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Federal Deposit Insurance Corporation

THE STRUCTURE OF THE MONEY ORDER INDUSTRY

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and

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INTRODUCTION

The failure of a money order firm is an uncommon event, but when one occurs the effect is felt by many people and a great deal of money is involved. The failure in January 1977 of United States Navigation (USN) and Universal Money Orders (UMO), both subsidiaries of International Express, are cases in point. USN's failure left 150,000 people holding $5.6 million of unhonored money orders in the State of New York alone. The California State Banking Department has estimated that 250,000 people across the country were affected by the UMO failure and has put the liability at $15 million.

These failures uncovered a myriad of problems with the money order industry -- perhaps the biggest among them being the public's lack of knowledge about it. This paper describes the money order market, its structure, and users. It is a compilation of information obtained through interviews with industry personnel and state government officials, or from industry financial information, and publicly available financial data. Because some of the information was provided on a confidential basis, the paper cannot be completely candid. The confidential information is presented in this report but in a very general manner so as not to violate the confidentiality.

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This paper is organized into five sections and an appendix. The first section describes the structure of the market and contains an analysis of the market from a macro point of view. Included are discussions of market composition, size, trends, and growth. The second section describes the operations of the money order market and focuses on the micro aspects of the industry. This part deals with how a firm establishes and monitors its sales networks, generates its cash flow models and maximizes its earnings. A brief description of the USN and UMO failures is also included here. The third section describes the characteristics of money order users by reporting the findings of a study conducted in California on the subject. This part also reports how and why some people use money orders. Section four presents a general description of the current regulatory framework for money orders. One of the biggest problems in defining effective regulation is the wide discrepancy which exists in the laws which license firms to sell money orders and in the requirements a firm must meet. A summary of the state laws, regulatory agencies and requirements for licensing is presented in the appendix. Section five describes the current bonding procedure and the protection it offers money order users. The pricing of bonds, the processing of claims, and possible future changes if bond face values are increased are also discussed. The paper concludes with a short summary.

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The Structure of the Money Order Industry

The structure of the money order market is straightforward. The originator of the money order is the issuer. The issuer is the one ultimately responsible for the financial obligation created by the sale of his money order. There are three types of issuers in the market: the U.S. Post Office, banks and savings and loan associations, and commercial issuers.

The Post Office, until recently the largest issuer in the market, has been issuing money orders since 1864. Recent increases in the Postal money order rate structure have decreased their sales substantially. Postal money orders are obligations of a federal government agency and, hence, implicitly guaranteed by the federal government.

Although the exact number of banks and savings and loan associations issuing money orders is not known, according to most industry sources and some government personnel, banks and S & Ls are taking over an increasing share of the money order market. Bank and S & L money orders are insured by government agencies because the money order is a direct obligation of the bank or S & L and the proceeds from its sale are regarded as the receipt of a deposit. Toward the end of 1976, some Federal Reserve member banks petitioned to move their money order and traveller's check business out of the bank and into a subsidiary of their bank holding company. Citibank and Republic National Bank were allowed to do so. Republic implemented its proposal and created Republic Money Orders (RMO) as a subsidiary of Republic Corporation of Texas, the holding company. When this occurred RMO became a commercial issuer, independent of the bank and hence its money orders are no longer insured.

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Commercial issuers are a diverse group. In addition to the major issuers shown in Table 1, there are a number of one and two outlet firms doing limited business in a small area. Some of these small issuers have special checks printed with a name identifying them as money orders, but others, for example one drugstore in Virginia, simply use their business checks. Very little information exists about these small issuers. Commercial issuers generally buy a surety bond to provide holders of their money orders with a guarantee that the instrument will be covered if the firm fails. However, the face value of a surety bond is a very small fraction of a firm's outstanding money orders on any given day, so the protection afforded the user by the surety bond is limited. The details of the bonding procedure will be discussed later in the paper.

Table 1
Major Commercial Issuers
of Money Orders

Firm & (parent)	Number of States
American Express Company	50
Consumer Money Order Corporation of America (Gulf and Western Corp)	15-20
Nation-Wide Check Corp. (Nationwide Diversified Corp.)	26 or 27
Certified Check Cashers	3
Republic Money Orders (Republic of Texas Corp.)	50
Travelers Express (Greyhound Corp.)	50

Source: National Association of Money Order Issuers and personal contacts

Money orders are sold through a system of agents and outlets. An agent is the party that directly contracts with the issuer to sell money orders. An agent may have a number of sales points, "outlets," throughout

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a state or other geographic region in which he wishes to sell these instruments. For example, a chain supermarket might have the head office as an agent and the individual chain stores as outlets. However, an agent and outlet may be one and the same. A privately owned liquor store selling money orders is an example of such an arrangement. Thus, the structure of the money order industry consists of issuers, agents, and outlets.

It is difficult to estimate the volume of business done in the money order market. First, little if any financial data is available on the vast number of small firms in the market and often no record exists of even how many such firms there are. Second, most of the large non-intermediary issuers are subsidiaries of other firms and their financial information is buried in the consolidated report of the parent. Third, many licensed issuers are privately held or have less than 500 shareholders and, thus, are not required to file public financial statements. Finally, if the issuer is a bank or savings and loan association, money orders outstanding are included with officers checks in the financial report. It is not possible from the outside, to determine how much of that category is money orders.

However, from the information that was available, a rough estimate of market size was possible. Information on a large part of the money order market was available from the Post Office's financial statements and from commercial issuers. Two estimates of the bank and savings and loan market were made using one-fourth and one-half, respectively, of the amount listed under "Certified and Officers checks, travelers' checks, letters of credit," from item 7, schedule F of the consolidated reports of condition. The resulting two estimates are shown in Table 2.

