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Retailers as Financial Services Providers: The Potential and Pitfalls of This Burgeoning Distribution Channel

EXECUTIVE SUMMARY

Retailers, such as groceries, convenience stores and pharmacies, are emerging as significant distribution channels for a broad range of financial services. A slow evolution over the last few decades has recently quickened, in large part because of rapid technological advances in the payments industry. Large retailers in particular are capable of reaching significant numbers of customers cost-effectively, providing a broad patchwork of financial access points for lower-income, underbanked consumers and creating a platform for bundling full suites of targeted products and services. The implications are potentially revolutionary, as they call into question the definitions for terms like "branches" and "deposits."

This distribution model for financial services could be very beneficial for firms that seek to acquire and serve a broad range of consumers. Retailers stand to gain access to increased foot traffic in their stores and fee revenue from a large customer base that is relatively untapped by mainstream financial institutions. In turn, financial institutions that partner with retailers gain access to potentially extensive distribution networks that reach consumers in their everyday lives.

This report analyzes the promises and pitfalls of utilizing retail locations as distribution channels for financial services. It provides an overview of trends and innovations in retailer involvement in financial services, how these trends affect underbanked consumers and the policy implications. Key findings of the report include the following:

- While a subset of consumers have been accessing financial services in retail locations for decades, retailers are providing these services in more formal and significant ways. Advanced ATM, point of sale and kiosk technology has contributed to this change. The advent of reloadable stored value cards has had a major impact, and innovative partnerships among retailers, banks, and vendors have furthered this trend.

- In this new financial services environment, some retailers, particularly large firms such as 7-Eleven and Wal-Mart, are simultaneously partnering with banks and credit unions and competing with them. The legal and regulatory systems are struggling to keep pace with these developments. As retailers gain momentum in the financial services market, traditional definitions of banking are changing. In order to understand their roles and responsibilities, retailers and their partners must navigate a complex web of federal and state money service business (MSB) laws and regulations, in addition to the USA PATRIOT Act and the Bank Secrecy Act.

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- The primary motivation for most retailers to provide financial services has been to enhance their core business. While many retail companies understand their customers' preferences surrounding the purchase of consumables, they have spent less time learning about their customers' financial services preferences.

As the financial services landscape continues to evolve, retailers are beginning to provide financial services in increasingly sophisticated ways that have the potential to reach significant scale. For consumers that have been left out of the mainstream financial system, retailers could help to fill the financial services gap that leaves many families operating on a cash basis. But more work needs to be done to untangle retailers', banks' and third party providers' roles and responsibilities.

Introduction

In today's world, consumers are increasingly conducting financial transactions outside of the bank branch. Retailers, such as groceries, convenience stores and pharmacies, are emerging as significant distribution channels for a broad range of financial services. A slow evolution over the last few decades has recently quickened in large part because of rapid technological advances in the payments industry. Those advances, coupled with the advent of new products like stored-value cards and the growing recognition of underbanked consumers as a valuable but untapped market, have fueled a quiet revolution that has the potential to bring the underbanked into the financial mainstream. Large retailers in particular, such as Wal-Mart and 7-Eleven, are capable of reaching large numbers of customers. Whether and how these nontraditional venues will be incorporated into the financial landscape is the focus of this report.

Changes in how financial services are provided raise important policy issues concerning the understanding and definition of "branches," "deposits" and financial services "agents." As firms that do not consider financial services their primary lines of business increase their presence in this market, conventional notions of what it means to be a bank customer are fundamentally altered. On the one hand, this distribution model for financial services could be very beneficial for firms that seek to acquire and serve a broad range of consumers. Retailers stand to gain access to increased foot traffic in their stores and fee revenue from a large customer base that is relatively untapped by mainstream financial institutions. In turn, financial institutions that partner with retailers gain access to potentially extensive distribution networks that reach consumers in their everyday lives.

On the other hand, regardless of where they do business, consumers want to know that their funds are protected. This paper analyzes the promises and pitfalls of utilizing retail locations as distribution channels for accessing financial services. It provides an overview of trends and innovations in retailer involvement in financial services, how these trends affect underbanked consumers and the policy implications.

Background of Retailer Involvement in Financial Services

For years, retailers have provided financial services on an informal basis to un- and underbanked consumers in need of banking alternatives. A restaurant or bar might cash a paycheck for a regular customer, while a grocery or corner store often allowed customers to make purchases on informal store credit. In the United States today, as many as 22 million households are unbanked. Millions more underbanked consumers may have bank accounts but continue to use a range of non-bank products and channels to meet their needs. Un- and underbanked consumers are looking for fast, convenient, and trustworthy ways to get cash, access paychecks, pay bills, and send money to relatives overseas. In addition, retailers and financial services companies are looking for new and emerging markets.

It is clear that some consumers already view retail locations as viable places to conduct financial transactions, whether out of necessity or convenience. A survey conducted by the U.S. Treasury and the Federal Reserve Bank of St. Louis in 2004 noted that 28% of recipients of social security and disability benefits in six markets (Chicago, Miami, Los Angeles, New York, Baton Rouge and Greenville/Spartanburg) cashed their benefit checks at grocery stores.[1] Other researchers have found that many lower-income people cash their checks at supermarkets and other retail venues because they find it cheaper than options available at banks and check cashers.[2] This finding debunked the theory that most unbanked people used check cashers for financial services. Another study revealed that Mexican immigrants in Dalton, GA, Nashville, TN, and Florida City, FL, were most likely to send remittances via stores such as supermarkets compared to check cashers or banks.[3]

While it is not new for consumers, particularly lower-income and unbanked consumers, to access financial services in retail locations, the historically informal and limited nature of these relationships has changed dramatically in recent years. In addition to informal mechanisms for offering financial services, changes in the banking landscape have allowed retailers to make more deliberate moves into providing financial services. In interviews, industry experts maintain that the most important financial services available in retail locations, from a growth and revenue potential standpoint, include check cashing, bill payment, deposit automation through instant check imaging, remittances and reloadable stored value cards (SVCs).

In the mid-nineties, retailers gained access to the ATM market when the ban on surcharging by ATM owners was discontinued; retailers and other storefront businesses began placing ATMs in their stores to increase foot traffic and generate fee revenue. At this stage, many independent sales organizations (ISOs) that offered ATM services did not take deposits, significantly reducing their costs.[4] The number of ATMs in retail locations mushroomed, expanding the ways that consumers could access financial services outside the branch. Financial institutions also began to place more off-premise ATMs in order to increase their footprints in certain markets.

ESP Consulting estimates that there are 384,000 ATMs and cash dispensers in the U.S. today, of which only 52% are owned by banks and credit unions.[5] According to ESP, the percentage of terminals owned by banks has decreased steadily over the years, while non-bank ownership of terminals remains fragmented. For example, of the 183,000 ATMs

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[1] Paese, K. (2004). *Electronic Funds Transfer (EFT) Research Study: Understanding the Dependence on Paper Checks: A Study of Federal Benefits Check Recipients and the Barriers to Boosting Direct Deposit*. US Department of the Treasury and the Federal Reserve Bank of St. Louis.
[2] Dunham, C. (2001). *The Role of Banks and Non-Banks in Serving Low-and Moderate-Income Communities*. Office of the Comptroller of the Currency.
[3] Hilgert, M., Hogarth, J., Lucio, E., Howell, S., Sanchez, J., Smith, W., McQuerry, E., Cruz-Taura, A., & LeVeen Farr, J. (2005, April 7-8). *Banking on Remittances: Increasing Market Efficiencies for Consumers and Financial Institutions*. Paper presented at the Federal Reserve System's Fourth Annual Community Affairs Research Conference, Washington, DC.
[4] Giesen, L. (2002, September-October). Cash Cows? *Banking Strategies*, 77(5).
[5] According to ESP Consulting, while 95% of in-branch ATMs offer functionality besides cash dispensing, including balance transfers and mini-statements, 95% of terminals in retail locations are simple cash-dispensing machines rather than more robust ATMs. ESP Consulting (2004). *ATM Market Tracker Consumer Delivery Strategies Report.* [Contact publisher for details.]

offered by ISOs, the firm estimates that 58% of terminals were owned by the largest 20 retailers.[6] At the same time, fully a fifth of ATM transaction volume growth, which represents 1.19 billion transactions and $2.4 billion in revenues, has been picked up by non-bank firms.[7] This substantial growth in non-branch ATMs signaled a major turn in retailers' involvement in the provision of financial services.

