TravelersExpress
a Viad Corp company

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CYK 12/15

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Cynthia L. Johnson
Director, Cash Division
Financial Management Services
U.S. Department of Treasury
Room 420
401 14th Street, S.W.
Washington, D.C. 20227

Dear Ms. Johnson:

Travelers Express Company, Inc. appreciates the opportunity to comment regarding the Treasury Department's (also referred to as "Treasury") proposed rule implementing EFT'99. Travelers Express' comments will focus on the important role of nonbank financial institutions in the delivery of federal benefits to recipients who do not have bank accounts with depositary institutions. The comments will provide background information about Travelers Express; describe how Travelers Express is regulated as a licensed money transmitter; highlight how the company currently serves the unbanked; and respond to Treasury's proposed rulemaking by addressing the need for nonbank financial institutions to participate in EFT'99.

GENERAL BACKGROUND INFORMATION

Travelers Express is a leading provider of payment services including money orders, utility bill payment services, official checks, and rebate and refund check processing. Travelers Express, founded in 1940, is the nation's largest issuer of money orders. The company is a subsidiary of the $2.5 billion AZ-based Viad Corp. Money order sales and utility bill payment services are offered through independently owned and operated retail merchants and financial institutions, including convenience stores, grocery stores, gas

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stations, check cashers, credit unions and banks. Travelers Express' financial services products are found in approximately 44,000 retail and 4,500 financial institution locations nationwide.

REGULATORY OVERSIGHT OF MONEY TRANSMITTERS

Money orders are negotiable payment instruments which are most similar in use and appearance to a personal check. They are subject to the laws of commercial paper and are subject to abandonment under unclaimed property laws. More importantly, in 44 states, the issuance and sale of money orders is regulated by state law and administered by state banking departments. To obtain a license to sell checks or transmit money in these states, a non-bank financial institution (commonly referred to as money transmitter) must comply with a number of requirements. These include posting a bond; providing extensive financial and operations information; maintaining certain capital and liquidity requirements; filing quarterly and annual reports; undergoing on-site compliance examinations; and, in a significant number of states, investing outstanding balances of money order proceeds in highly-rated liquid investments. These state laws, which are vigorously enforced, were enacted to ensure the safety, security and soundness of companies which hold large amounts of customers' money pending the clearing of a check or money order. Travelers Express maintains a rigorous compliance effort involving all levels of the company.

Travelers Express is also subject to federal regulation under the Bank Secrecy Act, which was adopted primarily to combat money laundering. Travelers Express maintains a money laundering compliance program to advise selling locations about detecting money laundering through the use of money orders. Internal employee training and daily testing are features of the company's money laundering compliance efforts. Information which may suggest suspicious activity in money order sales is reported to the Internal Revenue Service Criminal Investigation Division as appropriate.

SERVING THE UNBANKED

Money orders are used daily by millions of ordinary Americans to conduct their financial affairs. They are used in lieu of checking accounts by consumers who choose to use a money order to pay their bills. Travelers Express strives to serve effectively these consumers who have a legitimate reason not to maintain a bank account by providing a vital necessity of enabling such customers to transact their business safely and without the use of cash. Treasury's own survey demonstrates that individuals who do not

maintain a bank account do so for a variety of reasons. While cost and minimum balance requirements are sometimes a factor, access to a bank, the perceived lack of financial privacy and no real need for an account are also cited. As the nation's leading money order company serving the financial needs of these individuals, Travelers Express has nationwide access to the very individuals Treasury is most concerned about reaching: recipients who do not have, and may prefer not to open, a bank account. Travelers Express' money order sales locations are typically in the heart of city neighborhoods, many of which are not served by financial institutions. The company recruits retail merchants who are well positioned to serve the very same population which is disinclined to establish a traditional banking relationship.

NONBANK FINANCIAL INSTITUTIONS' ROLE IN EFT'99

Treasury has enumerated a number of goals it seeks to achieve in converting federal beneficiaries to EFT. Those goals include making sure recipients have access to their funds at a reasonable cost; providing appropriate consumer protections; ensuring that payments and information are delivered accurately, conveniently, and in a timely manner; and significantly increasing participation by recipients in the country's financial system. These are notable goals. To achieve these goals, however, Treasury needs to make sure its proposed regulations are flexible to allow the marketplace to compete in providing electronic accounts to those who do not currently have relationships with financial institutions. Competition will keep prices reasonable, will encourage the development of innovative products/services, and will provide federal beneficiaries with more choices. Furthermore, allowing nonbank financial institutions, such as licensed money transmitters, to play a role will provide for a more seamless conversion for the unbanked.

