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What to Know if Your Credit Union Holds MSB Accounts

Money launders continue to target credit unions, as well as other financial institutions, because of the diversity of financial services and instruments they provide. A potential area of vulnerability are money services businesses.

It's important to know that credit unions can provide financial services to these organizations, if they are within the field of membership. However, the nature of MSBs' operations pose increased risk for money laundering. As a result, credit unions must have a clear understanding of an MSB's operations to assess and mitigate any potential risks. Credit unions must also perform ongoing due diligence.

During exams, NCUA reviews whether credit unions have MSB accounts and if the initial and ongoing due diligence is adequate. Some of the most common deficiencies we have seen in our region include the failure to appropriately identify MSB accounts, perform adequate due diligence and properly report MSB accounts on the Call Report.

Here's what credit unions need to know when providing financial services to MSBs.

What are MSBs?

The term "money services business" includes any business acting in one or more of the following capacities:

- Issuer, seller or redeemer of money orders, traveler's checks or stored-value cards;
- Check casher;
- Foreign currency dealer or exchanger;
- Provider or the seller of prepaid access, like prepaid phone cards; or
- Provider of money transfer services in any amount.

There are also other signs a business account holder may be an MSB, including:

- Accounts that are for cash-intensive businesses;
- Accounts that generate a high volume of ACH activity;
- Accounts that generate a high volume of wire transfers; and
- Accounts that require credit unions to file a significant number of Currency Transaction Reports on one or more business accounts.

However, it's important to note that a business engaging in such transactions is not considered an MSB if it does not engage in transactions up to \$1,000 for any person on any day in one or more transactions. This also includes up to \$2,000 for certain prepaid access.

Keep in mind that some MSBs also provide services to other MSBs, resulting in a much higher dollar amounts and transaction volumes. This can create additional levels of complexity, making it more difficult for a credit union to identify suspicious activity. As a result, credit unions that have these types of account holders need to exercise a greater level of due diligence by establishing controls to properly monitor, assess and mitigate any potential risk.

Due Diligence Best Practices

Ongoing due diligence is just as important as initial due diligence when it comes to MSBs. Adequate monitoring of MSBs also helps detect the volume of funds transferred. Based on existing Bank Secrecy Act requirements, the minimum due diligence that credit unions are expected to perform when opening and maintaining accounts for MSBs include:

- Applying customer identification procedures, including determining whether a business meets the MSB definition. Customer identification and verification is one of the most effective ways to detect and guard against money laundering schemes.
- Confirming their Financial Crimes Enforcement Network registration, if applicable. Remember, these registrations must be renewed every two years. FinCEN outlines their requirements for MSBs at <http://go.usa.gov/cPGwT>.
- Confirming member MSBs comply with state or local licensing requirements, if applicable.
- Confirming a member MSB's agent status, if applicable.
- Conducting a Bank Secrecy Act anti-money laundering risk-assessment to determine the level of risk associated with the account and whether additional due diligence is necessary.

Reporting Requirements for MSB Accounts

If your credit union has MSB accounts, you must report them on your Call Report. Credit unions must report the total number and the dollar amount of the accounts held by entities operating as MSBs on page 25 of the report. In addition, credit unions must report the number and each type of MSB-services provided by the MSB account holders on page 25. While this information is not released to the public, the information is important for NCUA's monitoring purposes.

Conclusion

Credit unions are permitted to provide financial services to MSBs. However, credit unions must have proper controls in place to identify and manage the risk inherent with these entities. This requires credit unions to have a clear understanding of the their operations. Credit unions providing services to MSBs also must perform ongoing due diligence and ensure compliance with all Bank Secrecy Act reporting requirements.

Additional Resources

- Letter to Credit Unions, 16-CU-01, "Supervisory Focus for 2016" at <http://go.usa.gov/cPHJ9>
- Letter to Credit Unions, 14-CU-10, "Identifying and Mitigating Risks of Money Services Businesses" at <http://go.usa.gov/cPHSw>
- Interagency Interpretive Guidance on Providing Banking Services to Money Services Businesses Operating in the United States at <http://go.usa.gov/cPHuF>
- Bank Secrecy Act InfoBase at <http://go.usa.gov/cPHuW>

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