Following the advent of in-store ATMs, financial institutions and retail locations began forming partnerships to capitalize on retail locations, particularly grocery stores and pharmacies, as distribution points for financial services. Banks began making exclusive deals with companies such as Walgreens and CVS Pharmacies for ATM placement. Moreover, banks including Citizens Bank, TCF Bank and the former Bank One began placing physical branches inside grocery stores.[8] According to Tower Group, in 1971, there were only about 50 banking offices in supermarket premises. In 2004, that number had increased to 6,500.[9]

Other interesting partnerships have developed over the last decade. Banks recently moved into even more formal relationships with retail distribution channels, sometimes integrating ISOs into their business models. In 2003, NetBank, one of the largest Internet banks in the country, purchased an ISO, Financial Technologies, Inc., making it one of the largest deployers of ATMs in the nation. The new NetBank Payment Systems, Inc. has a presence in grocery and convenience stores.[10] NetBank customers are able to use these ATMs for free, though retailers still receive surcharge revenue through their arrangements with NetBank Payment Systems. This model allows the Internet bank to significantly increase its footprint at the same time that it is able to obtain fee revenue through its ISO's relationships with retailers.

Beginning in 2000, E*Trade Group began a partnership with Target Corp through which it placed mini-branches called E*Trade Zones in 43 Target SuperCenters as part of an effort to create new touch points to complement its online brokerage and financial services site. Though this program ended in 2003, E*Trade still has ATM machines in some Target branches.[11] Also recently, check cashers in New York City began partnering with credit unions to provide deposit services for credit union members in check cashing locations. The PayNet Deposit program enables members of participating credit unions to make withdrawals, deposits and transfers directly into their credit union accounts through point of banking (POB) machines in check cashing locations. The goal of this program is to

[6] ESP Consulting (2004). *ATM Market Tracker Consumer Delivery Strategies Report.* [Contact publisher for details.]
[7] Carroll, K. (2005, February 15). *PIN-Secured Debit Payments Landscape and Its Impact on ATMs*. Presentation at the ATMIA Conference East: Next Generation ATMs in the USA.
[8] For general information on bank branching trends, see Spieker, L.. (2004). *Future of Banking Study: Bank Branch Growth Has Been Steady – Will It Continue?* Draft FOB – 2004 – 8.01. Federal Deposit Insurance Corporation.
[9] Eckenroe, J. (2004, February 17). When Banking Meets Shopping: An Update on Supermarket Banking. *Building an Edge* (IBM newsletter), 5(2).
[10] It's an ISO and a Bank. (2005, January 10). *The Green Sheet.*
[11] E*Trade Closes Centers in Stores. (2003, June 7). *Atlanta Journal Constitution*, p. 2F.

capitalize on the similarities between the financial needs of check cashing and credit union customers to bring them extended service and convenience.[12]

Other innovative partnerships have emerged between retailers, tax preparation agencies, and financial institutions. For example, in 2005, H&R Block opened 1,300 new offices and kiosks at Wal-Mart and Sears stores.[13] Moreover, some large retailers such as Wal-Mart are beginning to offer financial services directly in order to improve foot traffic, increase customer loyalty and generate additional fee income. Finally, with the explosion of stored value cards (SVCs) in recent years, retailers have begun to serve as reload points for customers to place funds on their cards.

Today we are witnessing the result of a number of changes in how retailers provide financial services. While the customer service desk, in-store branch or ATM have been the primary ways that customers conduct financial transactions in store locations, check cashing and bill payment kiosks have begun to take over some functions. This move towards self-service delivery provides retailers with greater opportunities to bundle products while reducing costs.

Policy Implications of Retailer Involvement in Financial Services

As retailers increasingly provide their own and distribute others' financial services, the legal and regulatory system is struggling to keep pace. As the most prevalent non-bank distribution channel for financial services, check cashers historically have been the primary focus of laws and regulations that protect against money laundering and ensure that consumer protections, such as protection against loss of funds and identity theft, are in place. But today, a broader range of retailers have to navigate the complex web of money service business (MSB) laws and regulations as they enter the financial services market.

According to the Financial Crimes Enforcement Network or FinCEN, in April 2005, there were more than 23,000 federally-registered non-bank money service businesses around the country,[14] defined as those businesses providing money orders, traveler's checks, check cashing, money transfer, and currency dealing or exchange.[15] While the list includes a range of large national retailers and "mom and pop" shops, it does not include those companies that are serving as distribution channels for other licensed MSBs, such as those retailers that serve as agents of MoneyGram or Western Union in order to sell their products.

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[12] For more information on this partnership, see Jacob, K. (2004, October). *The PayNet Deposit Program: Check Casher-Credit Union Partnerships and the Point of Banking Machine.* The Center for Financial Services Innovation.
[13] Twiddy, D. (2005, February 24). H&R Block Reports Lower Earnings Despite Higher Revenue. *The Associated Press.*
[14] Financial Crimes Enforcement Network. 2005. MSB Registration List. Accessed on April 25, 2005, at: http://www.msb.gov/guidance/msbstateselector.php
[15] Xtreme Distribution Network Inc. - XDNI - Partners with ChexFirst. (2004, December 8). *Business Wire*.

Money service businesses are subject to both federal and state laws and regulations, which vary widely by geography. On a federal level, firms are required to register as money service businesses if they conduct transactions of more than $1,000 with any one customer on the same day.[16] The Illegal Money Transmitting Business Act of 1992, [253] codified at 18 U.S.C. 1960, makes it a federal crime to operate an MSB without the appropriate state licenses. FinCEN administers federal requirements for MSBs and evaluates compliance with the Bank Secrecy Act, ensuring that financial services providers are following the law in order to prevent money laundering, identity theft, and funding for terrorist activities.[17] In addition, MSBs must comply with requirements set forth by the Office of Foreign Assets Control (OFAC). In general, these regulations prohibit unlicensed financial transactions with, and require the blocking of, accounts and other assets of specified countries, entities, and individuals deemed to be security threats.[18]

In addition, Section 326 of the USA PATRIOT Act requires financial institutions to be more diligent in documenting customer identification. For instance, Visa and MasterCard require customer Social Security numbers for signature-based branded stored value cards, an important change in the industry following the PATRIOT Act. As roles and responsibilities for following the law are fine tuned, retailers and their financial partners may be forced to rethink the process of collecting customer information. For instance, in the case of stored value cards (SVCs), at the moment, most retailers are serving as distributors for third parties' products. In those cases, a customer would contact the third party and provide identification and other pertinent information in order to obtain a branded SVC. The SVC company or registered MSB would then validate the information using non-documentary means by checking the Social Security number and other identification against national databases to ensure that the information provided relates to that individual. But as retailers get further into the financial services business, some might consider offering their own SVCs rather than distributing others' cards. In that case, the store might have to implement security measures and would most likely have to obtain Social Security numbers directly from consumers.

At the state level, laws governing MSBs are typically administered by a state's banking department or department of financial institutions, and it is at the state level that bonding requirements and fees exist to protect consumers against loss of funds. MSBs usually have to apply for a state license, maintain a specified level of net worth, and post a bond to do business in that state. Typically, as part of the licensing process, the officers and directors of the MSB must provide detailed personal information and undergo a criminal

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[16] All businesses that provide money transfer services must register, regardless of the amount of transactions. The federal MSB requirement does not apply to a business that is an MSB solely because it serves as an agent of another MSB. Financial Crimes Enforcement Network. (2003, August 1). Answers to Frequently Asked Questions (FAQs) for Money Services Businesses (MSBs). US Department of the Treasury.

[17] The BSA, administered by the Financial Crimes Enforcement Network (FinCEN), requires financial institutions, including MSBs, to keep certain paper trails on their customers' transactions. This includes maintaining a list of agents and following certain reporting requirements, including reporting of cash transactions exceeding $10,000.