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Table 2
Size of Money Order Market
1976 Estimates
(dollar amounts in billions)

	Estimate 1		Estimate 2	
	$	%	$	%
Postal Service	6.3	31.0	6.3	23.6
Bank & S & L	6.25	30.7	12.5	47.0
Other	7.8	38.3	7.8	29.0
Total	20.35	100.0	26.6	100.0

To verify which of the two estimates was more accurate, an additional procedure was used. It is generally agreed by issuers that the money order market has not grown appreciably in the last several years, and that most of the size increase has been generated by inflation. Using the percentage change in the Consumer Price Index as the inflation rate and applying it to an estimate of the 1973 market size obtained from a special report prepared for an issuer, a figure of $19.5 billion was obtained for the 1976 money order market. The $26.6 billion estimate appears to be more realistic since it accounts for growth due to inflation and allows for some increase in the number of money orders issued.

The market share figures in Estimate 2 approximate estimates made by some issuers of their market shares and are, thus, apparently more accurate than those in Estimate 1. Also, since both issuers and state regulators see a trend in the market toward bank and S & L money orders, an increase in the bank and S & L market share at the expense of the other issuers is reasonable.

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The Operations of the Money Order Market

One of the most important elements in the operations of a money order issuer is its network of agents. In establishing a distribution network, issuers identify their market areas and potential agents. This is done through the issuer's staff of field representatives, who contact the potential agents. The typical sales pitch stresses the customer attraction of money orders and the additional income that can be made by selling them. If the firm is interested, the issuer then negotiates a contract with it detailing the agent-issuer relationship. The terms of the contract depend both on the desirability of the agent and the competition in the market. Several factors in the contract are negotiable: the remittance time, the rate scale, and the division of revenue fees.

Remittance time is the number of days that may pass between the time the money order is sold and the time the proceeds must be sent to the issuer's bank for credit to his account. The advantages, for the agent, of a long remittance time is that he may use the funds for that period either to finance his own short-term credit needs, at no cost, or to invest and receive the proceeds. By giving a long remittance time, the issuer gives up the opportunity to realize a short-term return from investment of the funds and may even incur borrowing costs if the funds arrive after the money order clears.

While the rate scale is generally uniform across agents, if an agent feels the normal rates are too high, the issuer and agent can negotiate a special rate structure. The advantage of this to the agent is that his

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prices are lower than other agents and, therefore, he has a competitive edge in the market. An issuer is usually willing to negotiate such an arrangement with a large agent that has several outlets. The cost to the issuer is a lower profit margin. The hope in such an arrangement is that the agent will penetrate the market widely and therefore increase sales and income. Depending on the other aspects of the agreement, cost savings from marketing through an agent with many outlets may offset the lower rates paid to the issuer so that the profit margin is not decreased.

A third factor open for negotiation is the split of revenue fees between issuers and agents. The more desirable the agent or competitive the market, the bigger the share of the proceeds the issuer is willing to give to the agent. As in the case of the rate scale, imprudent use of this factor can cut into the profit margin severely, thus increasing the chances of bankruptcy for the issuers.

It should be noted that the agreement reached on any of these terms is subject to change at any time. It is not uncommon for an issuer to try to lure a desirable agent from another issuer by offering more favorable terms. Hence, to retain agents, an issuer must be in a position to meet, or beat, his competitor's offer.

In discussing the agency relationship, some issuers stated that their firms had defined a set of requirements the agent must meet. Before entering into a contract, the issuer investigates the potential agent by checking his credit rating and assuring that he meets the issuer's requirements. The issuers state that this procedure assures them of financially sound agents thus reducing their risks from agency problems.

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The issuer's distribution network is monitored and audited by his field representatives. In addition, these individuals service the needs of their agents and provide them with whatever assistance, forms, and machinery they require to sell the money orders. The supply of forms an agent gets depends on both his volume and the frequency of field representative visits. This procedure provides a means of controlling the agent since his sales quantity is limited. The field representative also collects the accounting receipts and funds from each of his agents, ascertains that there are no discrepancies, and then forwards the reports and funds to the home office. In most states, issuers permit a lapse of one to two weeks between the sale of the money order and the remittance of funds and reports to the issuer. By setting a time limit, the issuer maintains control over the remittance time and minimizes cashflow problems and fraud. The issuer, of course, must also monitor the field representatives to assure enforcement of the time limits and to prevent any additional cashflow or fraud problems.

Once the issuer receives the reports, he checks the accounting receipt against the actual money orders. This enables him to determine how many have cleared and how many are outstanding (have not yet cleared through the issuer's bank). By monitoring the amount outstanding for each region, an issuer can determine the float time for each. Float time is the amount of time that elapses between the sale of the money order and the time it is presented for payment at the issuer's bank. The industry average float time appears to be ten days; thus, on average, one-thirty-sixth of an issuer's money orders sold are outstanding on any given day.

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An issuer must constantly be aware of cash flows to assure payment of money orders as they are presented. An issuer uses the information about the remittance time and float for each region, along with information on sales in that region to predict his future cash needs. Money orders are generally used to pay bills which are constant from month to month and occur at the end of the month. In stable sales markets, this makes it possible for an issuer to accurately predict his sales during the month and provides the issuer with a monthly cash flow having little variation from month to month. Somewhat mitigating this stable flow, is a slight seasonality factor with sales peaking in February, March, and April when car registrations and income tax bills are due. Sales tend to drop in December because, according to industry personnel, people postpone payment of some bills and allocate the funds to holiday purchases. In the longer term, industry sources report that the sales of money orders follow economic movements with a six-month lag. Thus issuers must continuously monitor their cash flows to assure maximum earnings on their assets and to prevent incurring costs of borrowed funds. It is known that some issuers have cash flow models that are quite accurate.

