

# Workshop on AML/CFT for Mobile Financial Services: *Lessons from the USA*



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# Agenda

- Background on Affinity
- US Experience: Trumpet Mobile
  - Market needs
  - KYC procedures within RadioShack stores
  - Velocity and AML standards
- Summary

# Affinity Mobile Overview

- Founded 2004 - Dallas, TX
- Mobile Financial Services
- Prepaid and Underbanked focus
- Developed and Developing economies
- Managed Services offering
- Trumpet Mobile (USA) – retail enrollment



Mobile Money  
Vendor

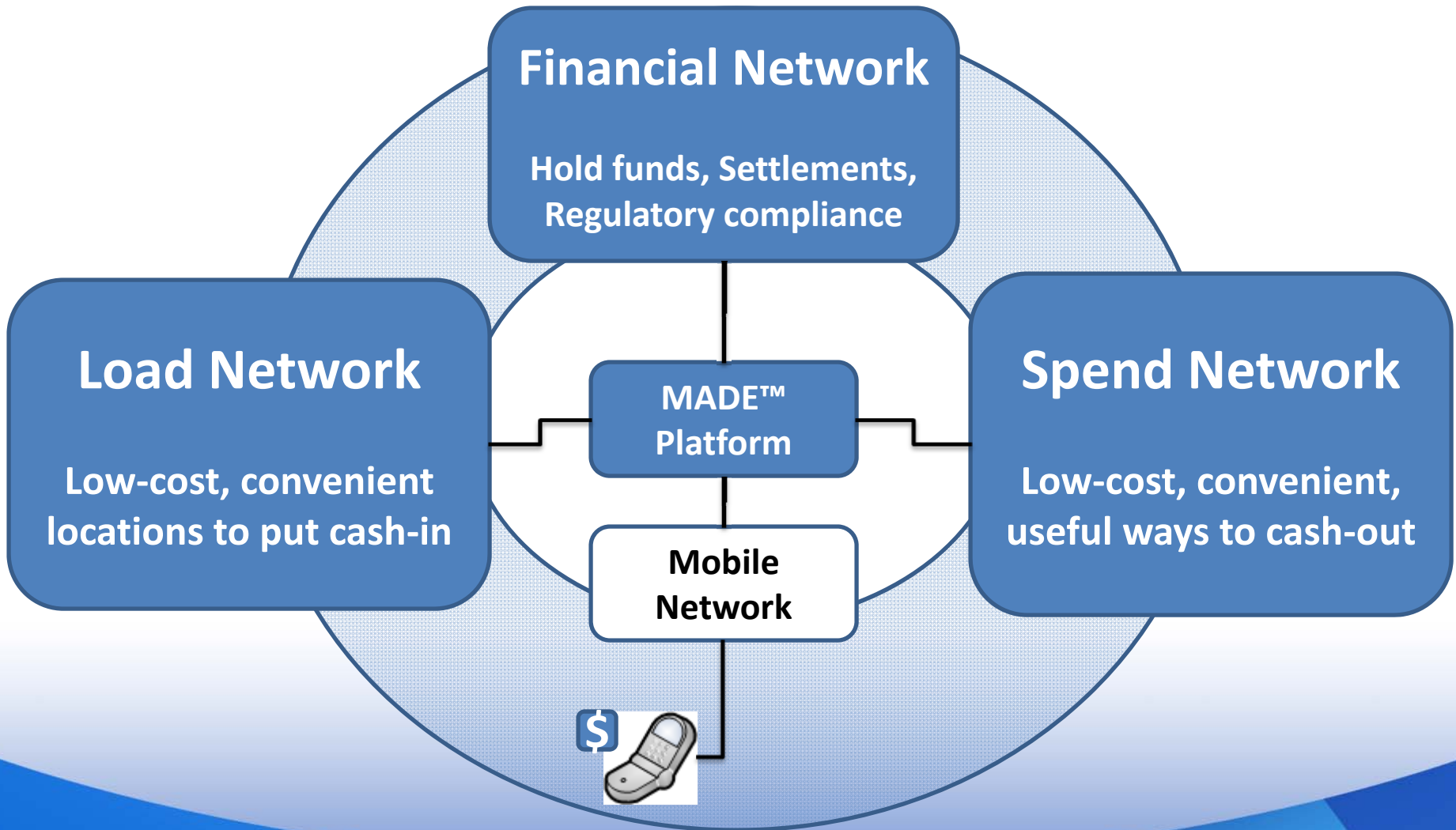


# AFFINITY MOBILE IS THE CATALYST FOR ECONOMIC GAIN AND OPPORTUNITY

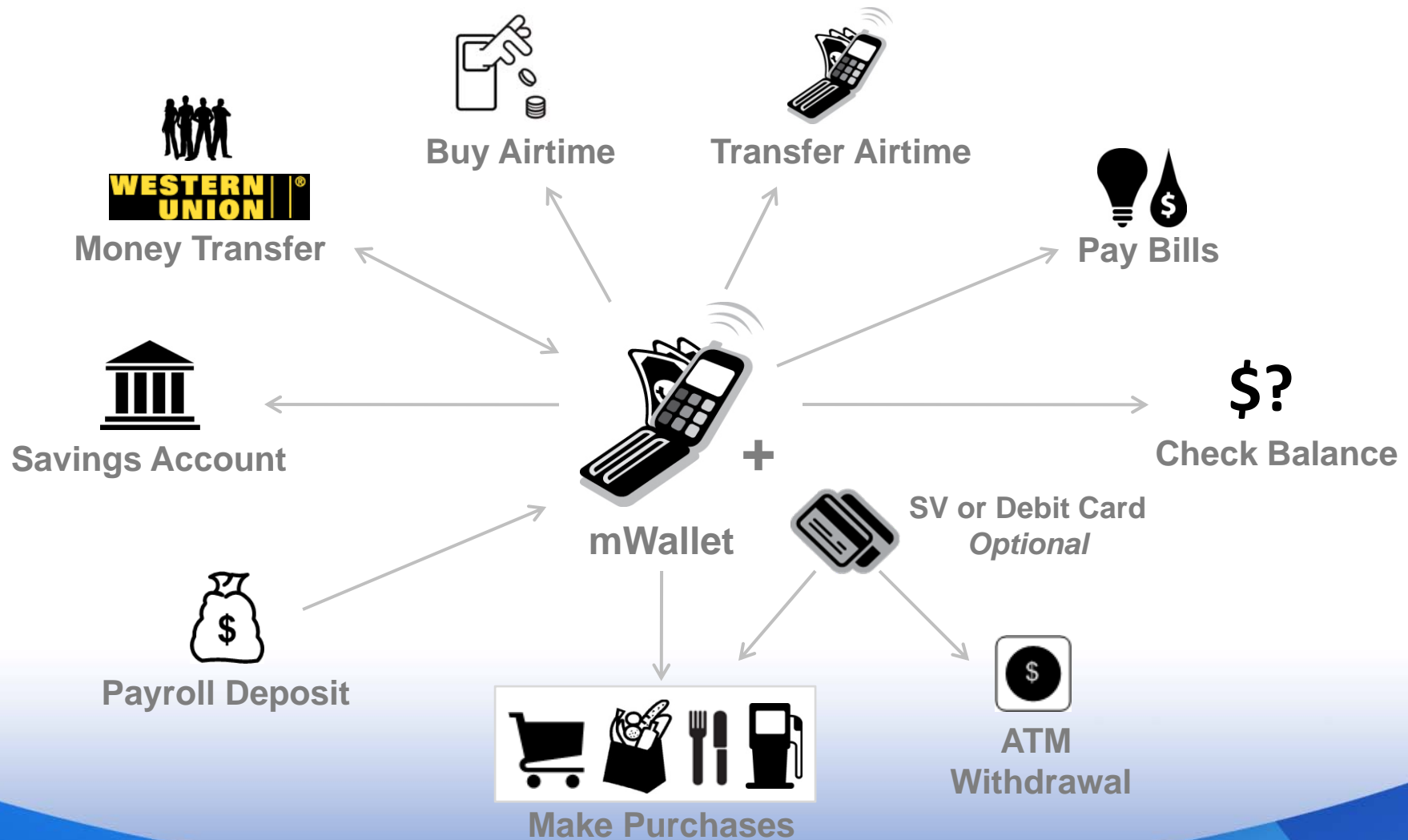
**Changing the lives of prepaid and  
underbanked mobile subscribers  
across the world**