[18] OFAC is part of the U.S. Department of the Treasury. It administers and enforces economic and trade sanctions against targeted foreign countries, terrorism sponsoring organizations, and international narcotics traffickers based on U.S. foreign policy and national security goals. For more information, see http://www.treas.gov/offices/enforcement/ofac/

records check. State requirements for these background checks vary. Forty-four states have explicit bonding requirements, although the bond type and amount required varies widely. Application, investigation, license, registration and per location fees might also be levied on MSBs. Some states have recently cracked down on MSBs operating without licenses. For example, in Maryland, the state has started to investigate a number of companies that are providing remittance services to immigrants without the proper licenses and insurance.[19]

State MSB laws contain varying definitions. Some states have very limited laws, others do not have MSB laws at all, and still others have strict enforcement and examination procedures for firms engaging in a range of transactions. State laws do not include federally-regulated financial institutions such as banks and credit unions under MSB purview. State MSB laws have a variety of bonding and licensing requirements.[20] These varying rules and definitions create challenges for some retailers and financial services companies that are seeking to partner to bring non-bank retail distribution channels to scale on a multi-state basis. Large regional or national chains with locations in several states are especially challenged by the varying rules, while smaller retailers with one or two locations in a single state need only understand one state law in order to become licensed.

Sometimes, retail firms might register for MSB licenses in order to be able to provide a wide range of financial services from any of their locations. In a case like Western Union, the company is a licensed MSB, and the individual locations of that company are included in the registration information. In other cases, individual franchises might have exclusive or non-exclusive agency contracts with third-party service providers, further complicating the question of who should register as an MSB. Finally, the growing number of "mom and pop" grocery and convenience stores that cash paychecks in excess of $1,000 or provide remittance services to customers often must register as MSBs with FinCEN and become licensed under the state MSB laws where they operate.

Recently, banks that serve as settlement agents for MSBs have begun to sever relationships with them over concerns with compliance with the Bank Secrecy Act. In March 2005, federal regulatory agencies issued a joint statement encouraging banks to continue working with MSBs, stating that regulators do not expect "banking institutions to serve as the *de facto* regulator of the money services business industry,"[21] which, the agencies argued, provides valuable services, particularly for the unbanked. In April of 2005, the agencies issued guidelines to help banks understand their roles in performing

[19] Williams, K. (2005, April 26.).MD. Cracks Down on Illegal Money Transfer Companies. *The Washington Post.*
[20] See the appendix for a complete list of MSB laws, governing bodies, fees, and bonding requirements. Some MSBs that must register with FinCEN are not required to register in every state, depending on each state's laws.
http://www.occ.treas.gov/ftp/advisory/2004-7.doc
[21] Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Financial Crimes Enforcement Network, National Credit Union Administration, Office of the Comptroller of the Currency and Office of Thrift Supervision. (2005, March 30). *Joint Statement on Providing Banking Services to Money Services Businesses.*

due diligence on MSBs. The guidelines encourage banks to perform due diligence on MSBs but do not direct banks to perform new checks or sever relationships with MSBs. It is too early to predict the overall effect of the guidance on retailers offering financial services.[22]

Moreover, in April 2005, the Conference of State Bank Supervisors (CSBS), FinCEN and the Internal Revenue Service (IRS) announced the approval of memoranda of understanding (MOUs) that detail procedures for the sharing of Bank Secrecy Act information among the states, federal bank regulators, FinCEN and the IRS. The agencies worked with the Money Transmitters Regulatory Association (MTRA) and the National Association of State Credit Union Supervisors (NASCUS) to draft model MOUs that lay out mechanisms for increased communication and enforcement among state and federal agencies and that provide for the sharing of training and examination materials.[23] It will be instructive to monitor the extent to which states sign these MOUs.

Federal agencies' specific reference to the unbanked in the joint guidance on bank relationships with MSBs is noteworthy. MSB laws are intended to provide consumer protections, such as protecting a consumer's funds if a non-depository financial services provider fails prior to bank settlement of the transaction. Questions of third-party liability and whether consumers understand the associated risks to their funds warrant further exploration. According to state regulators, MSB laws were created to ward off illegal financial transactions like money laundering. As time went on, concerns over international money laundering grew, and the laws' scope widened. Today, consumers can transact financial business at a variety of locations, and consumers generally perceive that their funds are protected when making electronic payments. Indeed, electronic transactions have put MSBs on the same playing field as financial institutions, but the laws that regulate these businesses have not necessarily evolved to reflect appropriate roles and responsibilities for protection of consumers' funds.

The question of liability is not a philosophical one. In the spring of 2004, New York State suspended the license of CashPoint Network Services, which had registered hundreds of retail locations throughout the Northeastern U.S. as agents to provide bill payment services. Prior to the suspension, CashPoint customers paid their bills through clerks at retail locations, and both CashPoint and the retailer collected fees for the service. Ultimately, the company, which provided bill payment services in mainly low-income areas, owed millions of dollars in unpaid bills to utility companies.[24] Though these companies were encouraged by New York State courts not to seek double payments from consumers, they were not barred from doing so. Some consumers were forced to repay

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[22] Financial Crimes Enforcement Network, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency and Office of Thrift Supervision. (2005, April 26). *Interagency Interpretive Guidance on Providing Banking Services to Money Services Businesses Operating in the United States.*

[23] Conference of State Bank Supervisors. (2005, April 26). Conference of State Bank Supervisors, Federal Agencies Agree on BSA Information-sharing Plan. Press release retrieved from http://www.csbs.org/pr/news_releases/2005/nr_04.26.05.htm

[24] Newman, R. (2004, April 29). Warning about Bill Payment Service: CashPoint Accused of Stiffing Utilities. *The Record (*New *Jersey).* B1.

bills they had already paid through CashPoint. This case is an unfortunate example of how MSB laws and other consumer protection measures did not sufficiently protect consumers who were conducting financial business in retail locations. The continued growth of the retail sector in the financial services industry is dependent in part on state MSB laws and enforcement mechanisms that incorporate effective consumer protections.

Potential for the Underbanked

While the expansion of financial services distribution points raises some consumer protection concerns, it also provides opportunities for consumers whose needs aren't met by mainstream financial institutions and gives financial services companies additional ways to reach these consumers. The increasing availability of ATMs in retail locations means that consumers no longer need to reside near a bank branch in order to access cash. Moreover, point of sale (POS) technology enables consumers to access their bank accounts at the point of purchase (by making purchases and getting cash back) without writing checks. Today, consumers can plan ahead to conduct financial transactions during a shopping trip and bypass financial institutions altogether to meet their liquidity needs. Moreover, POS terminals and ATMs now offer more than just access to cash. ATM functionality continues to expand and today includes coupons, maps, mobile phone services, ticketing and loyalty programs. Over time, POS terminals could begin to look like limited "manned tellers," with innovations such as Spontaneous Investment Protocol, an emerging technology that would allow customers to make deposits into investment accounts directly at the point of sale.[25]

While ATMs and POS machines provide consumers with self-service access to cash and statements, an assumed relationship with a financial institution exists behind the transactions. Self-service kiosks, however, are usually further removed from the traditional banking encounter. Consumers with no relationship with a financial institution can use these kiosks to cash checks, pay bills, purchase additional cellular phone minutes and conduct other basic transactions. Despite some skepticism about whether lower-income consumers would use self-service technology, some industry experts believe that these consumers, particularly those in younger age brackets, have adopted these new payment and distribution technologies more rapidly than other customer segments, and that the reliability of the technology is a more significant obstacle to customer take-up than consumers' discomfort with using the technology.

Today, companies that provide kiosks that once only handled check cashing or bill payment are beginning to bundle these services together with reloadable stored value cards, phone cards, wire transfer services, and even online shopping capabilities. While these advances have the potential to help consumers navigate an increasingly complex financial system, they further highlight the importance of understanding how consumers' funds are protected when they lack a direct relationship with a depository financial institution.

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[25] SIP , an innovation that would allow customers to direct money into investment accounts every time they made purchases at POS machines, is currently in the business development phase.

