

**TESTIMONY
BY**

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**BEFORE THE
SENATE BANKING COMMITTEE**

**HEARING ON
THE EFFECTIVENESS OF OUR
NATION'S ANTI-MONEY LAUNDERING EFFORTS
AND THE COMPLIANCE MEASURES UNDERTAKEN
BY MONEY SERVICES BUSINESSES**

SEPTEMBER 28, 2004

GOOD MORNING. I'D LIKE TO THANK YOU ON BEHALF OF WESTERN UNION FOR THE OPPORTUNITY TO ADDRESS THE COMMITTEE ON THE IMPORTANT TOPIC OF THE EFFECTIVENESS OF OUR NATION'S ANTI-MONEY LAUNDERING EFFORTS AND THE COMPLIANCE MEASURES UNDERTAKEN BY WESTERN UNION UNDER THE BANK SECRECY ACT AND USA PATRIOT ACT.

WESTERN UNION IS A LEADER IN WORLDWIDE MONEY TRANSFER. OUR SERVICES ARE AVAILABLE IN OVER 195 COUNTRIES THROUGH SOME 200,000 AGENT LOCATIONS. WESTERN UNION IS A PART OF FIRST DATA CORPORATION, A PUBLICLY-TRADED FORTUNE 300 COMPANY WITH OVER 30,000 EMPLOYEES WORLDWIDE. FIRST DATA PROVIDES CREDIT CARD AND PAYMENT PROCESSING SOLUTIONS TO A WIDE RANGE OF CLIENTS INCLUDING OVER 1400 BANKS, MILLIONS OF MERCHANT LOCATIONS, AND EVEN GOVERNMENT AGENCIES, SUCH AS THE INTERNAL REVENUE SERVICE. FIRST DATA AND WESTERN UNION ARE SUBJECT TO A BROAD ARRAY OF STATE AND FEDERAL REGULATIONS THAT ENSURE SAFE AND SOUND SERVICES TO OUR CUSTOMERS.

SINCE THE ANTI-MONEY LAUNDERING REGULATIONS IMPLEMENTING THE USA PATRIOT ACT TOOK EFFECT IN JULY, 2002, WESTERN UNION

HAS CREATED AN INDUSTRY LEADING COMPLIANCE PROGRAM IN A RELATIVELY SHORT PERIOD OF TIME AND WE CONTINUE IN THESE EFFORTS. I AM HERE TODAY TO DISCUSS THE MOST IMPORTANT ASPECTS OF OUR ANTI-MONEY LAUNDERING COMPLIANCE PROGRAM: EXPERIENCED PEOPLE; DATA COLLECTION, MONITORING; ANALYSIS AND REPORTING; OFAC COMPLIANCE MEASURES; REGULATORY AND LAW ENFORCEMENT OUTREACH; AND OUR AGENT COMPLIANCE SUPPORT PROGRAM.

THE MOST IMPORTANT ASPECT OF ANY COMPLIANCE PROGRAM IS EXPERIENCED PEOPLE. WE HAVE INCREASED ANTI-MONEY LAUNDERING EXPERTISE WITHIN WESTERN UNION'S COMPLIANCE DEPARTMENT BY HIRING, AND WE CONTINUE TO RECRUIT SEASONED COMPLIANCE OFFICERS FROM GLOBAL BANKS, REGIONAL FINANCIAL INSTITUTIONS, GOVERNMENT AND OTHER SEGMENTS OF THE FINANCIAL SERVICES INDUSTRY. THIS EXPERTISE CONTINUES TO HELP THE COMPANY ENHANCE ITS OVERALL COMPLIANCE EFFORT AND IDENTIFY AND ADDRESS POTENTIAL RISK. THIS LEADERSHIP TEAM IS WORKING TOWARD PROVIDING MORE SOPHISTICATED RISK ASSESSMENTS, DEVELOPING ONGOING TRAINING AND SUPPORT PROGRAMS FOR OUR AGENTS AND ENHANCING OUR ANTI-MONEY LAUNDERING PROGRAMS ACROSS THE COMPANY. THEY ALSO ASSIST

IN THE DEVELOPMENT AND MANAGEMENT OF THE OVER 150 EMPLOYEES WITHIN THE DEPARTMENT.