# Affinity Mobile Ecosystem



# Affinity Enables Basic Bank Transactions



# Best Practices

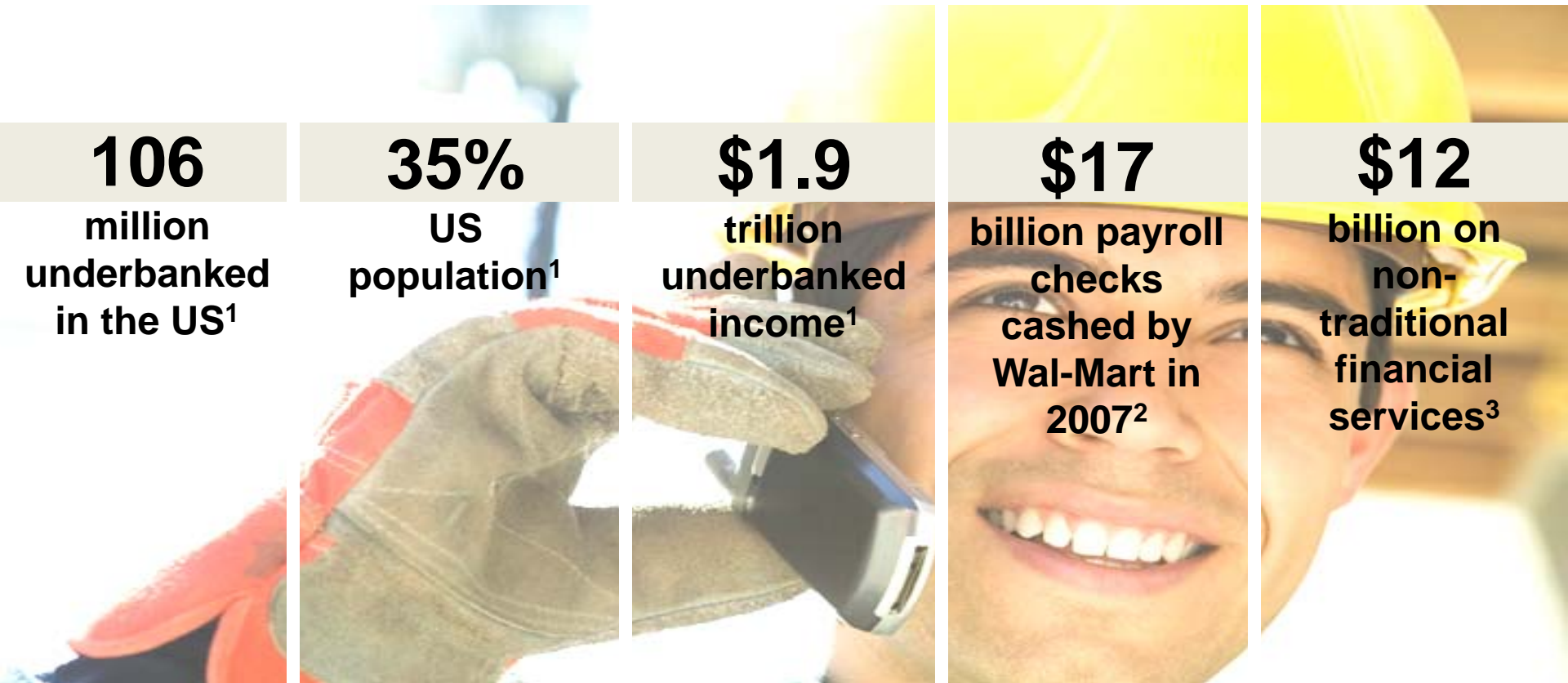
## Summary of best practices from USA, Latin America, Africa and Asia

- Pay-as-you-go fee structure – the **anti-bank**
  - No minimum deposit, No account activation fee, No monthly fees
- **KYC** and **Enrollment** process must be quick, easy, accurate
- Keep services **simple** and **clear** with **strong value** proposition
  - Subscribers lack financial system experience
- Agent and partner ecosystem is essential - **access**
- Drive **viral** adoption through person-to-person transfers
- Need people with **money** to catalyze service
  - Remittance senders and Top-of-Pyramid
- Create **micro** purchase ('sachet') amounts