Recent Innovations

Self-Service Delivery and Kiosks

As mentioned earlier, a growing number of check cashing, money order and bill payment transactions usually performed at retailers' customer service desks are being migrated to kiosks. In 2004, there were about 504,000 kiosks worldwide, and analysts estimate that kiosks specializing in financial transactions account for one tenth of all machines. In 2003, North American consumers transacted nearly $128 billion in sales using self-service machines, and estimates for worldwide revenue in the same year approached $463.7 million.[26]

Kiosk Market Sectors, 2004[27]

	Percent of Total Units Shipped
Retail	28%
Travel/Tourism	18%
Communication	8%
Financial	**10%**
Government	12%
Transportation	8%
Entertainment	9%
Healthcare	2%
Other	5%

In the last several years, a variety of retailers have begun to offer check cashing services through kiosks. Check cashing is an important service for many un- and underbanked consumers, and retailers have long played a role in providing this service. Retailers see a market that is willing to pay fees to cash checks, is drawn to convenience, and may not feel comfortable with banks or chooses not to form a banking relationship. In some instances, grocery stores and other retailers may cash checks for free, while financial institutions usually charge check cashing fees to non-customers.

Check cashing kiosks have had a long evolutionary path. One of the first entrants was Mr. Payroll, a self-service check cashing kiosk that allowed customers to cash paychecks in convenience stores and gas stations. Mr. Payroll eventually was renamed InnoVentry and was jointly owned by Wells Fargo Bank, Capital One Financial Corp. and Diebold. InnoVentry went out of business in 2001, primarily because the cost of the machines –

[26] Caserta, C. (2005, February). *Self Service For an Increasingly Active World*. Presentation at The Kiosk Show, Orlando, FL.
[27] Fincher, B. (2004, October). *An Overview of the Kiosk and Self-Service Industry & the Promise of Self-Service for the Next Ten Years*. Presentation at The Kiosk Show, Boston, MA.

reported to be between $40,000 and $60,000 each – required transaction volumes that proved untenable.[28] Other early entrants in the check cashing kiosk market included Check Central, a subsidiary of Greenland Corp. that developed the MAXcash Automated Banking Machine.

The check-cashing kiosk market continues to grow and evolve. CashWorks (owned by GE Consumer Finance) is a major player today, offering check-cashing kiosks in supermarket chains and convenience stores.[29] Earlier this year, NetBank Payment Systems announced plans to offer a platform in which ATMs placed at grocery stores could be integrated with POS terminals for check cashing purposes.[30] ATM manufacturers have gotten into the business as well. For instance, Triton, an ATM manufacturer, has created software called Triton Waves that enables retailers to offer services such as check cashing, prepaid wireless top-ups, and person-to-person money transfers through in-store ATMs.[31]

Financial services companies and vendors are not the only ones moving into this market. Some retailers have been aggressive in pursuing these financial services options. In 1996, 7-Eleven tested “manned check cashing outlets” in a few of its Austin, TX, stores but found it too costly to provide personnel and handle cash in this manner. In 1998, the company began experimenting with ways to automate these services through kiosks that could provide check cashing, money orders, some bill payment and other services. In 2002, 7-Eleven introduced Vcom kiosks into a number of its stores across the country. Check cashing is the most popular service offered, but consumers can also use the kiosks to transfer money within the U.S. and abroad, buy car insurance, purchase phone cards, buy money orders, reload 7-Eleven E-Cash prepaid MasterCard cards, and pay bills.[32] Today, 7-Eleven’s Vcom machines around the country are offered in partnership with CashWorks and several other third party service providers and financial institutions.

The Vcom platform has experienced some challenges. 7-Eleven stopped placing new kiosks in July 2003, having installed only 1,050 kiosks out of the planned 3,500. At this point the kiosks are not available in all 7-Eleven locations, nor are they concentrated in a specific market. Moreover, Vcom kiosks are expensive. Estimates range from around $40,000 each for bulk purchases, while more basic bill payment kiosks retail for as little as $6,000. Analysts have expressed concern about customer take-up, especially in relation to the high cost of the machines, which might require significant volume in order to provide appropriate returns on investment.[33] According to 7-Eleven’s 2004 annual report, the company’s total revenue for the year ending December 31, 2004 was $12 billion. Vcom revenues are small in comparison but not insignificant. Vcom commissions increased to $6.1 million in 2004 from $1 million in 2003, while placement fees from vendor partners decreased to $11.8 million in 2004 from $28.8 million in 2003.[34]

[28] Check Cashing At ATMs Faces An Uncertain Future. (2001, October 4). *ATM & Debit News,* 2(36), 1.
[29] Garry, M. (2004, December 20). Prepaid Debit Card Programs Unveiled. *Supermarket News*, p. 48.
[30] It’s an ISO and a Bank. (2005, January 10). *The Green Sheet.*
[31] Triton(R) Opens Proprietary Intellectual Property 'Triton Standard' to Public Domain Triton Goal Is to Proliferate Added Functionality for Consumers. (2004, July 20). *Canada News Wire.*
[32] CashWorks provides the platform for Vcom check-cashing capabilities.
[33] Breitkopf, D. (2004, April 6). Change May Signal New ATM Plans at 7-Eleven. *American Banker.*
[34] 7-Eleven (2005). 7-Eleven, Inc. 2004 Annual Report. Dallas, TX: 7-Eleven, Inc.

Kiosks that allow consumers to deposit cash into machines to pay bills in real time have proven very attractive to consumers who are primarily cash-carriers. Many financial institutions provide online or phone-based bill pay options. However, some consumers are unbanked, some might lack Internet access, and some feel more comfortable paying bills in cash. Other consumers might be unable to afford to pay bills in advance; these consumers want their accounts immediately credited so that they do not lose service if they pay bills right at the deadline. Bill-payment kiosks could help underbanked consumers save money by eliminating the need to buy numerous money orders.[35] A variety of retailers have placed such kiosks in their stores, including grocery stores like Circle K, convenience stores such as 7-Eleven and Kum N Go, and gas stations such as Exxon Mobil.

Bill payment kiosks in retail locations typically charge between $1 and $5 per bill. Cable, cell phone, and utility bills are the most common types of payments accepted at these kiosks.[36] While some analysts have found that consumers are rebelling against surcharges such as those levied at ATM machines, loyalty among bill-payment customers suggests that, if priced appropriately, consumers will pay for convenience and real-time service. For example, CashWorks, which in addition to its check-cashing kiosks also has 3,500 bill-payment and cash dispensing terminals in retail locations around the country, claims that more than 60% of its users are repeat customers. InfoTouch, a Canadian company that provides bill payment services through over 400 machines in U.S. gas stations, convenience stores and groceries, finds that their customers come back to the same location to pay bills through their kiosks 86% of the time. The company conducted focus groups and discovered that un- and underbanked customers are the heaviest convenience store users; 20% of InfoTouch's customer base is unbanked, while another 15% is banked but uses mostly non-bank services.

In addition to check cashing and bill payment, some kiosks also offer money orders, remittances, reload capabilities for stored value cards (SVCs), and other services. Coinstar, one of the largest U.S. financial kiosk deployers with 11,800 units, operates supermarket-based kiosks that sell prepaid debit cards and convert coins into paper cash. First Data, which offers a vast array of financial services applications through other firms' kiosk hardware, including payroll cards, payday loans, check cashing, insurance, bill payment, and remittances, estimates it will have its applications installed on a total of 26,000 machines in the next five years.

It is important to point out that as retailers are increasingly providing money transfer services and reloads onto SVCs through kiosks sited in their stores, MSB issues arise. Large, multi-store chains that operate in multiple states are faced with complexities presented by the varying state laws. The major challenges for these firms will be having enough backroom capacity to verify identification and other information from customers and navigating the various state bonding, fee, and background check requirements. As firms continue to enhance kiosks with financial services options, their activities raise

[35] Barr, M. (2004). Banking the Poor. *Yale Journal of Regulation*, 21(121), 217-221.
[36] State Public Utilities Commissions might regulate how much utility companies can charge for bill payment.

questions about whether or not the retailer is an MSB or simply an "agent" of the MSB that owns and operates the machine.

Stored Value Cards

In recent years, the stored value card (SVC) market has exploded.[37] General purpose, reloadable SVCs are usually distributed by non-banks that lack their own physical locations and the cards are often marketed to un- and underbanked consumers who do not regularly use financial institutions to conduct their daily financial transactions. Consumers use their cards at ATM and POS terminals, and retailers are at the center of the issue surrounding how cards are sold and reloaded.