FURTHER, WESTERN UNION HAS SIGNIFICANTLY ENHANCED ITS OWN TRANSACTION MONITORING CAPABILITIES TO BETTER DETECT AND REPORT SUSPICIOUS ACTIVITY AND LARGE CURRENCY TRANSACTIONS TO THE FINANCIAL CRIMES ENFORCEMENT NETWORK (FINCEN). WE DEVELOPED OUR OWN PROPRIETARY SOFTWARE FOR OUR UNIQUE MONEY TRANSFER SYSTEM. WE BELIEVE THAT GETTING THE RIGHT INFORMATION INTO THE HANDS OF LAW ENFORCEMENT IS OUR PRIMARY MISSION. UNLIKE OTHER FINANCIAL SERVICES, WESTERN UNION'S MONEY TRANSFER SERVICES ARE OFFERED THROUGH A "CLOSED LOOP" SYSTEM. WE HAVE DIRECT RELATIONSHIPS WITH BOTH THE AGENT INITIATING THE MONEY TRANSFER AND THE AGENT PAYING OUT THE MONEY TRANSFER. WE COLLECT INFORMATION FROM BOTH THE SENDING CONSUMER AND RECEIVING CONSUMER. THE DATA NEVER LEAVES THE WESTERN UNION SYSTEM. WE ARE IN A UNIQUE POSITION TO MONITOR THE ENTIRE TRANSACTION AND PROVIDE THAT COMPLETE PICTURE TO LAW ENFORCEMENT. NOW WITH OVER 2 YEARS OF EXPERIENCE, WE CONTINUE TO IMPROVE ON OUR REPORTING PROCESSES.

IN ADDITION TO OUR STANDARD MONITORING PROGRAMS, WE ARE CURRENTLY DEVELOPING AN INTERNAL FINANCIAL INTELLIGENCE UNIT (FIU) TO BETTER IDENTIFY POSSIBLE MONEY LAUNDERING TRENDS EARLY ON AND BE MORE PROACTIVE IN REPORTING SUCH ACTIVITY TO LAW ENFORCEMENT. THIS FIU IS MODELED AFTER THOSE CREATED BY CENTRAL BANKS AND GLOBAL BANKS AND EVIDENCES A MULTI-LAYERED APPROACH TO ADDRESSING ANTI-MONEY LAUNDERING RISK, WHICH INCLUDES AGENT REPORTING UNDER THE BANK SECRECY ACT, AND OUR STANDARD, AS WELL AS SPECIALIZED, MONITORING.

ADDITIONALLY, WESTERN UNION MAINTAINS A WORLDWIDE OFAC/GOVERNMENT INTERDICTION PROGRAM THAT EXAMINES THE NAMES OF EVERY SENDER AND RECEIVER THAT ENTERS OUR SYSTEM, WHETHER OR NOT THE MONEY TRANSFER TOUCHES THE UNITED STATES.

FINALLY, WE BELIEVE THAT COMMUNICATION AND COOPERATION BETWEEN INDUSTRY AND REGULATORS IS ESSENTIAL TO A WINNING STRATEGY. THIS YEAR ALONE, MY COMPLIANCE OFFICERS AND I HAVE VISITED WITH THE CENTRAL BANKS AND FIUs OF OVER 30 OTHER COUNTRIES TO FACILTATE AN EXCHANGE OF INFORMATION ON THESE ISSUES. WE STRIVE TO PARTNER WITH ALL GOVERNMENT

STAKEHOLDERS TO FACILITATE AN ONGOING DIALOGUE IN AN AREA WHERE RISK AND TRENDS CAN SHIFT ON A DAILY BASIS.

AS YOU CAN SEE, WESTERN UNION IS TOTALLY COMMITTED TO GETTING THIS RIGHT. BUT IT'S ALSO IMPORTANT THAT OUR AGENTS GET IT RIGHT.

