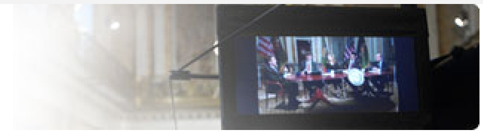

Opening Remarks of Under Secretary for Terrorism and Financial Intelligence David S. Cohen at the Treasury Roundtable on Financial Access for Money Services Businesses

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As prepared for delivery

WASHINGTON - Good morning, everyone, and welcome to the Treasury Department's historic Cash Room. My name is David Cohen, and I'm the Under Secretary for Terrorism and Financial Intelligence here at Treasury.

Thank you for joining us today for this roundtable discussion on financial access for money services businesses. It's fantastic to see assembled here such a wide-ranging group of stakeholders. We have representatives from MSBs, banks, industry associations, and consulting firms, as well as from across the U.S. government, including from the federal functional regulators.

It is my hope that this morning offers a chance for government and industry to engage in a productive dialogue. My colleagues and I look forward to hearing from those of you in the private sector on how you've been dealing with the questions surrounding MSB financial access. And those of us on the government side will try to offer some clarity about our work to support MSBs, our guidance with respect to regulatory expectations, and our efforts to encourage stronger controls and compliance within the sector.

I also know that many of you here today participate in the Bank Secrecy Act Advisory Group, or BSAAG, which has hosted some fruitful discussions on financial access for MSBs in the past. One of the suggestions that came out of those discussions was to elevate this issue. So I'm glad we have the chance to do so today, and I hope the BSAAG will continue to prioritize this issue.

To kick things off, since we'll have the opportunity this morning for detailed discussions, I thought I'd provide a broad overview of how we at Treasury approach this topic.

This is one of those rare issues that touches on almost all of the policy and regulatory priorities of the Treasury Department as a whole, whether in the office I lead – the Office of Terrorism and Financial Intelligence – or in the Offices of Domestic Finance and International Affairs.

The fact that these three branches of the Treasury Department are hosting today's event together is a testament to our shared dedication to fostering a vibrant and well-regulated market for MSBs – one in which legitimate customers can access convenient and secure financial services, and from which terrorists and criminals are turned away. Getting this right is absolutely critical if we are to protect consumers, advance financial inclusion, support economic development, and uphold the integrity and transparency of the international financial system.

Both here in the United States and abroad, MSBs provide essential financial services, including to low-income people who are less likely or unable to make use of traditional banking services. More than a quarter of American households use non-bank financial institutions like MSBs, to do everything from paying their bills and cashing checks to supporting their family members abroad.

MSBs do more than advance financial inclusion, which is a priority I know we share with the Office of International Affairs, led by Under Secretary Nathan Sheets, who is unfortunately not in Washington today. MSBs are also key to financial transparency. Financial transparency is a goal we work toward every day in this building, since the more transparent the financial system is, the harder it becomes for illicit actors – states, terrorists, or criminals – to camouflage themselves in the legitimate economy.

And MSB reporting under the Bank Secrecy Act contains some of the most valuable anti-money laundering and counterterrorism information that FinCEN receives. Just last year, MSBs filed approximately 720,000 suspicious activity reports and 355,000 currency transaction reports.

I sometimes hear the claim that financial inclusion and financial transparency are at odds with one another. But we don't see things that way, and this issue demonstrates why.

It is true that non-bank financial institutions like MSBs, which make financial services available to more people in more places, are not required to collect as much information about their customers as are other financial institutions.

But what would happen in a world without MSBs? Those customers, many of whom are unable to access traditional banking services, might seek to do business through less regulated channels. And then we would lose access to crucial information that regulators and law enforcement depend on every day to prevent the abuse of the financial system. Other customers would turn to riskier, less predictable service providers, with little recourse for when something goes wrong.

That's why we see inclusion and transparency as complementary goals – both of which are served by MSBs and their customers.