Both industry and government sources have claimed that some issuers manipulate the float time by having their money orders clear through banks in remote locations. This move not only enables the issuer to use the funds for a longer period of time, but also to negotiate a longer remittance time with his agents. This is considered to be a very risky arrangement because the increased remittance time increases the chances for fraud and the risk of losing the funds.

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After the issuer has received the report and the funds, he calculates the amount due the agent and forwards that to him. A large agent may take the percentage of the revenues due him from the proceeds to be remitted. In addition, some large agents choose to handle all the paperwork themselves and send the reports and funds directly to the home office without going through a field representative. The issuer is willing to do this because he believes the risks of problems with a large agent are very small, if not zero.

Between one and three percent of money orders sold are either lost or not used. According to some issuers, these unremitted money orders represent a major source of income for the money order business. Given that the 1976 market size was estimated to be $27 billion, minimum earnings of $270 million were possible for that year. Other possible sources of income are revenue fees and utilization of the float time. However, very limited earnings can be generated by making use of the float time because of the agent-issuer remittance arrangements discussed above and because of the decrease in clearing time resulting from a more efficient banking system, especially in large cities.

Summarizing, the issuer establishes an agency network through which he sells his money orders. The network is serviced and monitored by the field representatives. Once a sale takes place, the accounting receipts and money are collected by the representative from the agent. The field representative forwards the receipts and funds to the home office after he has made sure there are no discrepancies. The funds are credited in the issuer's bank and the forms are processed. The money orders are cleared

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through the issuer's bank which either charges them against the firm's deposits or extends a line of credit to the issuer if he has insufficient funds. While it is a simple process, many problems can arise if the issuer fails to synchronize his remittance and float time.

The failures of United States Navigation and Universal Money Orders, which were referred to early in this paper, illustrate what can happen if this operational system breaks down. As mentioned, both USN and UMO were subsidiaries of International Express, but their failures were apparently due to problems with another affiliate, National Payroll.

National Payroll was in the food stamp and check cashing businesses. In addition to selling these services through its own outlets, National Payroll contracted out to independent vendors. In February 1976, the U.S. Department of Agriculture began pressuring nonbank vendors of food stamps to speed up the remittance of the proceeds from food stamp sales. For some of the larger firms all proceeds had to be remitted within 24 hours. As a result, many of National Payroll's outlets and independent vendors encountered difficulties in meeting the payments to the government and used a line of credit established for National Payroll, USN, UMO, and other International Express subsidiaries at Manufacturers Hanover. Late last year, the State of New York initiated an audit of food stamp vendors. At that time, National Payroll discovered a $2 million discrepancy on its books and tapped the credit line with Manufacturers again. The discrepancy was apparently due to the food stamp vendors and the problems they were having in settling their accounts. The loan was made on Friday, December 23rd, and was to be repaid on the following

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Monday. When the note became past due, Manufacturers seized the asset that had been pledged as collateral for the line of credit, putting the entire International Express structure under a liquidity squeeze. The squeeze was felt throughout the affiliate structure because the President of International Express operated the finances of the firms "out of his back pocket"[1] transferring funds between the different affiliates as they were needed. Hence, while the firms were legally separate entities, their finances were commingled.

The first effect of a squeeze was felt by USN, whose clearing bank for the first time refused to extend credit to the firm when it had insufficient funds to honor the money orders presented for payment. The bank's action was triggered by the action taken by Manufacturers. When USN's agents heard of the clearing bank's action, they stopped remitting their funds to USN. The financial problems of USN filtered down to UMO because of the manner in which the finances of the holding company were handled. As a result, UMO's agents ceased forwarding proceeds from their sale of money orders. Consequently, not only were USN and UMO without working capital, but the inflow of funds was also cut off, forcing the firms into bankruptcy.

Users of Money Orders

As a result of the UMO failure, Carl J. Schmidt, California Superintendent of Banks, commissioned Dr. James Pierce of the University of California at Berkley to do a study of the users of money orders in that state. For his data, Pierce used the claim forms submitted to the Banking Department by the holders of unhonored UMO money orders. Each form con-

[1]"Failure of Universal Money Order Tied to Food Stamp Audit," Wall Street Journal, January 25, 1977

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tained the person's name, address, number of unhonored money orders held, and the amount of claim. After deleting incomplete or erroneous data, Pierce found that the average person held 2.5 money orders and had lost $122.80. Although most of the money orders were for under $100, one-third of the claimants had losses in excess of $100.[2]

Pierce then selected a sample of 3,100 people from the UMO claim list and then interviewed them in order to determine the characteristics of money order purchasers. After adjusting for coding errors and inconsistent responses, a sample of 452 respondents was obtained. 415 were interviewed by phone and 37 by personal contact. In addition 3,000 individuals were selected at random and mailed questionnaires, however, responses were not received in time to be incorporated in his report. Those responses may correct some potential biases in the responses of the 452 samples. The results showed the typical UMO purchaser had an income of $8,900, was 46 years old and married with 3 dependents, had 10 years of schooling, and had lived in California for 26 years and in the same neighborhood for 12 years. Thirty-one percent were black, 28 percent Mexican-American or Latino, 36 percent white. Forty-eight percent were homeowners. Of the respondents, 48 percent worked full time (typically a blue collar job), 9 percent were on welfare, and 18 percent were retired.