# Every Market is Unique



# U.S. Underbanked Market



**106**

million  
underbanked  
in the US<sup>1</sup>

**35%**

US  
population<sup>1</sup>

**\$1.9**

trillion  
underbanked  
income<sup>1</sup>

**\$17**

billion payroll  
checks  
cashed by  
Wal-Mart in  
2007<sup>2</sup>

**\$12**

billion on  
non-  
traditional  
financial  
services<sup>3</sup>

<sup>1</sup> Center for Financial Services Innovation, June 2008

<sup>2</sup> WalMart annual report, 2007

<sup>3</sup> TowerGroup, 2008

# Low Income Pay High Fees

## Check Cashing

1%-4% of value

## Walkup Bill Pay

\$10-\$15 per bill

## Money Transfer

\$10-\$20 to send \$200

## Payday Loan

520% APR

Income Level

\$80k

- Transaction fees: \$250
- 0.3% of Income

\$40k

- Transaction fees: \$350
- 0.9% of Income

\$20k

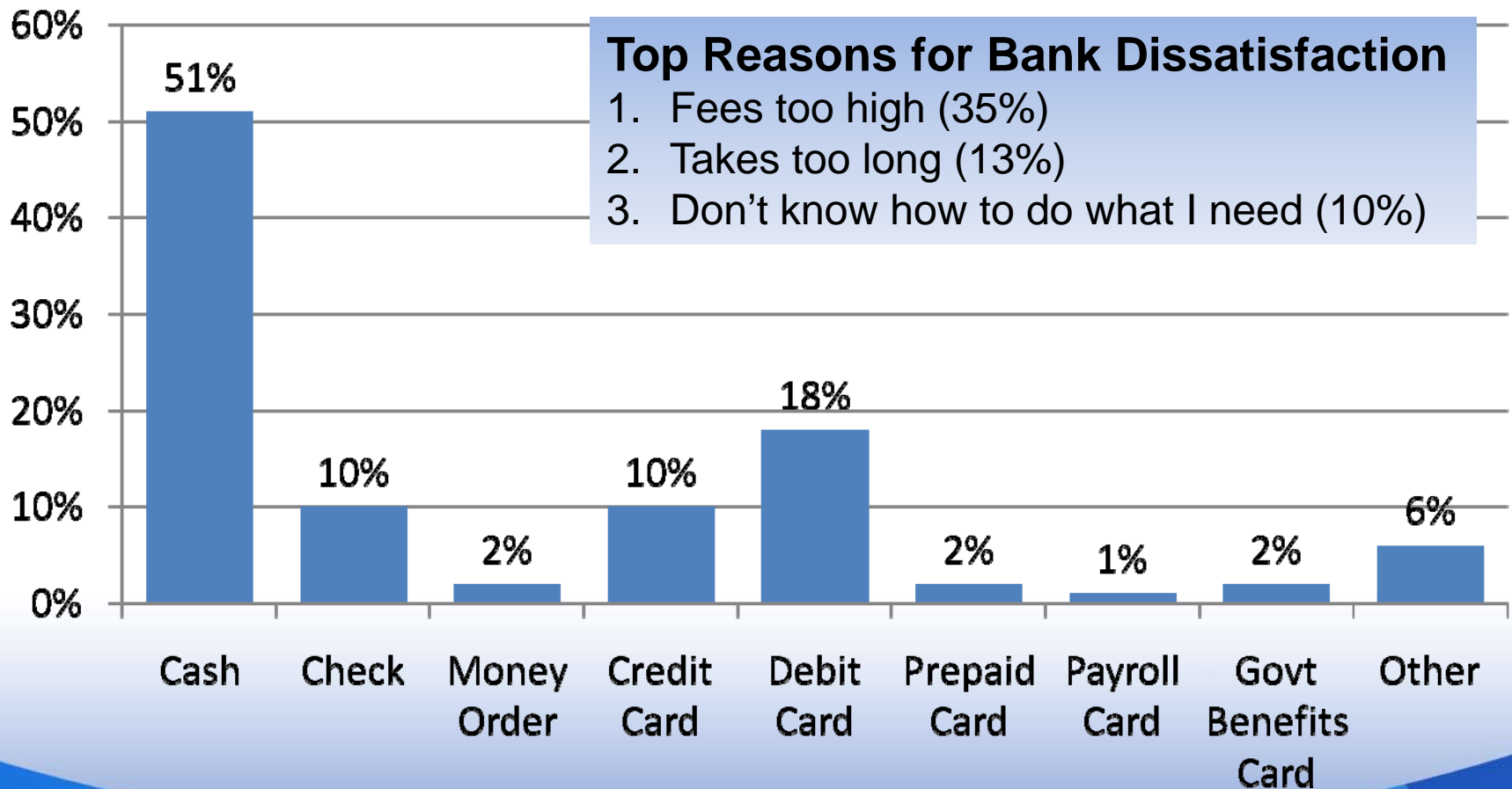
- Transaction fees: \$500
- 2.5% of Income

