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Via Email

Attn: Emerging Payments Task Force
Conference of State Bank Supervisors
1129 20th Street NW, 9th Floor
Washington, D.C. 20036
Email: modelepaymentslaw@csbs.org

Re: State Model Payments Law Request for Information

Dear Emerging Payments Task Force:

TransferWise Inc. appreciates the opportunity to submit comments to the Conference of State Bank Supervisors ("CSBS") in response to the recommendations of the Payments Subgroup of the Fintech Industry Advisory Panel.

In submitting these comments, TransferWise intends to focus on our international regulatory experience and efforts advocating for consumer-focused public policy. We have worked with governments around the world to promote regulation that benefits consumers and fosters innovation. Our approach to regulation is different than most companies - we're open, we're transparent, and we don't disguise how we operate. We believe that approach will ultimately lead to improved regulation that benefits consumers and moves us closer to our mission of money without borders - instant, convenient, transparent, and eventually free.

Background

TransferWise is a financial technology company that was created in 2011 by Taavet Hinrikus, the first employee of Skype, and Kristo Käärman, an ex-Deloitte consultant, out of their personal frustration with high fees charged on international money transfers. Since that time, TransferWise has raised more than \$397MM (USD) from investors such as Andreessen Horowitz, Sir Richard Branson, and Max Levchin, the co-founder of PayPal.

TransferWise addresses the challenges and costs associated with international money transfer — specifically the lack of transparency in fees and the calculation of foreign exchange rates — as well as the reliance on outmoded systems and technology. In response to these issues, TransferWise has created a robust international money transfer and stored value product that offers a fair, mid-market exchange rate, provides a straightforward and transparent fee structure, sources onshore liquidity when possible, uses modern technology, maintains sound customer service practices, and carefully manages liquidity, compliance and other risks.

TransferWise Inc., our US entity, is licensed in 48 states, and otherwise authorized to provide money transmission services to customers in the remaining states and territories.¹ TransferWise has more than 4 million active customers sending \$4 billion dollars worldwide every month, saving themselves \$4 million every day. TransferWise has over 1400 employees in nine offices, including New York City and Tampa, Florida.

Submission

Control Persons

TransferWise Inc. was established in the United States in 2015 with the two founders of the United Kingdom-based parent company serving as senior leadership and board members. Since then, TransferWise has obtained licenses in all but two required states. In one of those two states, we have been unable to obtain a money transmitter license due to a requirement that principal officers and directors be US citizens or have qualified work visas. In order to satisfy this requirement, which is at odds with most every other state, a company in our position faces only complex and costly options such as reconstituting senior leadership or creating a new legal entity, which could trigger notifications and filings to other states. It is our recommendation that states, particularly the outliers, align their policies on foreign control persons.

As a general lesson from our licensing experiences, TransferWise believes states should utilize a centralized resource for multi-state submissions. We have firsthand experience with the difficulty of requiring senior leadership to provide repetitive and redundant background checks, fingerprints, and proof of address, among other requirements, when a centralized and portable resource could have dramatically simplified the process. With senior leadership in London, it has also been difficult to identify foreign vendors to perform background checks, fingerprinting, and notary services that meet the differing standards of various states. TransferWise is a global company in a global economy, yet the current regulatory regimes do not reflect that reality, even when the company comes from a trusted ally like the United Kingdom.

¹ TransferWise Inc. only offers its services in the states in which it is licensed or in the states that do not currently require it to be licensed, which includes all states except for Hawaii and Nevada. In those two states, a partner financial institution offers a TransferWise-branded money transmission service, and TransferWise Ltd., TransferWise's UK parent, which is regulated by the FCA, acts as a service provider to that financial institution.

Additionally, after multiple fundraising rounds, TransferWise recognizes that some investors, particularly passive investors with no commitment to future investment, fear risks to security and confidentiality from repeatedly providing multiple states with key personal information. And, theoretically, every funding round could lead to changes in management or ownership. The current regulatory regime does not take into account the funding model of fast-growing technology firms, making the process more painful and expensive while potentially harming job growth and expansion in the US.

Each of these anecdotes demonstrates the need for states to develop clear, harmonized, centralized, and portable licensing standards. We agree with the stated mission of money transmitter regulation - consumer protection, stopping bad actors, and protecting the financial system - and believe it can be better achieved by aligning state standards and moving beyond the patchwork of rules that currently exist.

Prudential Requirements

TransferWise believes that US prudential requirements should be based on 1) protecting customers from financial loss and preventing a lengthy and difficult process for remediation, and 2) ensuring transparent and clear market entry rules in all states and territories.