The results reported by Pierce also showed that households used money orders for housing expenses, and to pay utility and other monthly bills. Most of the money orders were bought in liquor stores (37%) and at supermarkets

[2]"The Users of Money Orders," James L. Pierce, paper prepared for the Symposium on Money Orders and Traveler's Checks, San Francisco, California, December 8-9, 1977.

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and grocery stores (65%). Of the respondents, 10% bought money orders at banks and 4% at the Post Office.

The most frequent reasons given for using money orders were:

1) Convenience of location (29%)

2) Convenient hours (16%)

3) Easier to use than cash or checks (16%)

Sixty-eight percent of the respondents had no checking accounts and cited various reasons why they did not.

Dr. Pierce's initial findings tend to confirm the general feeling that money orders are a "poor man's check" since they are most frequently used by people of low or lower-middle income as a payment or transmittal instrument which substitutes for a checking account. While no statistical analysis of the characteristics of money order users was performed or reported in New York or any of the other states affected by the USN - UMO failure, the verbal accounts of the characteristics of users in those states appear to agree with the California findings.

Regardless of the socio-economic characteristics of money order users, Pierce's analysis identifies some inherent problems in the money order market. Money orders are used, most frequently, as a substitute for personal checks. They are perceived by the market as being riskfree and it is not until a failure occurs that this misconception is corrected. Apparently the purchasers and acceptors of money orders believe that all money orders are the same, not recognizing that nonbank, nonpostal money orders carry the risk of a total loss, while bank and postal money orders

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do not. One possible explanation for this market perception is that the failure of a money order firm is rare. Since it is only through the failure of a commercial issuer that the distinction is recognized, the market's ability to distinguish between money order issuers is muted by time. Furthermore, it does not appear that users of money orders are aware of the functioning of the supply side of the market or whom to hold liable in case of failure. The only protection offered to users of money orders of commercial issuers comes from state regulations and from surety bonds that some issuers buy. From the two sections that follow, it will become clear that this protection is often inadequate.

State Regulations and Requirements

There is little uniformity among states in the procedures for licensing money order companies. Only 38 states and one territory have licensing requirements. Those not requiring licenses are listed in Table 3.

Table 3
States and Territories Not Requiring Licenses

Alaska	New Hampshire
Arizona	South Carolina
Hawaii	Vermont
Idaho	Washington
Minnesota	Wyoming
Missouri	District of Columbia
Montana	Guam
Nevada	Virgin Islands

Moreover, the requirements that must be satisfied to conduct a money order business vary substantially among states. For example, Kentucky, Nebraska, and Oregon require only an annual fee for renewal of license, while Arkansas requires financial statements, a list of agents, names of officers, directors and managers with three references for each, and a statement about shareholders in addition to the annual fee. Some states require agents to be certified and some exclude certain businesses from serving as agents. The

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regulations and requirements of each state and Puerto Rico are summarized in the appendix.

Some states also require special information from the licensees. New York, for example, has several rather detailed disclosure requirements. In the quarterly loss statement the form requires disclosure of Total Losses for the quarter due to:

> "1) Dishonesty of an officer, employee, agent, or subagent
> 2) Insolvency of an officer, employee, agent, or subagent
> 3) Theft, holdup, burglary or mysterious disappearance at an office of firm or of an agent or subagent
> 4) Blank checks "believed" to have been lost, stolen, or mysteriously disappeared"

The firm must also notify the State of suits against it on transactions in New York arising out of business conducted under license, of worldwide criminal or civil actions against it, and of actions against its directors, principal officers, and shareholders, etc. In a conversation with an employee of the New York State Banking Department, it was learned that the reports required are filed by the licensees but are rarely examined by the department.

The licensing requirements shown in the appendix are the regulations for large firms such as American Express or Travelers Express. In following through with this analysis, it was learned that many states have more than one law under which a money order firm may be licensed. For example, in California, the requirements and regulations between its two laws differ substantially in rigor. There also are many states that do not require the licensing of small firms. Virginia, does not require licensing for money order issuers with only one or two outlets. Last year, because of the

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loss experience reported in the State from these small firms, a law was passed requiring these issuers to have a surety bond,but it still does not require them to be licensed. One problem with this law is the inability of the State to identify all firms with only one or two offices since the State has no record of their doing business. While the number for Virginia is not available, it was learned that in Texas and Illinois there are over 1,000 small firms, and in New York between 1,500 and 2,000. Little, if any, control can effectively be imposed over these agents short of eliminating them from the market. A firm can do business in a state without even getting a license, and the state may have no knowledge of this. In Virginia, for example, USN had not been licensed to do business. When it failed, the Bureau of Banking received phone calls from five federal credit unions about losses they had sustained; they requested information on recourse because they had been selling USN Money Orders. It is evident that the control problem is not limited to small firms, and that in spite of the requirements and regulations, effective supervision has not been achieved.

It should be mentioned that banks are exempt from most agent lists when those lists are required by the state. The regulators of money order issuers reason that the safety and soundness of the bank is already monitored by the appropriate bank regulatory agency. No bank is ever allowed to be an issuer of money orders without being licensed, regardless of the number of outlets.

A final point to note about the regulation of the money order industry is that while most money order firms are licensed by a state's banking department some license them through the secretary of state (Ohio), a business regulation department, or a securities regulation department. Also,State laws do not agree on what constitutes a money order. The instrument is considered everything from a check to a money order to a security.