According to industry leaders, one of the main obstacles to broader customer acceptance of SVCs is reloadability. One way to bring SVCs directly to consumers is by allowing consumers to buy or reload the cards at retail locations. Today, there are a limited but growing number of in-person access points for reloading SVCs, as opposed to phone and Internet access points. Enabling consumers to reload cards with cash at retail locations, POS machines or self-service kiosks could expand the utility of SVCs for customers looking to access financial services while going about their daily business.

Some SVC products have begun to provide this functionality. For example, Next Estate Communications, which has one of the largest distribution networks of any SVC company, offers its cards at 40,000 retail locations in 50 states, including CVS, RiteAid, Safeway and Radio Shack. The company places its cards in the prepaid aisle of its partner locations, or in other appropriate aisles. Next Estate representatives say that they are seeking to position their cards as another consumable good to capitalize on consumers' shopping habits. Next Estate cards can be reloaded at the cash register through the use of a proprietary "reload pack" that enables the cashier to scan the card, take cash from the consumer, and load the amount onto the customer's card for a fee of $3.95 to $4.95.

Kiosks are another avenue for consumers to buy and reload SVCs in retail locations. CoinStar, for example, has a relationship with Next Estate that enables consumers to reload any of Next Estate's Green Dot cards at its kiosks in grocery stores. Beginning in 2004, Vcom kiosks enabled consumers to buy and reload stored value cards for use in 7-Eleven stores, as well as general spend prepaid MaterCards.[38]

While SVC companies continue to find new ways to offer reloadability in retail locations, the option of reloading at the POS terminal would provide almost immediate scale. At this point, both Visa and MasterCard are known to be investigating standards for reload transactions that would enable this capability to be added easily to ordinary POS terminals. In the meantime, innovative SVC providers are pushing forward with this functionality. NetSpend, one of the largest general spend SVC providers with hundreds of

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[37] For more information, see Jacob, K. (2004, July). *Stored Value Cards: A Scan of Current Trends and Future Opportunities*. The Center for Financial Services Innovation.
[38] Knight, J. (2004, May 28). Kiosks Introduce a Myriad of Purchasing Options/Services. *Colorado Springs Business Journal*.

thousands of active cardholders, distributes its cards through check cashing and grocery store locations. NetSpend has entered into exclusive relationships with some of its partner retail chains to configure POS machines to accept cash reloads for NetSpend cards using UPC codes. But overall, SVC companies, retailers, and POS software providers struggle with how to help consumers load funds onto cards. In fact, NetSpend, which announced a savings feature in conjunction with its SVC in May 2005, found that allowing customers to load funds into their savings accounts raised regulatory concerns about allowing "deposits" in check cashing and retail locations. Customers who wish to add funds to a savings account held at Inter National Bank in McAllen, TX, through a NetSpend card must first load funds onto their cards and then go online or call NetSpend's customer service department in order to have funds transferred, free of charge, to their savings account.[39]

A scan of the various state laws covering MSBs shows that most do not explicitly cover SVCs,[40] and, according to one state regulator interviewed, most state MSB laws have unclear implications for SVCs. At this point, retailers and SVC companies are waiting for clarification on how these laws apply to them before they are able to bring the next level of functionality to these products. For example, some SVC providers contend that because their business never touches customer funds or handles transactions directly (rather, the issuing bank and the point-of-distribution merchant manage transactions), MSB laws do not apply to them. Some SVC companies have been granted exceptions to registering as MSBs under state laws, while the retail locations that distribute their products need MSB licenses. Other SVC companies have been ordered to cease and desist operations until they are licensed by the state. This disparate treatment shows a general lack of consensus in how these laws should treat SVCs.

Financial Services as a Core Business for Retailers

When retailers entered the financial services market in the past, it was usually at the behest of financial services providers that were seeking additional distribution channels. Today, however, retailers are developing their own business case. Some hope to increase foot traffic, while others are interested in attracting new customers or enhancing customer loyalty. Beyond offering access to financial services through kiosks and ATM and POS terminals, retail establishments have actually begun to provide personnel to offer financial services and other financial transactions as part of a suite of customer services. As retail locations begin to offer some of the same functionality as bank branches, such as, cashing checks, wiring funds and cross-selling financial services, the regulatory implications and consumer protection rules become increasingly difficult to untangle.

[39] For more information on this program, see Jacob, K., Su, S., Rhine, S., and Tescher, J. (2005, April). *Stored Value Cards: Challenges and Opportunities for Reaching Emerging Markets.* Center for Financial Services Innovation.
[40] Sixteen states have expanded their MSB laws to include prepaid cards; many of these exclude single-use gift cards. Kountz, E. & Gould, J. C. (2004). *Emerging Regulatory Issues Facing Prepaid Payments: One Size Does Not Fit All,* The Tower Group.

7-Eleven's active interest in developing its proprietary Vcom kiosks is a good example of the trend of retail firms venturing into financial services provision in their own right. What is particularly interesting about the Vcom example is that 7-Eleven was the driving force behind the kiosks' development by ATM manufacturer NCR. It is also important to note that at this time, 7-Eleven is not a licensed MSB. As a chain with more than 5,300 U.S. locations, 7-Eleven has long been looking to find ways to increase revenue per customer, generate additional foot traffic and enhance customer loyalty. 7-Eleven has provided financial services to customers in a variety of capacities for years. According to company representatives, 7-Eleven customers conduct 100 million ATM transactions in the U.S. and Canada in-store every year, and the company sells close to $5 billion worth of money orders annually. Vcom kiosks allow store personnel to spend less time on financial transactions like selling money orders and more time on selling other products. The company's multi-service Vcom kiosks are targeted to the unbanked and to customers who are banked but are looking for extra convenience. 7-Eleven representatives see financial services as one of their major growth initiatives. This is consistent with the nature of the business—to provide more convenient products and services to customers who are "on the go."

One of the most important retail players in the provision of financial services is Wal-Mart, the world's largest retailer. Wal-Mart estimates that fully one-fifth of it mostly lower- and moderate-income customers do not have bank accounts.[41] The company has sought an entrance into the financial services sector for years. In 2003, the company leased space to banks in 800 of its 2,900 stores, and the company also continued its effort to get a bank charter of its own.[42] In the same year, National Bank of Commerce in Tennessee branded 16 of its branches as "Wal-Mart Money Centers." SunTrust recently acquired National Bank of Commerce, and SunTrust plans an additional 23 Wal-Mart Money Centers in the next few years.[43] Wal-Mart has also sought out credit union partners, particularly those that have recently gained community charters and are seeking ways to expand into new markets.[44]

Today, Wal-Mart sells money orders in its stores and offers remittances to customers. In 2004, Wal-Mart began offering in-store check-cashing services for paychecks and tax refund checks of up to $1,000. Wal-Mart's one million employees can cash checks for free; other customers pay a $3 flat fee, which is lower than the charge levied by many check cashers.[45] Though Wal-Mart does not break out financial services income specifically, the $2.1 billion in "other income" that Wal-Mart obtained in the first three

[41] Pulliam Weston, L. (2003, March 3). National Bank of Wal-Mart? *The Basics (MSN Money)*, Retrieved April 19, 2005, from http://moneycentral.msn.com/content/Banking/Betterbanking/P109171.asp
[42] Miller, H. (2003, November 24). Wal-Mart's Plan to Begin Offering More Traditional Banking Services Alarms Industry. *New Orleans CityBusiness*..
[43] Hielscher, J. (2005, February 25). Wal-Mart Could Put Banking in its Big Box. *Sarasota Herald Tribune*, D1.
[44] Freeman, L. (2004, May 31). In Bed with the Devil? *Credit Union Journal*, 8(22), 1.
[45] The $3 flat fee applies in every state except where percentage-based fees are required, in which case the maximum fee would be $3. Tompor, S. (2004, June 9). Stores Offer a Cheap Way to Cash a Check. *Detroit Free Press.*

quarters of 2004 was up 31% from the previous year, though it still only accounted for 1% of the firm's $256 billion in total revenues.[46]

In some markets, Wal-Mart is competing not only with check cashers but also with other retailers that are expanding their roles as financial services providers. Giant Eagle in Pennsylvania, the dominant grocery store chain in the region, charges similar prices to Wal-Mart's for check cashing but requires customers to register for the service by applying for an Advantage Card.[47] Other firms, such as Kmart, are also exploring the concept of providing check cashing services.[48] As another example, in October 2004, Circle K announced a three-year agreement with CashWorks to provide check cashing services at retail locations nationwide. The check cashing system, integrated through Circle K's PayPort POS terminals, allows customers to cash payroll and government checks after enrolling in the program and receiving a debit card"[49]

One of the reasons that retailers are motivated to offer these services is to get customers with cash in hand to spend more money in their stores.[50] Some consumer advocates are wary of this trend, as they would ultimately like to see consumers open bank accounts. This is in part due to the lack of clarity surrounding the regulatory environment and consumer protection responsibilities of retail firms that serve as distribution channels for financial services. Financial institutions also provide potential for asset and credit-building, options generally that are absent in the retailer provision of financial services.