Nonbank Financial Institution Access to the Unbanked

As mentioned previously, licensed money transmitters, such as Travelers Express, are currently serving individuals without banking relationships on a daily basis. These are the primary purchasers of Travelers Express money orders and the users of utility bill payment services. These customers have established informal relationships with the retail locations where they conduct their financial business, such as grocery stores, check cashers, and other retail outlets. Allowing individuals to continue to use these locations would assist in the transition to EFT since they are comfortable visiting these businesses. In addition, such individuals conduct their financial transactions in a manner they feel comfortable utilizing, whether it is low-cost money orders or utility bill

payment services.

Furthermore, permitting the distribution of electronic benefits at retail locations through ATMs, POS terminals or other electronic means developed by money transmitters, such as Travelers Express' patented Delta terminal, would provide customers with a greater ability to access their benefits at the places where they frequent, at times which are convenient, and perhaps in safer environments than ATMs located in remote environments or unsafe neighborhoods.

Nonbank Financial Institution's Role in Providing Voluntary Accounts

The Treasury Department clearly recognizes nonbank financial institutions will have the opportunity to partner with financial institutions in the delivery of federal payments. As they note in the commentary accompanying the proposed rules, such products are currently being developed. Treasury acknowledges the use of such products and services would be voluntary on the part of federal beneficiaries who could choose to access their benefits other than directly from a financial institution. Travelers Express commends Treasury for recognizing this opportunity and for acknowledging the development of this market.

Travelers Express understands that concerns have been raised by some about the need for Treasury to regulate such voluntary accounts. Travelers Express would strongly discourage Treasury from imposing limits on these accounts such as what would be considered reasonable costs, where the benefits could be accessed, and how the accounts would be structured. Such restrictions would stifle innovation and competition, thereby limiting the number of options available to federal beneficiaries.

Nonbank Financial Institutions Role in Providing ETA Services

The Treasury Department has specifically requested comments on the role of nonbank financial institutions in providing ETA services. Treasury's preliminary view is to permit only federally-insured financial institutions to act as its financial agent in providing an account accessed by a plastic debit card. Treasury, however, acknowledges that some functions may be performed by non-financial institutions working in partnership with the federally-insured depositary institution. Treasury has also posed questions about geographical reach, restrictions on where and how the account may be accessed, and whether the cost of additional access be included in the competitive bid process. These are all good questions which will ultimately impact on

the provision of services to the unbanked.

First, Travelers Express understands the concerns of consumer groups and Treasury about the need to make sure federal benefits are held in a safe and sound manner with adequate consumer protections. Permitting licensed money transmitters, such as Travelers Express, to partner with federally-insured financial institutions would provide such protections to federal beneficiaries. As mentioned earlier, licensed money transmitters are subject to very strict regulatory oversight, as well as to investment and liquidity restrictions; therefore, they do not fall within the area of concern outlined by Treasury about potential failures of third party providers.

Furthermore, allowing a non-bank financial institution to work with a depositary institution permits the account to retain its status as federally-insured and compliant with Regulation E requirements. The advantages to such a partnership are that financial institutions would gain access to a significantly extended branch network, reaching geographic areas where the unbanked are located and reducing the number of waivers based on geographic barriers.

Travelers Express money order customers and other benefit recipients who have easy access to money order retail sales locations in their neighborhoods could select Travelers Express, partnering with a depositary institution, as their account provider. Recipients would be able to enroll in the program by signing a written authorization available at retail money order agent locations and would be able to access their benefits through a debit card.

The depositary institution partner would manage the enrollment process and data for the recipient, handle all ACH electronic receipt of funds from the government, manage the secure encoding of the plastic debit cards, provide all regulatory compliance, FDIC insurance, and customer service. Travelers Express would handle all aspects of the retail agent access for the recipients and would manage the transfer of funds to the retail agents for payments made to recipients.

Such an arrangement would permit an unbanked benefit recipient to receive cash at the time of access to the funds, purchase a money order to pay bills, and/or make a utility bill payment. In addition, traditional access to the benefit funds at the partner bank's ATM machine could be possible.