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The Bonding of Money Order Firms

A surety bond is a mechanism used in the money order industry to provide a guarantee to the holders of money orders that the instrument will be covered. It is sometimes also referred to as a "license bond" since, in most states, it is required of most issuers before they can sell their money orders within the state boundaries. The bond is issued by a surety company, which is often an insurance firm, to the state licensing authority. It is held by the state, with the licensing authority serving as a liason between the holders of the money orders and the bonding firm.

In case of a failure by an issuer, the surety bonding company's exposure is not limited to the size of the bond. Since most license bonds have face values lower than the outstanding obligation of the issuer on any particular day, the potential risk from failure to a bonder is large. As a result, bonders usually take the case to a court, where the legal authorities decide upon a period of time during which holders may present claims to the surety company. At the end of that period, the total claims presented are considered against the face value of the bond and a prorated basis of repayment is determined. In most cases, the holders receive only partial payment of their claim. Holders who did not present claims during the court determined period of time have no claim against the surety firm and hence receive no repayment, partial or otherwise. If a surety bonder does not take a case to court, a holder could present the money order and make a legitimate claim several years after the failure.

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It should be noted that the surety bond exists for the protection of money order holders and may not be considered an asset of the firm in case of failure. Only money order holders have legitimate claims against the bond, not creditors or stockholders.

The cost of buying this protection is surprisingly small but that is a function of the small number of failures that have taken place and the small face value of most bonds. Currently there are two rate scales. The special scale is a lower fixed fee scale used for customers whose risk is perceived as low. These firms include banks, railroads, steam ship companies, and express companies; they are charged $5 per $1,000 of bond face value. The universal scale, which applies to all other buyers, is a graduated scale: $20 per $1,000 for the first $50,000 of coverage, $10 per $1,000 for the next $50,000 of coverage, and $5 per $1,000 for any coverage over $100,000. For example, a bond of $120,000 would cost a special rate firm $600, i.e., $5 x 120, while a buyer under the universal rate would pay $1,600, i.e., (20 x 50) + ($10 x 50) + ($5 x 20). There is also a volume discount available. If a firm buys either 25 or more bonds or pays premiums of more than $5,000, that buyer is entitled to a 1/3 reduction in costs. While these figures are the fee scales recommended by the Surety Association, they mentioned that deviations exist between bonding companies and across states depending on the competition.

In talking with the Surety Association they mentioned that stricter underwriting guidelines are now being considered and even implemented in some cases primarily because increases in bond face value are being requested. While large bonds are handled on a pooling basis, that is, the liability of the bond is spread among a number of bonding companies, the increased risks associated with increased face values dictate stricter

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underwriting and increases in rates. In addition, it was mentioned that if states start to require larger bonds from issuers, small firms will not be able to obtain bonding because of their higher risk and the cost of the additional coverage.

In response to a question about how bonded firms are monitored, the Surety Association stated that firms are usually required to submit annual financial information, which the bonder analyzes. However, the longer a firm's bond is held by a bonder, the more lax the bonder becomes in reviewing the data and the less likely he is to make adjustments due to changes in risk. The rarity of failures in the money order industry was also given as a justification for the relatively weak monitoring systems of the bonders.

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SUMMARY

This paper has described the money order industry as being structurally and operationally straightforward. The simplicity of its operations and the stability of its market have been discussed and it has been noted that because of these facets, each individual issuer can easily forecast his cashflows. As a result of the straightforwardness and simplicity, the failure of a licensed money order firm was found to be a rare event. Some problems, however, do exist.

The paper also discussed the failures of two money order issuers which illustrated what can happen when the sychronization of cashflows is disturbed. Certain other problems were cited as potential causes of failures: manipulation of remittance time by agents and issuers, poor monitoring of the agents by the field representatives and of the field representatives by the issuers, and manipulation of the float time by the issuers.

In addition to these internal industry problems, consumer ignorance of the different types of money orders and diverse state regulations have aggravated the situation. If consumers were aware of the difference in protection afforded by the different issuers, cost differentials and additional protection by commercial issuers would have arisen in the market. State regulation of the money order industry has prohibited any uniformity in requirements or regulations of money order firms. In some states, money order firms do not even need to be licensed. Furthermore, among the states that do require licensing, the regulations vary considerably. The above mentioned problems, combined with the diversity of state laws regulating money order firms, are the fundamental weaknesses of the money order industry.

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APPENDIX

SUMMARY OF LAWS AND REQUIREMENTS FOR MONEY ORDER COMPANIES

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Table 1

State Licensing Requirements for Money Order Firms

State	Licensing Agency	Law & Citation	Minimum Equity	Surety Bond [1]	Agent Restrictions [2]	Renewal Requirements	Annual Fees
Alabama	The Securities Commission	Sales of Checks Act Ala. Code 1940 Title 5 §301-315	$ 3,000	Principal Office $10,000 plus $ 5,000 for each additional location maximum bond is $50,000	No licenses required	Annual Application filed by March 31 together with 1) certified financial statement, 2) certified check for annual fee, 3) list of non-exempt agents	Principal office $250. Additional location $5.00 Maximum $500
Arkansas	Securities Division, State Bank Department	Sale of Checks Act Ark Stat 1947 67-1901 et seq.	$ 25,000	$50,000 plus $5,000 for each location Maximum is $250,000	None	Annual Application form to Commissioner with 1) annual fee 2) latest annual report 3) list of agent's locations 4) list of offices and directors with 5 yrs. employment records plus 3 references 5) names of managers, plus 3 references for each 6) statement regarding number of shareholders and location of files	$250 plus $5 for each selling location
California	State Banking Department	Transmission of Money Abroad California Financial Code §1800 - 1826 Check Sellers and Cashiers Law California Financial Code §12002.1 to 12400	$ 100,000 of which $25,000 must be liquid	$125,000	No person who has been terminated by Superintendent may serve as agent. Termination of agent by firm must be sent to Superintendent within 5 days	No renewal of license but extensive financial reports required	$250 plus $50 for each American Express Office
Colorado	Division of Banking	Money Order Act Col Rev Stat 1973 12 -52 - 101 et seq.	None	$25,000 for first sales outlet, $5,000 for each additional one, maximum of $250,000	No restrictions	Annual application with certified balance sheet, annual fee, "list of each and every" outlet selling money orders and F/C's	$50 for 1-3 locations $100 for 4-7 locations $150 for 8-10 locations $250 for over 10 locations