On the other hand, inexpensive and convenient ways to access financial services are important to the underbanked market, and large retailers are an avenue for this service. Moreover, if large firms choose to focus significant resources on growing their financial services businesses, it could have an impact on the financial services market as a whole and perhaps bring down costs. Given that financial services are not the main line of business for retail firms, these firms are often willing to accept lower returns on investments, or even short-term losses, in their financial services business if it enhances sales of other products or brings increased foot traffic into the store.

Conclusion

As the financial services landscape continues to evolve, retailers are beginning to provide financial services in increasingly sophisticated, formal ways that have the potential to reach significant scale. Millions of consumers visit retailers while going about their daily business, and large retail firms in particular have the ability to reach large numbers of people through their locations. Some consumers have been left out of the mainstream

[46] Wal-Mart. (2005). Wal-Mart 2004 Annual Report. Bentonville, AR: Wal-Mart.
[47] Sabatini, P. (2004, June 14). Giant Wal-Mart Moves Into Check-Cashing Business with What Else – Low, Competitive Prices. *Pittsburgh Post Gazette*, B1.
[48] Tompor, S. (2004, June 9). Stores Offer a Cheap Way to Cash a Check. *Detroit Free Press.*
[49] CashWorks Signs Check-Cashing Agreement with Circle K Stores. (2004, October 22). *CardLine*, 4(43), 1.
[50] The emergence of Check 21 has also played a role in pushing the movement of automated check cashing in nontraditional locations, as instant check imaging makes it easier and cheaper to process check cashing transactions.

financial system, and retailers could provide another access point that fills the financial services gap that leaves many families operating on a cash basis. Retailers stand to gain access to increased foot traffic in their stores and fee revenue from a large customer base, and financial institutions that partner with retailers gain access to potentially extensive distribution networks that reach consumers in their everyday lives.

While the potential for scale and mutual benefit is strong, challenges remain. The primary motivation for retailers to provide financial services has been – and for the most part continues to be – to enhance its core business. While the larger retail companies in particular know a great deal about their customers' preferences, behaviors and attitudes surrounding the purchase of consumables and packaged goods, they have spent less time learning about their customers' financial services preferences. As the provision of financial services becomes more central to the business model, retailers will need to pay more attention to understanding how individual market segments prefer to use ATM, kiosk, bill payment, and SVC services in retail locations. Retail firms that are looking to market themselves as financial services providers also will need to consider the importance of consistency of services offered at their locations.

Moreover, for retailers to be taken seriously in the financial services marketplace and gain consumers' trust, protection against loss of funds and failure are important considerations. As firms sort out their roles, it is imperative that the consumer's expectations and needs remain a major part of the equation, so that the market can be profitable for companies and customers alike. The regulatory and legal framework surrounding retailers' role in financial services presents challenges, especially as the laws vary widely by geography and the pace of retailer involvement moves faster than the pace of change in regulation. Policymakers and industry can attempt to strike a middle ground by developing a flexible framework that protects consumers and simultaneously encourages innovation. Finally, as retailers continue to provide increasing access to financial services, retailers and their partners will be faced with taking the next step, which is to provide customers with asset- and credit-building vehicles that could turn daily transactions into lifetime financial opportunities.

APPENDIX: MSB Regulations By State[51]

Twenty-four of the 42 states with bonding and fee requirements set a standard base bonding amount[1] that increases by a fixed amount per MSB location. These states also set a maximum total bonding requirement. The remaining 18 states with bonding requirements have either a standard amount required across the board, a bond requirement based on the amount of transactions transmitted, or minimum or maximum bond requirements. In some cases, the amount of bond required depends upon the type of services provided. In others, it is based on a threshold of locations, while in still other cases, a regulatory commissioner or director determines the requirement. The most common minimum bonding requirement is $25,000, while the most common maximum bonding requirement is $250,000. Missouri and Florida have the lowest maximum required bond of $25,000, and Oklahoma has the highest minimum requirement of $1.5 million, though this only applies to businesses with more than 800 locations.

ALABAMA
Law: Sale of Checks Act (Ala. Code § 8-7-1 *et seq*.), http://asc.state.al.us/securities_act_title_7.htm
Governing Body: Alabama Securities Commission, www.asc.state.al.us

ALASKA – NONE

ARIZONA
Law: Transmitters of Money Act (Ariz. Rev. Stat. § 6-1201 *et seq*.), http://www.azleg.state.az.us/ArizonaRevisedStatutes.asp?Title=6
Governing Body: Arizona State Banking Department, www.azbanking.com

ARKANSAS
Law: Sale of Checks Act (Ark. Stat. Ann. § 23-41-101 *et seq*.), http://www.arkleg.state.ar.us/data/ar_code.asp
Governing Body: Arkansas Securities Department, www.arkansas.gov/arsec/

CALIFORNIA
Law: Payment Instruments Law, Check Sellers Law, Transmission of Money Abroad Law (Cal. Fin. Code § 1800 *et seq*.), http://www.leginfo.ca.gov/cgi-bin/displaycode?section=fin&group=01001-02000&file=1800-1827
Governing Body: Department of Financial Institutions, www.dfi.ca.gov

COLORADO
Law: Money Order Act (Colo. Rev. Stat. § 12-52-103 *et seq*.), http://198.187.128.12/colorado/lpext.dll?f=templates&fn=fs-main.htm&2.0
Governing Body: Department of Regulatory Agencies, State Banking Commissioner, www.dora.state.co.us/banking/

CONNECTICUT
Law: Money Orders and Travelers Check Licenses Act (Conn. Gen. Stat. § 36a-595 *et seq*.), http://www.cga.ct.gov/2005/pub/titles.htm
Governing Body: Department of Banking, www.state.ct.us/dob/

[51] This appendix was compiled by Darian Dorsey, Intern with The Center for Financial Services Innovation. Information contained in this appendix was derived from public sources in the first quarter of 2005 and represents CFSI's understanding of state MSB laws. Terrence P. Maher and Grayson J. Derrick of Baird, Holm, McEachen, Pedersen, Hamann & Strasheim LLP assisted CFSI in verifying information on MSB laws.

DELAWARE
Law: The Sale of Checks, Draft and Money Orders Act (Del. Code tit. 5, § 2301 *et seq*.), http://www.delcode.state.de.us/title5/c023/index.htm#TopOfPage
Governing Body: Office of the State Bank Commissioner, www.state.de.us/bank/

DISTRICT OF COLUMBIA - REPEALED
Law: Consumer Transmission of Money Act (D.C. Code § 47-3101 *et seq*.), http://dccode.westgroup.com/home/dccodes/default.wl
Governing Body: Government of the District of Columbia, Department of Consumer and Regulatory Affairs, www.dcra.dc.gov

FLORIDA
Law: Money Transmitters Code (Fla. Stat. §560-101 *et seq*.), http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&URL=Ch0560/ch0560.htm
Governing Body: Office of the Controller, Department of Financial Services, www.fldfs.com

GEORGIA
Law: Sale of Checks or Money Orders Law (Ga. Code Ann. § 7-1-680 *et seq*.), http://www.ganet.org/dbf/pdfdoc/regmoney.pdf, http://www.ganet.org/dbf/code_sections.html
Governing Body: Department of Banking and Finance, Commissioner of Banking, www.ganet.org/dbf/

HAWAII – NONE

IDAHO
Law: Money Transmitters Act (Idaho Code § 26-2901 *et seq*.), http://finance.state.id.us/Statutes.aspx
Governing Body: Department of Finance, http://finance. state.id.us/industry/