### Assumptions:

- Subscriber with \$80k income has free checking, free online bill pay, check fees and other miscellaneous bank charges
- \$40k income subscriber generally has free bank services although periodically fails to meet bank minimum
- \$20k example based on 10 remittances per year at \$15 each. 2% check cashing fee on checks of \$600, 20 times per year. Walk-up bill pay of \$12 by 10 times per year

# Underbanked Payments in the USA

'Which method do you use most often?'



Source: CFSI, June 2008

Proprietary & Confidential, Affinity Mobile LLC

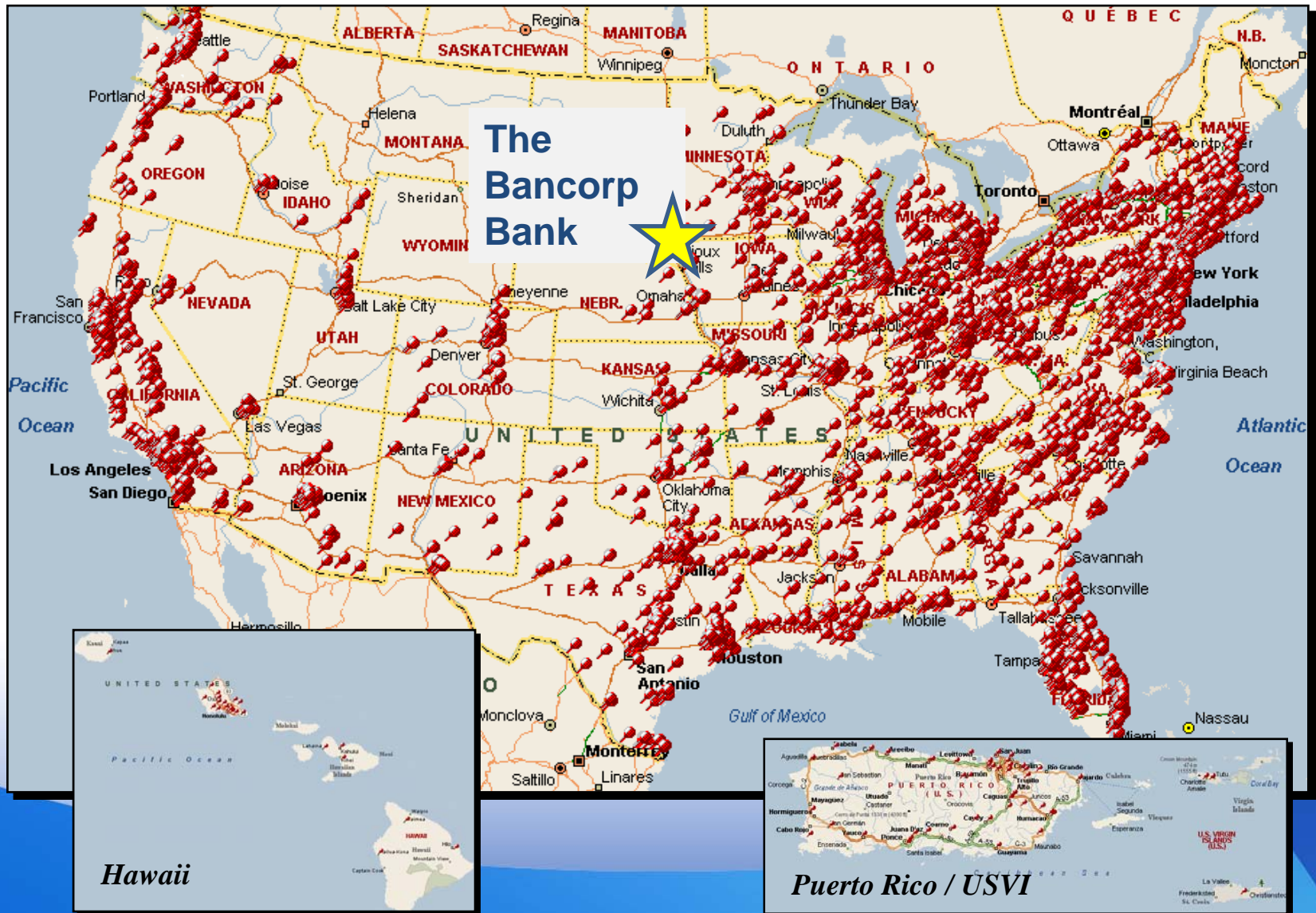
# Trumpet Mobile: US MVNO

- Fastest growing mobile operator in the US