OUTSIDE THE UNITED STATES, THE MAJORITY OF OUR AGENTS ARE BANKS OR POSTAL SERVICE SYSTEMS. THESE ENTITIES ARE VERY FAMILIAR WITH DOING BUSINESS UNDER A REGULATORY FRAMEWORK AND HAVE EXPERIENCE IN COMBATING MONEY LAUNDERING. IN THE UNITED STATES, OUR SERVICES ARE OFFERED THROUGH RETAIL BUSINESSES LIKE GROCERY STORE CHAINS, LOCAL CONVENIENCE STORES AND CHECK CASHERS.

UNDER THE PATRIOT ACT AND ITS IMPLEMENTING REGULATIONS, BOTH WESTERN UNION AND ITS DOMESTIC AGENTS REPRESENTING 45,000 INDEPENDENTLY OWNED LOCATIONS HAVE A SEPARATE AND INDEPENDENT OBLIGATION TO IMPLEMENT AND MAINTAIN AN ANTI-MONEY LAUNDERING COMPLIANCE PROGRAM. WESTERN UNION TAKES THIS RESPONSIBILITY SERIOUSLY, AS DO OUR AGENTS. OUR AGENTS ARE THE "FRONT LINE" DEFENSE AGAINST MONEY-LAUNDERING. MANY OF OUR U.S. AGENTS BELONG TO LARGE,

PUBLICLY-TRADED ENTITIES AND HAVE CONTROLS AND PROGRAMS IN PLACE LIKE ANY LARGE U.S. BASED COMPANY.

EFFECTIVE COMPLIANCE STARTS WHEN WE ARE SELECTING OUR AGENT PARTNERS. WESTERN UNION WANTS TO MAKE SURE WE HAVE THE BEST AVAILABLE BUSINESSES OFFERING OUR SERVICES. OUR DUE DILIGENCE ON PROSPECTIVE AGENTS CAN INCLUDE BOTH FINANCIAL AND THIRD-PARTY VERIFICATIONS AND CRIMINAL BACKGROUND CHECKS. AGENTS RECEIVE INITIAL TRAINING, MONTHLY COMPLIANCE INFORMATION AND ONGOING TRAINING OPPORTUNITIES.

OUR INITIAL CHALLENGE WITH THE PATRIOT ACT WAS THAT THE REQUIREMENT OF HAVING A FORMAL COMPLIANCE PROGRAM WAS NEW FOR MANY OF OUR U.S. AGENTS. OUR AGENTS FACED A STEEP LEARNING CURVE. TO MEET THIS CHALLENGE, WESTERN UNION INITIALLY DISTRIBUTED A “TURN-KEY” COMPLIANCE GUIDE TO THE ENTIRE AGENT BASE. THIS GUIDE EXPLAINED WHAT A COMPLIANCE OFFICER DOES, AND PROVIDED SAMPLE POLICIES AND PROCEDURES, EMPLOYEE TRAINING MATERIALS AND AN INDEPENDENT REVIEW GUIDELINE. OUR GOAL WAS TWO-FOLD, FIRST, EDUCATE THE AGENT AND SECOND, MAKE COMPLIANCE AFFORDABLE. WE DID NOT WANT

EACH AGENT TO HAVE TO HIRE A LAWYER OR CONSULTANT TO UNDERSTAND THE LAW AND CREATE ITS PROGRAM.

WE CONTINUE TO ENHANCE THESE EFFORTS. WE OFFER OUR AGENTS TRAINING OPPORTUNITIES TO ASSIST THEM IN UNDERSTANDING ANTI-MONEY LAUNDERING ISSUES AND HOW TO BUILD A BETTER COMPLIANCE PROGRAM. WE HAVE DEVELOPED ADDITIONAL MATERIALS, IN A VARIETY OF LANGUAGES, TO ASSIST IN THE DRAFTING OF MORE IN-DEPTH POLICIES AND PROCEDURES. WE ALSO OFFER AGENTS SOFTWARE THAT ALLOWS THEM, IF APPROPRIATE, TO MONITOR WEEKLY TRANSACTION ACTIVITY FOR SUSPICIOUS ACTIVITY AT THEIR LOCATIONS. WE CONTINUE TO EXPAND THE COMPLIANCE TOOLS WE OFFER OUR AGENTS. WE HAVE BEEN IMPLEMENTING A COMPLIANCE REVIEW PROGRAM AND WILL SUSPEND OR TERMINATE ANY AGENT WHO DOES NOT MEET OUR COMPLIANCE STANDARDS.