We believe the second Payment Services Directive from the European Union (PSD2) should serve as a model for multi-state harmonization. PSD2 is not perfect, but it is very clear and promotes a risk-based approach, suitable to payments specifically. PSD2 has opened the market to new actors that are as regulated as traditional banks for the services they provide. It has led to competition, consumer choice, and regulatory consistency. Given the clear competency of the home state regulator, consumers are able to raise any concerns and it is clear who is responsible to take any issues forward.

State standards on the other hand often lack clarity and require interpretation of, for example, when safeguarding liability begins and ends. In fact, we must often proactively ask state examiners for their interpretation, because states often have unwritten, unique requirements that are not otherwise provided to licensees in advance of the examination. Ideally, safeguarding obligations would begin when the payment settles to us, and would end when we initiate the payout to the merchant. This would be consistent with the functionality of payments systems which do not always alert the sender that the transaction has been fully credited to the recipient.

TransferWise also seeks clarity on where funds should be held. For example, if a customer holds different currencies (i.e. offshore) through our borderless product, then should TransferWise Inc. have to hold onshore accounts? Global payments companies like TransferWise that allow customers to send, store, and spend in multiple currencies have difficulty holding funds only onshore in US dollars (USD). We need a consistent

and flexible approach to be able to hold permissible investments in non-USD in non-US accounts. Additionally, states should consider whether to allow surety bonds to be counted toward permissible investments, as is already the case in at least one state.

Supervision

TransferWise applauds the effort by the states to improve supervision. Better supervisory coordination will ultimately minimize risks and provide clarity for consumers, and push bad actors out of the financial system. Our experience is that the states should better harmonize definitions, reporting formats, and time periods and aim to use the same information and the same systems. Additionally, signature and notary standards are often inconsistent. Even when examinations are coordinated and share information, examiners still end up spending time on redundant work onsite. Supervision will be improved when examiners harmonize efforts, share audits, and build off the work done by other states. As a national player, TransferWise is already bound by the state with the highest standard. If states harmonize, regulatory arbitrage can be eliminated as the lowest bar gets higher. If that happens, consumers will ultimately be better protected.

Additional Issue: Remittance Fee Disclosures

TransferWise supports efforts to help consumers understand what they're paying for an international money transfer. Consumers unknowingly lose billions each year when sending money internationally. That's because banks and providers may only advertise upfront fees - such as a "\$0 fee" or "0% commission" - while marking up the exchange rate and not disclosing the difference in pricing to consumers. Attention to such detail requires relatively high levels of financial literacy.² In fact, the World Bank agrees that *"the single most important factor leading to high remittance prices is a lack of transparency in the market"*.

We were pleased that the European Parliament recently enacted [legislation](#) to require disclosure of conversion charges on cross-currency transfers within the EU. Once the rules come into place in 2020, people and businesses will see the full cost of what they're really being charged. Meanwhile, the Australian government has begun an [inquiry](#) into the costs and hidden fees of foreign exchange. And, the Canadian government will soon release a [study](#) on international money transfers to *"guide policies and programs to help lower the costs to send money outside Canada."*

² The Behavioural Insights Team, on the UK government's behalf, conducted an online experiment. In the experiment, participants were given a range of different options for a remittance transfer to see how successful customers were in finding the best/cheapest option, depending on the way in which fees and exchange rates were displayed. The study found that the number of consumers choosing the best value option doubles if all providers are required to show the total cost of fees and the exchange rate mark-up. These results are particularly marked for consumers with lower financial literacy and no experience of making international payments. See <https://tinyurl.com/y87wc68g>. In addition, research conducted by YouGov surveying 19,277 European adults in 2017 shows only 10% of consumers when presented with a typical FX pricing structure - which only includes the exchange rate offered by the provider on the day and upfront fee - understand how to calculate the cost of a FX transaction.

The Consumer Financial Protection Bureau sets remittance disclosure requirements through its authority under Regulation E (The Electronic Fund Transfer Act). However, the current regulation does not require the disclosure of the cost to the consumer of inflated exchange rates. Several states already require disclosures that add to or complement Regulation E, and TransferWise believes states should address a transparency gap by requiring remittance disclosures to include a comparison to an independent reference rate (for example, the one published by Reuters, Bloomberg, or a central bank). If there is a difference between the exchange rate provided and the reference rate, this charge should then be disclosed as a cost so that customers can understand the total cost of the transfer. This would ultimately offer consumers choice, foster competition, and prevent a further regulatory patchwork.

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We appreciate the opportunity to provide our comments and support the willingness of CSBS to review this topic. Please do not hesitate to contact us if you have any questions regarding these comments and if we can be of any assistance.

Best,

Nick Catino, Head of Policy, TransferWise Inc.

Cc: Roseanne Lazer, Head of Compliance, TransferWise Inc.