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State Licensing Requirements for Money Order Firms

State	Licensing Agency	Law & Citation	Minimum Equity	Surety Bond [1]	Agent Restrictions [2]	Renewal Requirements	Annual Fees
Connecticut	State Banking Department	Money Forwarder's Act Conn. Gen. Stat 1958 §36-244a et seq.	$ 10,000	$25,000	No restrictions	Annual Filing of certified balance sheet, annual fee, continuation certificate plus renewal premium receipt for Surety Bond	$250
Delaware	State Bank Commissioner	The Sale of Checks Act Del Code of 1974 Title 5 §2301 et seq.	$ 100,000	$25,000 for first location $5,000 each additional Maximum of $250,000	Name and address of non-exempt, agents must file with Commissioner, no license required	Annual Application with 1) annual fee 2) list of all non-exempt agents' names and addresses 3) increased bond, if required 4) certified financial statement	$200 for first location $4.00 for each additional no maximum
Florida	Department of Banking	Sale of Money Orders Act Fla Stat Annotated Chap. 560	$ 500,000 and net worth plus long term debt must be at least one million dollars	$450,000 plus $5,000 for each selling location in addition to the first. Maximum $500,000	No restrictions although certificate requirement can be imposed	Annual application containing 1) certified balance sheet 2) list of officers and directors 3) fees 4) list of securities or deposit at current value, bond 5) list of all non-exempt, active agents	$250 plus each agent Maximum $2750
Georgia	Department of Banking and Finance	Georgia Sale of Checks Act Ga. Code Annotated Chap. 13-22	None	$100,000 plus $5,000 for each selling location Maximum $250,000	License certificate issued annually. Must be posted at all times	Annual, contain 1) fees 2) certified balance sheet 3) list of officers and directors. 4) certification of fidelity coverage on officials, employees, and agents	$300 plus $1 for each agent
Illinois	Department of Financial Institutions	Sale of Exchange Act Ill. Annot. Stat Ch. 16 1/2, §301-324	$100,000 $ 50,000 of which in cash at all times	$100,000 minimum $1,000,000 maximum. Annual increase in bond may be required if average outstanding per annum exceeds sum of bond	None	List of all locations of all agents. Annual fee, certified annual report, quarterly report due 20th of month after end of quarter.	$50 plus $6 for each location

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State Licensing Requirements for Money Order Firms

bond

State Licensing Requirements for Money Order Firms

State	Licensing Agency	Law & Citation	Minimum Equity	Surety Bond	Agent Restrictions	Renewal Requirements	Annual Fees
Indiana	Division of Consumer Credit, Department of Financial Institutions,	Currency Exchange Act Ind Stat. Annot. 28-8-3-1 to 28-8-3-17	$ 25,000	$50,000 plus $5,000 for each office and agent. Maximum of $100,000	Renewal card, issued annually	Annual 1) List of directors & officers 2) certified balance sheet 3) bond renewal receipt 4) list of branch offices and non-exempt agents 5) annual fee	$500
Iowa	Department of Banking	Sale of Certain Instruments for Payment of Money Iowa Code Annotated Chapter 533B	$ 25,000	$50,000	None	"No formal application. Payment of fees and submission of financial report and list of agents sufficient"	$100
Kansas	Department of Banking	Transmission or Payment of Money Kansas Statutes Annotated 9-508	$100,000	$25,000	No restrictions No license required	Payment of fees Submission of annual report	$100
Kentucky	Department of Banking Securities	The Sale of Checks Act Kentucky Revised Stat. Ch. 366	$100,000	$50,000 plus $5,000 for each location in excess of one Maximum $150,000	No license required	Payment of annual fee. Licensees not maintaining maximum bond must file quarterly reports	$250
Louisiana	State Banking Dept.	The Sale of Checks Act La. Rev. Stat. Annot. 6:1031 to 6:1047	$ 25,000	$25,000 for first location $2,500 for each additional Maximum $50,000	Branch certificate for each non-exempt location. Licensees under Louisiana Small Loan Law may not be agents.	No renewal, but submission of Certified financial statement list of directors and officers, surety bond certification, list of active non-exempt agents, report of business done in State for year, monthly update of non-exempt agent list	$250 plus $5 for each additional selling location Maximum $1,000