- Focused on US Latino segment
  - Fastest growing ethnic group
  - High percentage underbanked
  - High propensity to use mobile services
- Needs
  - Enable mobile remittances to Latin America
  - Stored value card enrollment
  - Enable KYC in Radio Shack retail environment



# RadioShack Store Locations

4,300 retail locations across the USA



# Trumpet Mobile Activation Process:



1. Visit local participating RadioShack. Select a Trumpet Mobile handset, which includes Trumpet CashCard.



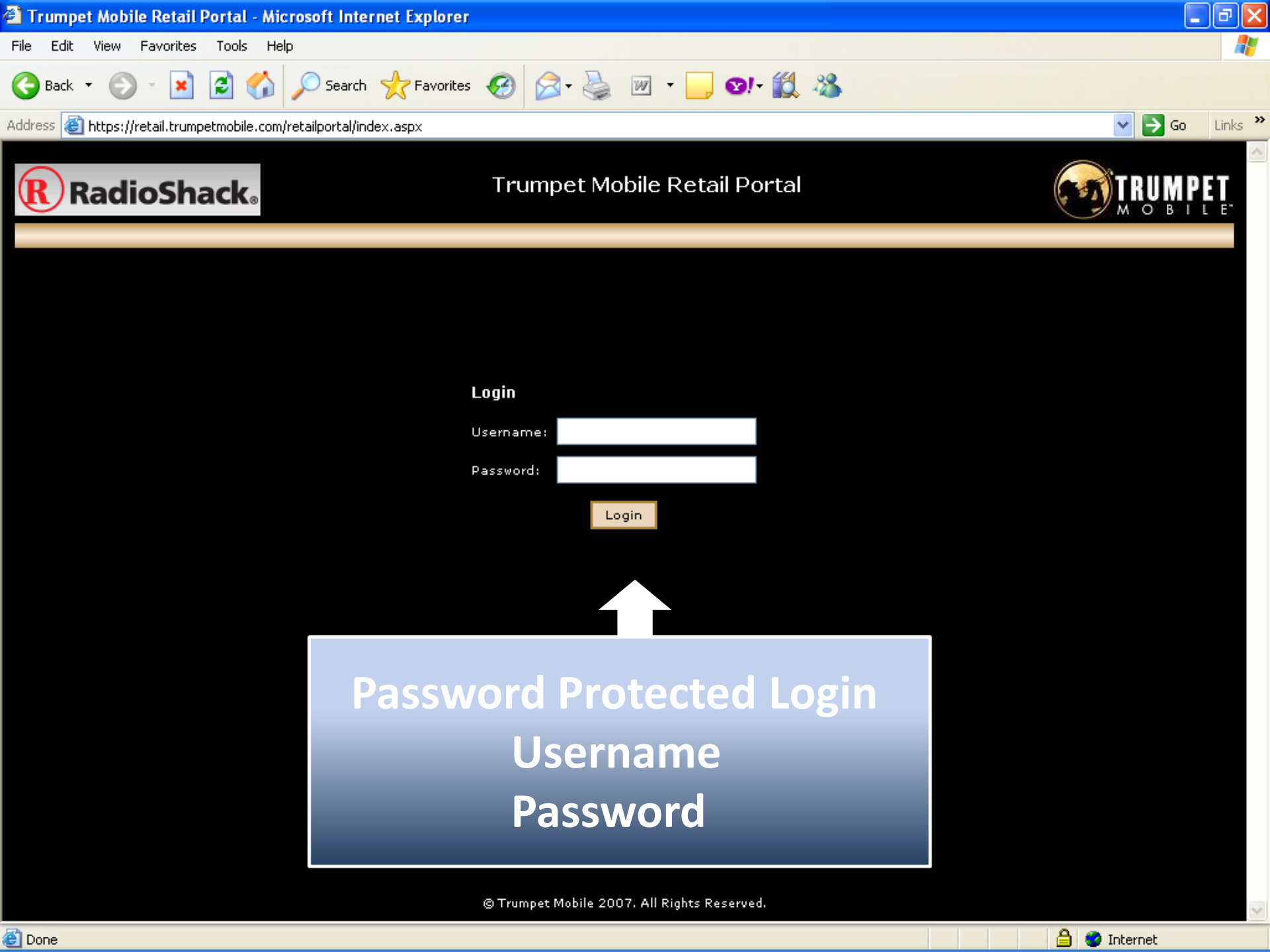
2. Supply basic personal information and RadioShack associate will quickly activate phone and CashCard.

