, 2016, did your bank lose access to respondent banks facilitating transfer of funds to Haiti, Liberia, Nepal, or Somalia because the correspondent bank terminated those relationships? (Question 40)**

	Response	Number of responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
Haiti	Yes	0	0.0	0.0	9.5
	No	21	n/r	n/r	n/r
	Don’t know	4	n/r	n/r	n/r
	Not applicable	5	8.7	1.9	22.9
Liberia	Yes	1	0.4	0.0	1.9
	No	16	n/r	n/r	n/r
	Don’t know	2	2.5	0.1	11.2
	Not applicable	10	n/r	n/r	n/r
Nepal	Yes	1	0.4	0.0	1.9
	No	20	n/r	n/r	n/r
	Don’t know	3	3.0	0.3	11.3
	Not applicable	6	n/r	n/r	n/r
Somalia	Yes	1	0.4	0.0	1.9
	No	9	10.5	2.8	25.4
	Don’t know	3	3.0	0.3	11.3
	Not applicable	16	n/r	n/r	n/r

Source: GAO. | GAO-18-313

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Notes: This question was only asked to banks that responded "Yes" to having relied on a correspondent bank to facilitate the transfer of funds to Haiti, Liberia, Nepal, or Somalia (question 37). The "n/r" indicates that we are not reporting an estimate because it was not considered statistically reliable. Estimated percentages are calculated using the sample weights. The survey instructions defined a respondent bank as "a bank for which another bank establishes, maintains, administers, or manages a correspondent account relationship."

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Thomas Melito, (202) 512-9601, or [melitot@gao.gov](mailto:melitot@gao.gov).

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## Staff Acknowledgments

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