Another important contribution of the MSB sector is its increasing role in alleviating poverty and advancing prosperity across the globe. The World Bank estimates that by 2016, the global flow of remittances, made possible by just one type of MSB, will add up to $681 billion, with more than $500 billion of that going to developing countries.

For all these reasons, we are devoted to ensuring that compliant MSBs continue to enjoy access to the regulated financial system.

We acknowledge, however, that certain MSBs, like other financial institutions, can be vulnerable to abuse by money launderers and terrorist financiers. Take the issue of remittance payments, for example. The source of remittances is often cash provided to a money transmitter by an individual with whom the transmitter's agent may have no ongoing relationship. And remittance payments that flow across borders generally involve developing economies, where regulations may be imperfect and mechanisms for identifying customers may be weak. This presents real money laundering and terrorist financing risk.

But we believe emphatically that risks such as these can and should be managed, not simply avoided altogether – especially in light of the contributions MSBs make to the health of the international financial system and to the U.S. economy. We take very seriously concerns that banks have been indiscriminately terminating the accounts of all MSBs, or refusing to open accounts for any MSBs, thereby eliminating them as a category of customers.

Indeed, some have pointed to these developments as evidence that a broader and dangerous "de-risking" trend is underway, since they run counter to the expectation that financial institutions assess the risks of customers on a case-by-case basis.

To be sure, whatever reluctance financial institutions may have to work with the MSB sector is likely driven by several factors; it is not simply a response to money laundering and terrorist financing risk. As you all know, many considerations come into play when a financial institution decides whether to take on or retain a customer. These include profitability, the overall economic climate, capital requirements, and risk appetite, to name just a few.

And we have no problem with financial institutions that, after applying a risk-based approach to their decision-making, say "no" to some customers -- in fact, that's what we expect of them. A bank that terminates a relationship with a money transmitter because it reasonably determines that it cannot responsibly mitigate the customer's illicit finance or other risk is to be applauded, not criticized.

What we are concerned about, however, is the possibility that financial institutions are terminating or restricting an entire class of business relationships simply to avoid perceived regulatory risk, not in response to an assessment of the actual risk posed by individual MSBs.

Now, perceived regulatory risk and actual illicit finance risk usually overlap – that is, the risk that a financial institution could incur a penalty for an AML/CFT violation generally corresponds to that institution's real risk of being abused by money launderers and terrorists. That's because our overarching goal when we put in place regulations or carry out enforcement actions is to ensure that regulated institutions are appropriately addressing real illicit finance risk.

But I know there are concerns that regulatory risk has gone beyond actual illicit finance risk. Some say that, in practice, we have created a zero-tolerance regulatory environment.

I disagree, so let me set the record straight. The risk-based approach we expect of financial institutions does *not* imply a zero-tolerance regulatory regime.

We recognize that it is not possible or practical for a financial institution to prevent every single potentially illicit transaction that flows through it. The Bank Secrecy Act requires that financial institutions establish and implement AML/CFT programs reasonably designed to detect, prevent, and report suspicious activity.

But we know that financial institutions are not infallible. What we ask is that they take seriously the variety of illicit finance risks that different clients present, and assess and address those risks on a client-by-client basis. Individual MSBs, like any other kind of customer, present varying degrees of risk, and it is hardly the case that all MSBs are high-risk.

As for the recent, high-profile enforcement actions imposed on financial institutions for AML/CFT failings related to MSBs, let me just say that these actions were not taken because of minor mistakes. To the contrary, as the Financial Action Task Force put it in a statement on de-risking last year, "[r]ecent supervisory and enforcement actions … were [in response to] extremely egregious cases involving banks [that] deliberately broke the law, in some cases for more than a decade, and had significant fundamental AML/CFT failings."

In short, it is our firm belief that banking organizations can continue to serve the MSB industry without compromising their obligations to detect and report illicit financial activity and without exposing themselves to excessive regulatory risk.

I hope today's event generates useful conversations about the best ways for financial institutions to put in place risk-based controls, assess the risks posed by individual MSB customers, and manage that risk, even when it may be high.

Thank you.

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