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Table 1

State Licensing Requirements for Money Order Firms

State	Licensing Agency	Law & Citation	Minimum Equity	Surety Bond	Agent Restrictions	Renewal Requirements	Annual Fees
Maine	Bureau of Banks and Banking	Sale of Negotiable Checks and Money Orders Maine Revised Statutes Annotated Title 32 Section 891	None	$25,000 to $100,000 determined by Bank Superintendent	Biannual certificate for non-exempt agent	Annual renewal with 1) list of non-exempt agents' locations 2) biannual fee 3) continuation certificate of surety bond	$200 plus $6 for ea non-exempt agent Maximum
Maryland	State Banking Dept.	Currency Exchange Law Annot. Code of Md. 1957 Art. 11 §210 to 223	None	$50,000 if average total outstanding less than $50,000 $75,000 if avg. total outstanding between $50,000 and $75,000 $100,000 if avg. total outstanding over $75,000	Permanent currency exchange agent license	Annual license fee and list of non-exempt agents Annual report of business done in State	$200 for each offi $4 for ea non-exempt agent
Massachusetts	Commissioner of Banks	Business of Selling Negotiable Checks, drafts and money orders regulated General Laws of Mass. Ch. 167 §59	$200,000 or surety bond	$25,000-$100,000 as determined by Commissioner Not required if $200,000 equity, or more	Certificate	Annual fee, list of non-exempt agents, sworn statement with name, address, and the net worth over $200,000	$100 plus $3 for ea non-exempt agents' location
Michigan	Dept. of Commerce Financial Institutions Bureau,	Sale of Checks Act Mich Stat. Annot. §23.1201 - 23.1216	$25,000	$50,000 plus $1,000 for each office and agency Maximum $100,000	No license required	Annual fee, bond continuation certificate, dollar amount of M/Os sold during previous calendar year, $ amount M/Os outstanding and December 31st, number issued during previous year, total number agents	$150

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State	Licensing Agency	Law & Citation	Minimum Equity	Surety Bond	Agent Restrictions	Renewal Requirements	Annual Fees
Mississippi	Department of Bank Supervision	Sale of Checks Act Miss Code Annot. 1972 §75-15-1 to 75-15-33	$25,000 plus $5,000 for each additional location in state. Maximum of $75,000	$25,000 plus $5,000 for each additional location. Maximum of $75,000	Certification of authority to non-exempt agents	Renewal form and annual fee	$200 plus $20 for each location maximum $500
Nebraska	Department of Banking	Nebraska Sale of Checks Act Rev. Stat. of Nebraska 8-1001 to 8-1015	$50,000	$50,000 plus $5,000 per additional location Maximum $150,000	None	Payment of annual fee and if bond less then maximum, semi-annual list of non-exempt agents	$100
New Jersey	Department of Banking and Insurance	Check Selling Law New Jersey Statutes Annot. 17:15B et seq.	None	$100,000	None	Renewal application and fee due December 1st biannually	$500 biannually
New Mexico	Commissioner of Banking	Sale of Checks & Money Order Act New Mexico Statutes 1953 Annotated Ch. 48 Article 22 §74	$100,000	$10,000 plus $5,000 for cash location. Maximum $200,000	Annual License	Renewal application & fees, list of all agents' locations, letter of recommendation from bank (s), certified balance sheet, statement of compliance with bond	$50 plus $7.50 for each agent. Maximum $50
New York	Department of Banking	Transmitters of Money New York State Banking Law Art. 13A §640 et. seq.	None stated	$200,000 plus $5,000 for each additional location Maximum $750,000	None stated	Renewal application, annual fee, number of locations, financial reports - quarterly profit and loss, annual report	$250
North Carolina	State Banking Dept.	Sale of Checks Act N.C. Gen Stat §53-192 to 53-208	$100,000	$150,000 plus $5,000 for each location Maximum $250,000	None	No formal application, the following are required annually: 1) annual fee 2) list of non-exempt agents 3) certified balance sheet 4) letter confirming deposit of securities if given in lieu of	$500

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Table 1

State Licensing Requirements in Money Order Firms

State	Licensing Agency	Law & Citation	Minimum Equity	Surety Bond	Agent strictions	Renewal Requirements	Annual Fees
North Dakota	Commissioner of Banking and Financial Institutions	Sale of Check Acts N.D. Century Code 51-17-01 to 51-17-17	$50,000	$25,000 plus $5,000 for each additional agents location Maximum $250,000	No license required No agent may be the agent of more than one licensee	Renewal applications with: 1) list of non-exempt agents 2) fee 3) list of changes of directors and officers during previous year	$100
Ohio	Secretary of State	Sale and Issurance of Money Orders and Travellers Checks Ohio Revised Code Title 13 §1310	$100,000	$200,000	No requirements	"No formal application. List of locations and payment of annual fee suffices"	$100 plus $3 for each selling location Maximum $500
Oklahoma	State Banking Commissioner	Sale of Checks Act Okla. Stat Annot. Title 6 §2101 to 2122	$25,000	$50,000 plus $5,000 for each location Maximum $250,000	No restrictions Copies of principal's license must be displayed	Renewal form in duplicate with: 1) list of all non-bank locations 2) list of officers & directors 3) annual fee 4) certified balance sheet	$100 plus $5 for eac location Maximum $300
Oregon	Superintendent of Banks	Sale of Checks Act Oregon Rev Stat 1975 Replacement 717.010 to 717.910	$100,000	$25,000 plus $5,000 for each selling location in excess of one. Maximum $150,000	No restrictions No separate license	Payment of annual fee only	$150

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Table 1

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State Licensing Requirements for Money Order Firms