ILLINOIS
Law: Transmitters of Money Act (205 Ill. Comp. Stat. Ann. 657/1 *et seq*.), http://www.ilga.gov/legislation/ilcs/ilcs2.asp?ChapterID=20
Governing Body: Illinois Department of Financial and Professional Regulation, Division of Financial Institutions, www.state.il.us/dfi/

INDIANA
Law: Transmitters of Money Act (Ind. Code § 28-8-4-1 *et seq*.), http://www.ai.org/legislative/ic/code/title28/ar8/ch4.html
Governing Body: Department of Financial Institutions, www.in.gov/dfi/

IOWA
Law: Sale of Certain Instruments for Payment of Money Law (Iowa Code § 533B.1 *et seq*.), http://www.legis.state.ia.us/IACODE/2003/533B/
Governing Body: Department of Commerce, Division of Banking, www.idob.state.ia.us/

KANSAS
Law: Bank and Banking Act Transmission of Money (Kan. Stat. Ann. § 9-508 *et seq*.), http://www.kslegislature.org/cgi-bin/statutes/index.cgi
Governing Body: Office of Banking Department, Bank Commissioner, www.osbckansas.org

KENTUCKY
Law: Sale of Checks Law (Kentucky Rev. Stat. § 366.00 *et seq*.), http://lrc.ky.gov/KRS/366-00/CHAPTER.HTM

Governing Body: Department of Financial Institutions, Division of Thrift Institutions, www.dfi.state.ky.us

LOUISIANA
Law: The Sale of Checks Act (La. Rev. Stat. Ann. § 6:1031 *et seq*.), http://www.ofi.state.la.us/saleofcksact.pdf
Governing Body: Division Office of Financial Institutions, Manager Sale of Checks, www.ofi.state.la.us

MAINE
Law: Money Transmitters Act (32 Me. Rev. Stat. § 6101 *et seq*.), http://janus.state.me.us/legis.statutes/32/title32ch80sec0.html
Governing Body: Department of Professional and Financial Regulation, Director of the Office of Consumer and Credit Regulation, www.state.me.us/pfr/

MARYLAND
Law: Sellers of Money Orders and Travelers Checks Act (Md. Fin. Inst. Code Ann. § 12-401 *et seq*.), http://mlis.state.md.us/#stat
Governing Body: Department of Licensing and Regulation, www.dllr.state.md.us/finance/

MASSACHUSETTS
Law: Investments and Other Powers, Receipts of Deposits for Transmittal to Foreign Countries (Mass. Gen. L. ch. 169, § 1 *et seq*.), http://www.mass.gov/legis/laws/mgl/gl-169-toc.htm
Governing Body: Office of the Commissioner of Banks, Consumer Credit Section, www.mass.gov/dob/

MICHIGAN
Law: Sale of Checks Act (Mich. Comp. Laws § 487.901 *et seq*.), http://www.legislature.mi.gov/mileg.asp?page=getObject&objName=mcl-Act-136-of-1960&highlight=
Governing Body: Department of Commerce, Consumer Finance Division

MINNESOTA
Law: Banks Check Sellers Law (Minn. Stat. § 53B.01 *et seq*.), http://www.revisor.leg.state.mn.us/data/revisor/statutes/2004/53B/
Governing Body: Secretary of State, www.sos.state. mn.us

MISSISSIPPI
Law: Sale of Checks Law (§§75-15-1 to 75-15-33), http://198.187.128.12/mississippi/lpext.dll?f=templates&fn=fs-main.htm&2.0
Governing Body: Department of Banking and Consumer Finance, www.dbcf.state.ms.us

MISSOURI
Law: Sale of Checks Law (§§361.700 to .727), http://www.moga.state.mo.us/STATUTES/C361.HTM
Governing Body: Division of Finance, www.missouri-finance.org

MONTANA – NONE

NEBRASKA
Law: Sale of Checks Act (Neb. Rev. Stat. Ann. § 8-1001 *et seq*.), http://statutes.unicam.state.ne.us/Corpus/statutes/chap08/R0810001.html
Governing Body: Department of Banking and Finance, www.ndbf.org

NEVADA
Law: Issuers of Instruments for Transmission or Payment of Money Act (Nev. Rev. Stat. § 671.010 *et seq*.), http://www.leg.state.nv.us/NRS/NRS-671.html

Governing Body: Department of Banking and Finance, Division of Financial Institutions, www.fid.state.nv.us

NEW HAMPSHIRE – NONE

NEW JERSEY
Law: Money Transmitters Law (N.J. Stat. Ann. § 17:15C-1 *et seq*.), http://lis.njleg.state.nj.us/cgi-bin/om_isapi.dll?clientID=190615533&Depth=4&TD=WRAP&advquery=%2217%3a15c%22&headingswithhits=on&infobase=statutes.nfo&rank=&record={5A31}&softpage=Search_Frame_Pg42&wordsaroundhits=2&x=40&y=11&zz=
Governing Body: Department of Banking, Commissioner, www.state.nj.us/dobi/

NEW MEXICO
Law: Business of Selling Negotiable Checks, Drafts and Money Orders Act (N.M. Stat. Ann. §58-20-1 *et seq*.), http://nxt.ella.net/NXT/gateway.dll?f=templates$fn=default.htm$vid=nm:all
Governing Body: Financial Institutions Division of Regulation and Licensing, www.rld.state.nm.us

NEW YORK
Law: Transmitters of Money Act (N.Y. Banking Law § 640 *et seq*.), http://www.gauthierlawfirm.com/bankinglawarticle13-B.html
Governing Body: New York Banking Department, Superintendent of Banks, www.banking.state.ny.us

NORTH CAROLINA
Law: Money Transmitters Act (N.C. Gen. Stat. § 53-208 *et seq*.), http://www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/ByArticle/Chapter_53/Article_16A.html
Governing Body: North Carolina Banking Commission, www.banking.state.nc.us

NORTH DAKOTA
Law: North Dakota Century Code §§13-09 (signed into law April 6, 2005 and effective January 2, 2006) replaces Sale of Checks Act (§§51-17-01 to 10, http://www.state.nd.us/lr/cencode/t51c17.pdf)
Governing Body: Department of Banking and Financial Institutions, www.state.nd.us/dfi/

OHIO
Law: Sale of Checks Law (Ohio Rev. Code Ann. § 1315.01 *et seq*.), http://onlinedocs.andersonpublishing.com/oh/lpExt.dll?f=templates&fn=main-h.htm&cp= PORC
Governing Body: Department of Commerce, Division of Securities, www.securities.state.oh.us

OKLAHOMA
Law: Sale of Checks Act (Oklahoma Stat. tit. 6 § 2101 *et seq*.), http://www.aimrelocation.com/cgi-bin/wb.pl?http://www.lsb.state.ok.us/
Governing Body: State Banking Department, Bank Commissioner, www.state.ok.us/~osbd/

OREGON
Law: Money Transmitter Act (Or. Rev. Stat. § 717.200 *et seq*.), http://www.leg.state.or.us/ors/717.html
Governing Body: Department of Insurance and Finance

PENNSYLVANIA
Law: Transmitting Money or Credit Law (7 Pa. Consol. Stat. § 607 *et seq*.)
Governing Body: Department of Banking, Bureau of Licensing and Compliance, www.banking.state.pa.us/

RHODE ISLAND
Law: Sale of Checks & EFT Law (R.I. Gen. Laws § 19-14-1 *et seq*.), http://www.rilin.state.ri.us/Statutes/TITLE19/19-14/INDEX.HTM
Governing Body: Division of Banking, Department of Business Regulation, www.dbr.state.ri.us

SOUTH CAROLINA – NONE

SOUTH DAKOTA
Law: Money Order Business Act (Chapter 51A-16)
http://legis.state.sd.us/statutes/index.aspx?FuseAction=DisplayStatute&Type=Statute&Statute=51A-16
Governing Body: Division of Banking, Department of Commerce and Regulation, www.state.sd.us/banking

TENNESSEE

Law: Money Transmitters Act (Tenn. Code Ann.§ 45-7-201 *et seq*.), http://198.187.128.12/tennessee/lpext.dll?f=templates&fn=fs-main.htm&2.0
Governing Body: Compliance Division, Department of Financial Institutions, www.state.tn.us/financialinst/