HOWEVER, AS AN INDUSTRY WITH JUST OVER 2 YEARS EXPERIENCE IN DEVELOPING PATRIOT ACT ANTI-MONEY LAUNDERING PROGRAMS, WE STILL ARE IN NEED OF GUIDANCE AND CONTINUED OPEN DIALOGUE.

WESTERN UNION AND THE AGENT LOCATIONS WE SUPPORT REALLY HAVE 49 REGULATORS IN THE UNITED STATES: 47 STATES, FINCEN AND THE IRS. WESTERN UNION IS ROUTINELY EXAMINED BY UP TO 15 DIFFERENT STATE BANKING DEPARTMENTS IN ANY GIVEN YEAR. THIS FRAMEWORK CAN MAKE REGULATORY CONSISTENCY A CHALLENGE. IT IS OUR OPINION THAT FINCEN, AS THE POLICY MAKER FOR OUR INDUSTRY, IS IN THE BEST POSITION TO PROVIDE THE NECESSARY GUIDANCE ON THESE ISSUES. A SINGLE GUIDING VOICE IS BECOMING INCREASINGLY IMPORTANT IN LIGHT OF THE FACT THAT MONEY SERVICES BUSINESSES OPERATE UNDER MULTIPLE LICENSES.

THE REGULATIONS CALL FOR A RISKED-BASED PROGRAM MEANING THAT A ONE-SIZE-FITS-ALL APPROACH IS NEITHER REQUIRED NOR APPROPRIATE. THIS APPROACH ALLOWS THE MONEY SERVICES BUSINESS TO DETERMINE THE RISK AREAS AND APPLY RESOURCES APPROPRIATELY – EFFICIENCIES ARE CREATED AND IN THIS MANNER ACTUALLY MORE RISK CAN BE ADDRESSED, MORE EFFECTIVELY.

HOWEVER, RISK MAY SHIFT AS MORE INFORMATION CAN BE OBTAINED AND ANALYZED, AND SO MUST OUR FOCUS. FOR THIS APPROACH TO HAVE THE DESIRED EFFECT, THE REGULATOR, IN THIS CASE FINCEN, MUST PROVIDE ONGOING COMMUNICATION TO INDUSTRY ABOUT EMERGING RISKS AND MONEY LAUNDERING

PATTERNS SO THAT THE INDUSTRY CAN DIRECT ITS COMPLIANCE EFFORTS TOWARDS THE MOST CRITICAL RISK AREAS. THIS TYPE OF ONGOING COMMUNICATION SHOULD NOT ONLY RESULT IN MORE MEANINGFUL REPORTING OF SUSPICIOUS ACTIVITY TO LAW ENFORCEMENT BUT ALLOW THE INDUSTRY TO REDUCE THE FILING OF NON-USEFUL REPORTS WHICH MAY CREATE “NOISE” AND UNDERMINE THE EFFORTS OF LAW ENFORCEMENT.

ONE PRIMARY EXAMPLE IS THE REPORTING OF SIMPLE STRUCTURING. CURRENTLY, THE SUSPICIOUS ACTIVITY REPORTING (SAR) THRESHOLD IS AT \$2000 AND STRUCTURING MAY OCCUR JUST BELOW THE \$3000 RECORDKEEPING REQUIREMENT. TOGETHER WE NEED TO QUESTION WHETHER FINANCIAL INSTITUTIONS REPORTING ACTIVITY AT THIS LEVEL IS HELPFUL TO LAW ENFORCEMENT. WE WOULD ENCOURAGE FINCEN TO ANALYSE ITS SAR DATA ACROSS THE FINANCIAL SERVICES COMMUNITY AND PROVIDE MORE GUIDANCE ON WHAT TYPE AND LEVEL OF ACTIVITY PRESENTS THE BEST INTELLIGENCE TO LAW ENFORCEMENT. IT IS POSSIBLE THAT BY FOCUSING ON HIGHER LEVELS OF ACTIVITY WE CAN REDUCE THE NUMBER OF NON-USEFUL REPORTS, ASSIST LAW ENFORCEMENT IN MORE RAPIDLY IDENTIFYING MONEY LAUNDERING SCHEMES AND DRIVE OUR COLLECTIVE RESOURCES TO WHERE THE RISK REALLY LIES.