State	Licensing Agency	Law & Citation	Minimum Equity	Surety Bond	Agent Restrictions	Renewal Requirements	Annual Fees
Pennsylvania	Department of Banking	Transmitting Money or Credit, Penn State Ann. Title 7, Ch. 53, §6101 et seq.	$200,000	$200,000	No restrictions	Annual application with: 1) total number of agents 2) branch offices addresses 3) list of officers and directors 4) certified balance sheet 5) copy of receipt for securities if in lieu of surety bond 6) forms of transmittal instruments and fees charged if changed from those previously submitted	$500
Rhode Island	Director of Business	Regulation The Sale of Checks Act R.I. Gen. Laws 1956 19-27-1 et seq.	$ 50,000	$50,000 per first location, $5,000 for each additional Maximum of $150,000	No restrictions	None	$250
South Dakota	Superintendent of Banking and Finance	Money Order Business South Dakota Codified Laws Ann. Ch. 51-28	$ 50,000	$100,000 plus $5,000 for each selling location above one Maximum $250,000	No license. May not be agent if more than one licensee	Renewal form with: 1) fee 2) certified financial statement 3) list of all agents 4) copies of instruments sold in state	$250
Tennessee	Superintendent of Banks	Money Orders Tenn. Code Ann. Title 45, Ch. 2401 et seq.	$ 25,000	$10,000 for first office or agent, $5,000 each for next three, $50,000 for more than four	No restrictions. Superintendent may request display of license of licensee	Annual fee Certified financial statements, list of agents, certification of bond may be requested by Superintendent	Less than 4 offices or agents $10 Betwee 5 and 8 - $50, Between 9 and 12 - $100, Over 12 - $250

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State Licensing Requirements for Money Order Firms

State	Licensing Agency	Law & Citation	Minimum Equity	Surety Bond	Agent Restrictions	Renewal Requirements	Annual Fees
Texas	State Banking Dept.	Sale of Checks Act Tex. Rev. Civ. Stat Act 489d	$10,000	$25,000 plus $5,000 for each additional location Maximum $250,000	No restrictions No licenses	Payment of annual fee	$50
Utah	Department of Business Regulation	Money Order Vendors Act Utah Code Ann 1953 Title 58, Ch. 29 §2 to §16	None	$10,000 plus $10,000 for each additional location. Maximum $50,000	No restrictions or licenses	Payment of annual fee List of agents	$50
Virginia	Bureau of Banking	Money Order Sales Code of Virginia Ann. Volume 1B, 1973. Sec. 6.1 - 370 to 6.1 - 380	None	$250,000 maximum $25,000 for first $5,000 for each additional location	None	Renewal annual form 1) CPA audit 2) list of agents	$250
West Virginia	Commissioner of Banking	Issuance and Sale of Checks, Drafts, and Money Orders, etc. West Virginia Code Ch 32A, Art 2 §1 et seq.	$50,000	$100,000	No restrictions	Annual fee and certified balance sheet.	$100
Wisconsin	Division of Consumer Credit, Office of Commissioner of Banking	Seller of Checks Law Wisconsin Stat. Ann. Chapter 217	None	$10,000 for first location $5,000 for each additional $300,000 maximum	Licensee issues authorization to each non-exempt agent. Must be conspicuously posted. No seller of beer or liquor, for consumption on premises, may be an agent.	1) annual fee 2) list of all branch offices and agent locations 3) latest certified annual financial statement 4) list of names and addresses of current officers and directors 5) certification of surety bond or security deposit	First 6 non-exempt locations $50 each next 94, $2 per location over 100, $1 per location maximum $1000

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State Licensing Requirements for Money Order Firms

State	Licensing Agency	Law & Citation	Minimum Equity	Surety Bond	Agent Restrictions	Renewal Requirements	Annual Fees
Puerto Rico	Bureau of Banks and Financial Institutions Department of Treasury	How to Regulate Sale of Money Orders Laws of Puerto Rico Ann. Vol. 2A, 1975 Title 10, §111	Liquid assets of not less than $100,000	$100,000 for first location, $5,000 for each additional Maximum of $250,000	Licensee must request license for each agent. Must be posted in place of business. $10 annual fee.	Renewal form and: 1) gross sales of M/O + T/C and grand total 2) total number of agents 3) check for all fees 4) list of all agents	If business volume is less than $20,000,000 fee is $500 If over, fee is $1,000.

Footnotes: 1) In lieu of a Surety Bond, the firm may deposit with either a bank or the Banking Commissioner Federal securities or the securities of the State or its political subdivision where the market value of the securities is equal to the necessary amount of the bond.

2) Exempt agents vary from state to state. Each state recognizing exempt agents includes banks in that group. Most include all other financial institutions also.

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Sources Consulted

1. American Banker, 28 January - 3 March 1977.

2. American Express Company
   American Express Plaza
   New York, New York 10004

3. Banque America Cheque Corp.
   One Powell Street
   San Francisco, California 94104

4. Citicorp Services Inc.
   399 Park Avenue
   New York, New York 10022

5. First National City Corp.
   399 Park Avenue
   New York, New York 10022

6. Nation-Wide Check Corp.
   (Federal Express Services Corp.)
   91 Aquahart Road
   Glen Burnie, Maryland 21061

7. National Association of Money Order Issuers

8. Pierce, James L. "The Users of Money Orders." Prepared for Symposium on Money Orders and Travelers Check. San Francisco, California. December 8-9, 1977.

9. Republic Money Orders, Inc.
   Republic National Bank Building
   Dallas, Texas 75201

10. Surety Association of America
    125 Maiden Lane
    New York, New York 10038

11. Travelers Express Co., Inc.
    1400 Lilac Drive South
    Minneapolis, Minnesota 55416

12. U.S. Postal Service
    475 L'Enfant Plaza, S.W.
    Washington, D.C.

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13. Wall Street Journal, 12 January - 3 March 1977

In addition, the licensing authorities in the following states were consulted: California, Georgia, Illinois, Iowa, Kansas, Maine, Maryland, Massachusetts, New Jersey, New Mexico, New York, Ohio, Penn., South Dakota, Tennessee, Utah, Virginia, West Virginia, and Wisconsin.

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