Allowing federally-insured financial institutions to partner with entities such as Travelers Express would provide for the geographical reach articulated by Treasury. Travelers Express and other money transmitters are successfully providing for the needs of the

unbanked and are continually searching for new ways to provide existing customers with new services which are easy to use, convenient, and economical. In many cases, providing access to federal benefits to those without banking relationships would be a natural extension to existing product lines. Having a broad geographical reach -- thereby making accessing the benefits easy, convenient, and in familiar locations -- would assist Treasury in persuading individuals to sign up for an electronic account rather than seek a waiver.

Travelers Express recognizes the Treasury Department's sensitivity to the issue of the cost of access to benefits. A significant percentage of Travelers Express' money order business is generated by individuals who do not have a bank account and who are extremely price sensitive. The average cost of a Travelers Express money order is 75 cents. While the costs of providing an electronic account through a financial institution have not been determined, Travelers Express anticipates a monthly account maintenance charge. Clear disclosure of charges would appear in both the application and on the receipt and statements provided.

An area Treasury should closely examine as a way to reduce the cost of providing electronic accounts is providing flexibility in Regulation E requirements. Treasury needs to recognize the costs of compliance with Regulation E will clearly drive up the total cost of account maintenance and access, and less stringent alternatives for ETA and other voluntary accounts should be considered. For example, if a written receipt with a recipient's account balance is given at the time of each access to the account, a monthly mailed statement should not be necessary. If Treasury determines that statements are necessary, then consideration should be given to the mailing of quarterly, rather than monthly, statements to reduce the costs.

Another area Treasury should consider to make the accounts less costly is to structure the accounts as simply as possible. Other than state benefit electronic deposits, no other electronic or cash deposit should be allowed. Similarly, third party electronic payments should not be provided. The individuals utilizing these accounts are accustomed to making such payments by money orders or in cash. If third party payments are provided, they should be limited to a set number and the charge for each payment clearly disclosed as additional. The account should allow the beneficiary to leave funds on deposit, which may foster more savings. Due to the low margin expected on providing the accounts, the payment of interest on balances should not be required.

Finally, Treasury has requested comments on "which account design would provide the appropriate opportunity for non-financial institutions to participate in the delivery of services to federal payment recipients." Travelers Express welcomes Treasury's

consideration of alternative ways of providing benefits to recipients, and encourages Treasury to reexamine its proposed definition of "authorized payment agent" and the two exemptions for representative payees and investment accounts established by securities brokers or dealers.

Treasury should consider expanding the definition of "authorized agent" to include licensed money transmitters. Allowing licensed money transmitters to participate actively and fully in providing these accounts would lead to more healthy competition, yet ensure safety and soundness, and at the same time provide flexibility in the marketplace. It would also provide the necessary flexibility to ensure the system created today by Treasury will fit with the marketplace of tomorrow. Dramatic changes are occurring in how consumers are conducting their financial affairs. Ensuring the full participation of licensed money transmitters will go a long way toward ensuring the unbanked are able to take advantage of similar technological advances.

CONCLUSION

In conclusion, it is Travelers Express' position that state licensed money transmitters partnering with a federally-insured financial institution offer the following benefits for EFT'99:

- State law regulation
- State banking department oversight of money transmitter operations
- Strict compliance requirements
- Safety and soundness
- Access to the unbanked

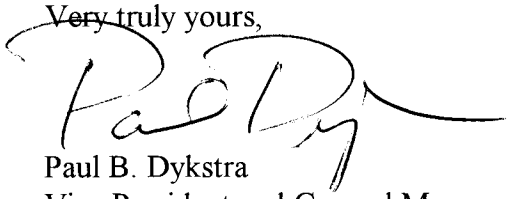
Treasury should carefully consider modified Regulation E requirements for EFT'99 due to the high cost of full compliance.

Travelers Express fully recognizes the difficulties of designing a framework to accomplish the directives of the Debt Collection Improvement Act of 1996, especially in light of the diversity of benefit recipients, both culturally and socioeconomically. Allowing flexibility in the structuring of benefit accounts, while at the same time requiring safety and soundness standards, will encourage broader participation by benefit recipients and will foster competition and innovation by service providers. The result will be not only the expected savings to the federal government from the transition to electronic delivery of benefit payments, but the ultimate goal of efficient, inexpensive, secure and readily available access by benefit recipients.

Travelers Express fully supports the position outlined in the comment letter filed on behalf of the Non Bank Funds Transmitters Group.

As always, Travelers Express would be willing to meet with representatives of the Treasury Department at any time to discuss our comments or concerns of the industry.

Very truly yours,



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