TEXAS
Law: Check Sellers, Currency Exchange, Transportation or Transmission (Tex Fin. Code Ann. §§ 152 & 153.001 *et seq*.), http://www.capitol.state.tx.us/cgi-bin/statutes/pdfframe.cmd?filepath=/statutes/docs/FI/content/pdf/fi.003.00.000152.00.pdf&title=FINANCE%20CODE%20-%20CHAPTER%20152
Governing Body: Texas Department of Banking, www.banking.state.tx.us

UTAH
Law: Financial Institutions Law (Administrative Rule R331-14), http://www.rules.utah.gov/publicat/code/r331/r331-014.htm
Governing Body: Department of Financial Institutions, www.dfi.utah.gov

VERMONT
Law: Money Services Act (8 V.S.A. § 2500),
http://www.leg.state.vt.us/statutes/fullchapter.cfm?Title=08&Chapter=079
Governing Body: Vermont Department of Banking, Insurance, Securities and Health Care Administration, www.bishca.state.vt.us

VIRGINIA

Law: Money Order Sales Law (Va. Code. § 6.1-370 *et seq*.),
http://legis.state.va.us/Laws/CodeofVa.htm
Governing Body: Virginia Bureau of Financial Institutions, www.scc.virginia.gov/division/banking/

WASHINGTON

Law: Check Cashers and Sellers Law (Wash. Rev. Code § 31.45.010 *et seq*.), http://www1.leg.wa.gov/legislature
Governing Body: Department of General Administration, Division of Banking, www.ga.wa.gov

WEST VIRGINIA

Law: Issuance and Sale of Checks, Drafts and Money Orders Act (W. Va. Code § 32A-2-1 *et seq*.),

Governing Body: Division of Banking, Non-Bank Supervision, www.wvdob.org

http://www.legis.state.wv.us/WVCODE/32A/masterfrm2Frm.htm

WISCONSIN

Law: Seller of Checks Law (Wis. Stat. § 217.02), http://folio.legis.state.wi.us/cgi-bin/om_isapi.dll?clientID=32049034&infobase=stats.nfo&j1=40-22-101&jump=40-22-101&softpage=Browse_Frame_Pg
Governing Body: Office of Commissioner of Banking, www.wdfi.org

WYOMING

Law: Money Transmitters Act (Wyoming Stat. §§40-22-101 *et seq*.), http://audit.state.wy.us/banking/moneytransmitter/money_transmitter_statutes_and_regulations.htm
Governing Body: Wyoming Department of Audit, Division of Banking, http://audit.state.wy.us/banking/

Appendix Table 1: MSB Bonding Requirements By State

State	Standard Amount	Standard Amount + Per Location	Maximum	Minimum	Location Threshold	By Amount Transmitted	By Type of Service	By Governing Body	No Law
Alabama		$10,000 + $5,000	$50,000						
Alaska									X
Arizona		$25,000 or $100,000	$100,000		X				
Arkansas	$250,000		$250,000						
California								X	
Colorado	$1,000,000	$1,000,000	$1,000,000						
Connecticut						X			
Delaware		$30,000 + $5,000	$250,000						
D.C.									X
Florida			$25,000						
Georgia		$100,000 + $5,000	$250,000				X		
Hawaii									X
Idaho		$10,000 + $5,000	$500,000						
Illinois			$2,000,000			X			
Indiana		$100,000 + $10,000	$200,000						
Iowa		$50,000 + $10,000	$300,000		X				
Kansas		$50,000 + $5,000	$200,000						
Kentucky		$50,000 + $5,000	$150,000						
Louisiana			$100,000	$25,000		X			
Maine	$100,000								
Maryland			$1,000,000	$150,000					
Massachusetts				$50,000		X			
Michigan		$100,000 + $3,000	$250,000						
Minnesota		$25,000 or $50,000 or $50,000 + $50,000	$250,000		X				
Mississippi		$25,000 + $15,000	$250,000						
Missouri	$25,000								
Montana									X
Nebraska		$50,000 + $5,000	$150,000						
Nevada		$10,000 + $5,000	$150,000						
New Hampshire									X
New Jersey			$1,000,000	$100,000					
New Mexico									
New York				$500,000				X	
North Carolina		$150,000 + $5,000	$250,000						
North Dakota			$500,000	$150,000					
Ohio		$100,000 + $5,000	$300,000						
Oklahoma					X				
Oregon		$25,000 + $5,000	$150,000						
Pennsylvania	$1,000,000								
Rhode Island		$50,000 + $5,000	$150,000						
South Carolina									X
South Dakota		$100,000 + $5,000	$250,000						
Tennessee		$50,000 + $10,000	$800,000						
Texas				$25,000 to $300,000			X		
Utah	$50,000								
Vermont		$100,000 + $10,000	$500,000						
Virginia			$1,000,000	$25,000				X	
Washington		$10,000 + $10,000	$500,000	$10,000					
West Virgina		$300,000 + $25,000	$1,000,000						
Wisconsin		$10,000 + $5,000	$300,000						
Wyoming			$500,000	$10,000		X		X	

Appendix Table 2: MSB Fees By State

	Application	Investigation	License	Registration	Location	Maximum	Total w/o Locations	Other Fee Information
AL		$250	$250	$750	$5		$1,250	
AK	NONE	NONE	NONE	NONE	NONE	NONE	NONE	
AZ			$500		$25	$2,500	$500	$24 per fingerprint card
AR	$1,500	expenses	$750				$2,250	investigation expenses limited to $100 per day
CA	$5,000						$5,000	
CO			$7,500				$7,500	license fee prorated after July 1st.
CT		$500	$1,000				$1,500	
DE		$172.50	$230		$4.60		$403	location fee applies to locations in excess of one
DC	NONE	NONE	NONE	NONE	NONE	NONE	NONE	recently repealed
FL			$500				$500	
GA	$500	$250			$50		$750	
HI	NONE	NONE	NONE	NONE	NONE	NONE	NONE	
ID			$100				$100	
IL	$100		$100		$10		$200	
IN								the Department determines the appropriate fees
IA			$150		$5		$150	
KS			$100		$10		$100	plus cost of on-site examinations or investigations
KY			$250				$250	
LA		$300			$25	$3,000	$300	
ME			$500		$50	$2,500	$500	
MD		$1,000	$2,000				$3,000	license fee varied by odd or even year
MA			$250				$250	
MI			$600				$600	
MN			$4,000				$4,000	
MS		$50	$750				$800	
MO			$100				$100	
MT	NONE	NONE	NONE	NONE	NONE	NONE	NONE	
NE	$100	$100					$200	
NV	$250						$250	prorated + expenses not less than $100 or more than $100
NH	NONE	NONE	NONE	NONE	NONE	NONE	NONE	
NJ	$300		$1,200		$25	$5,000	$1,500	application fee up to $400, license fee up to $1,400
NM		$150	$150		$25		$300	additional fees per location and for examinations
NY		$1,000	$500				$1,500	
NC		$500	$1,000		$10		$1,500	
ND	$400	$450	$450				$1,300	
OH		$2,500	$1,000				$3,500	
OK			$200		$10		$200	
OR			$1,000				$1,000	
PA			$2,000				$2,000	
PR		$2,500	$2,500		$50	$25,000	$5,000	
RI	$250	$150	$300				$700	fees vary by type of business up to Inv $550 and Lic $1,100
SC	NONE	NONE	NONE	NONE	NONE	NONE	NONE	
SD			$1,000				$1,000	
TN			$250				$250	license fee $250 for <5 agents, $500 >5 agents
TX		$2,500	$500				$3,000	
UT	$100		$100				$200	
VT	$1,000		$500				$1,500	
VA			$500				$500	
WA								license and investigation fees determined by Director
WV			$500		$10	$2,500	$500	
WI		$300	$500		$5		$800	
WY	$3,000		$2,000		$100	$7,000	$5,000	fees not to exceed the amounts listed here

Where Applicable:

Highest	$5,000	$2,500	$7,500	$750	$50	$5,000	$7,500
Lowest	$100	$50	$100	$750	$4.60	$2,500	$100
Average	$1,136	$792	$942	$750	$26	$7,917	$1,402

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