4. Reload CashCard at over 90k Western Union or Green Dot locations, including RadioShack.



3. Begin using phone and making purchases or ATM withdrawals with the CashCard.





# Trumpet Mobile Retail Portal



## Login

Username:

Password:

Login

Password Protected Login  
Username  
Password

# AML/CFT Rules in US

- Secretary Paulson's plan to reorganize the system
- Strong criminal penalties

At times, such as in the case of m-payments, the United States currently has few safeguards against abuse of m-payments. M-payment service providers in the United States are classified as money service businesses and, in theory, must register with the United States FIU, the Financial Crimes Enforcement Network (FinCEN). However, most money service businesses do not comply with registration requirements and there is little enforcement of the regulations. >>

*US Dept of State, INSCR, 2008, Vol. II, p.13*

Depository institution vs. Money Service Business (MSB)

- Stored Value and Check Cashing – excluded
- Proactive behavior
  - Suspicious Activity Report (SAR)

# AML/CFT Compliance

Overlapping velocity thresholds reduce risk, stay within FinCEN limits but still meet Consumer needs

	BSA Standards (FinCEN-MSB)	Trumpet Mobile	
		Pass CIP	CIP Pending
<b>Cash-in Cash-out</b>	<p>&gt;\$10k, file CTR (15 days)</p> <p>&gt;\$2k, file SAR (30 days)</p>	<p>Max Cash-in</p> <ul style="list-style-type: none"> <li>• \$950/day</li> <li>• \$9,500/month</li> <li>• 1 load/day</li> <li>• 10 loads/month</li> </ul> <p>Max Spend</p> <ul style="list-style-type: none"> <li>• \$2,500/day</li> </ul> <p>Max Balance \$2,500</p>	<p>Max Cash-in</p> <ul style="list-style-type: none"> <li>• \$950/day</li> <li>• Single load</li> </ul> <p>Max Spend</p> <ul style="list-style-type: none"> <li>• \$300/day</li> </ul> <p>Max Balance \$950</p>
<b>Money Transfer</b>	<p>&gt;\$3k, verify, record</p> <p>&gt;\$2k, file SAR</p>	<p>\$500/day (W.Union)</p> <p>\$500/day (M2M)</p>	<p>W.Union: Not allowed</p> <p>\$300/day (M2M)</p>
<b>Currency Exchange</b>	<p>&gt;\$1k, verify, record</p>	<p>\$400/day ATM</p>	<p>\$300/day ATM</p>

# Account Enrollment Process

What is the best method to bank the Underbanked, reduce the Informal economy, increase Inclusion and mitigate AML risk?

***Maintain Proportionality between AML Threat and Regulation***

	On-Phone →	Agent →	Bank
	Self-provision account on phone	3 <sup>rd</sup> party extends Bank reach	Bank employee and branches
<b>Accessibility</b>	Best	Very Good	Poor
<b>Availability</b>	Best	Very Good	Poor
<b>Affordability</b>	Lowest cost	Low cost	Highest cost
<b>Who</b>	Poor/Underserved	Mass Unbanked	Mass Banked
<b>Features</b>	Basic transactions Store cash/Safety Micro-payments Low frequency	Current accounts Transfers Mini-payments Medium frequency	Full service accts Interest bearing Standard frequency

***Key: Tighten Mobile operator's prepaid CDD procedures***

# Summary

- Meet needs of the underbanked
  - Low-value, high-volume transaction
  - Bring financial services to the consumer
  - Distribution network = Access
- Appropriate regulatory environment
  - Embrace technology but make it adapt
  - Approach prudently but proportionally
  - Mobile operators to improve their KYC/CDD
- Inclusion