WE BELIEVE THAT MORE RESOURCES AND MORE MEANINGFUL DIALOGUE, NOT MORE REGULATIONS, ARE WHAT IS NEEDED TO FURTHER PROTECT THE FINANCIAL SECTOR. IN THE STATE OF NEW YORK, THERE ARE OVER 67 LICENSED MONEY TRANSMITTERS; ON THE OTHER COAST IN CALIFORNIA THERE ARE 58. FINCEN, THE IRS AND THE 47 STATES THAT LICENSE THIS ACTIVITY NEED MORE RESOURCES TO ENFORCE THE EXISTING RULES ACROSS THE INDUSTRY, AMONG BOTH LARGE AND SMALL MONEY TRANSMITTERS, AS WELL AS BOTH THE LICENSED AND UNLICENSED.

FINALLY, A FEW WORDS ON COMBATING TERRORIST FINANCING. WE BELIEVE, PARTICULARLY IN THE FIGHT AGAINST TERRORISM, THAT THERE IS NO FORESEEABLE FINISH LINE, AND WESTERN UNION, AS A GLOBAL COMPANY, IS COMMITTED TO APPLYING RESOURCES COMMENSURATE WITH THIS GREAT RISK WE ARE ALL FACING. THE 9-11 COMMISSION STATES “WHILE THE HIJACKERS WERE NOT EXPERTS ON THE USE OF THE U.S. FINANCIAL SYSTEM, NOTHING THEY DID WOULD HAVE LED THE BANKS TO SUSPECT CRIMINAL BEHAVIOR, LET ALONE A TERRORIST PLOT TO COMMIT MASS MURDER.” (THE 9/11 COMMISSION REPORT, NORTON ED., P. 237.) TERRORIST CELLS OBTAIN LEGITIMATE GOVERNMENT-ISSUED IDENTIFICATION, THEY OPEN BANK ACCOUNTS AND THEY HAVE DEBIT AND CREDIT CARDS. THEIR

FINANCIAL NEEDS AND TRANSACTIONS, MOREOVER, MAY ALSO BE SURPRISINGLY SMALL AND CONSEQUENTLY NOT EASILY DETECTED OR PREVENTED. IN FACT, THEIR FUNDING MAY BE GENERATED INTERNALLY WITHOUT THE NEED FOR REGULATED FINANCIAL SERVICES. ALL THESE FACTORS MAKE IT EXTREMELY DIFFICULT FOR A MONEY SERVICES BUSINESS TO FIND THAT NEEDLE IN THE HAYSTACK WITHOUT BETTER INFORMATION FROM THE GOVERNMENT. IF A NAME IS IDENTIFIED BY THE OFFICE OF FOREIGN ASSETS CONTROL AS A SPECIALLY DESIGNATED PERSON, WE WILL STOP THAT TRANSACTION. BUT, I ASK, HOW CAN WE WORK BETTER TOGETHER TO IDENTIFY AND REPORT ON MONEY TRANSFERS BEFORE THE NAME GETS ON A PUBLICLY AVAILABLE LIST?

IN CONCLUSION, THE USA PATRIOT ACT HAS STRENGTHENED OUR COUNTRY'S ANTI-MONEY LAUNDERING EFFORTS SIGNIFICANTLY AND OUR INDUSTRY HAS BEEN THERE EVERY STEP OF THE WAY. BUT TO MOVE TO THE NEXT LEVEL, TO BECOME MORE SOPHISTICATED IN DETECTING AND REPORTING MEANINGFUL SUSPICIOUS ACTIVITY, WILL REQUIRE ALL OF US TO DO A BETTER JOB IN PROACTIVELY COMMUNICATING AND COOPERATING. THANK YOU. I WILL BE HAPPY TO ADDRESS ANY QUESTIONS YOU MAY HAVE.