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November 1, 2019

Via Email
Attn: MSB Model Law
Conference of State Bank Supervisors
1129 20th Street NW, 9th Floor
Washington, D.C. 20036
Email: modelpaymentslaw@csbs.org

Re: Request for Comments: MSB Model Law

Dear CSBS:

TransferWise Inc. appreciates the opportunity to submit comments to the Conference of State Bank Supervisors ("CSBS") in response to the draft model language for Money Services Businesses ("MSB").

TransferWise previously submitted a comment letter in April 2019 following the recommendations of the Payments Subgroup of the Fintech Industry Advisory Panel. The comment letter advocated for states to "develop clear, harmonized, centralized, and portable licensing standards," clarity around prudential requirements and safeguarding, and "supervision coordination," among other things.

Background

TransferWise is a global technology company that is building the best way to move money around the world. Whether sending money to another country, spending money abroad, or making and receiving international business payments, TransferWise is on a mission to make life easier and save customers money.

Co-founded by Taavet Hinrikus and Kristo Käärmann, TransferWise launched in 2011. It is one of the world's fastest growing tech firms having raised $692m in primary and secondary funding from investors such as Lead Edge, Lone Pine, Vitruvian, IVP, Merian Global Investors, Andreessen Horowitz, Sir Richard Branson, Valar Ventures and Max Levchin of PayPal.

TransferWise Inc., our US entity, is licensed in 47 states, and otherwise authorized to provide money transmission services to customers in the remaining states and territories.[1] TransferWise has more than 6 million active customers moving $5 billion dollars worldwide every month, saving themselves $1 billion every year. TransferWise has over 1800 employees in 13 offices, including New York, New York and Tampa, Florida.

General Comments

Control: TransferWise previously raised concerns about the lack of uniformity of rules related to passive investors and foreign control persons. Passive investors do not exert control or play a role in the day-to-day operations of a company. And foreign control persons often face obstacles in satisfying the inconsistent background check requirements of various states. Creating uniformity will be a significant step in the right direction.

Coordination: TransferWise continues to welcome coordination on multi-state examinations and supervision. We also believe states could eliminate duplication and redundancy by accepting reports from other states' examinations. There is clear value in harmonizing state laws to eliminate notable differences in how examinations are conducted from one state to the next.

Financial Condition (Three-Legged Stool): We believe that while each of the three safety and soundness features (net worth, permissible investments, and surety bonds) taken separately enhance consumer protection, we are concerned that, taken together, they become excessive, duplicative, and place significant capital costs on the licensee which will be passed on to the consumer through higher prices.

Under current regulations, licensees may not discharge transmission liabilities until the time that funds are credited to the ultimate beneficiary's bank account. However, TransferWise relinquishes control of customer funds when they are passed on to the beneficiary's bank, and there is a delay between that time, and when the beneficiary's bank credits the ultimate beneficiary's bank account. As such, the current permissible investment requirements require licensees to safeguard funds that will also be safeguarded by the beneficiary's bank, during that time delay, even though TransferWise has no control over this time delay. This control imposes significant capital costs, though the control is inefficient and does not reduce credit risk to the sender or beneficiary.

In addition to this, the surety bonding requirement imposed on licensees is intended to secure the same transmission liability which is already secured by the maintenance of permissible investments, again incurring costs to licensees which are passed on to its customers.

[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.

The net worth requirement is also intended to bolster the licensee's ability to cover losses. However, the risk profile of the company's assets is *already* restricted through permissible investment regulations. TransferWise offers the “Borderless Account” where customers can store value in their account balance. The proposed 3% net worth requirement would require TransferWise to regularly inject millions of dollars of additional equity as our Borderless balances increase at a rapid pace thus freezing the capital of an otherwise profitable and financially sound company. *We would instead suggest considering a net worth requirement that is expressed as a percentage of risk-weighted assets.* We think this would be more appropriate considering that the risk-profile of a money transmitter’s balance sheet is already very modest (mostly cash and bonds with the highest credit ratings) due to permissible investment requirements.

Financial Condition (Suspension Bridge): We believe the proposed suspension bridge methodology could provide the same level of consumer protection without the high capital cost of the three-legged stool approach. We are in favor of prohibiting the commingling of customer funds with company funds, similar to the requirements of the second Payment Services Directive (PSD2) from the European Union. This is a policy that Transferwise already applies globally, everywhere but the United States, regardless of whether required in the local jurisdiction. Allowing permissible investments to be substituted for surety bonds removes the double capital cost for the same protections (financing cost to prefund transmission liabilities and premium cost for surety bonds) and allows companies the flexibility to choose which works best with their business model.

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We appreciate the opportunity to provide our comments and support the efforts of CSBS to bring greater harmonization to state MSB requirements. 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 Public Policy (Americas), TransferWise
Cc: Roseanne Lazer, Head of Compliance (Americas), TransferWise