

APPENDIX III

The US steps-up to control the Parallel Market

After the Massachusetts Division of Banks sent all licensed money transmitters in the state the industry guidance⁶³ in Appendix II warning them on the use of “*unauthorized third party payment providers or systems*”, in April 2013 it moved to close, in conjunction with other states, a series of Brazilian Money Transmitting Companies⁶⁴, the largest one of them, Braz Transfers, Inc., of Saugus, MA.

The Braz Transfers case⁶⁵ is interesting because even if the company alleged that its transfers were done legally through their correspondents in Brasil, Banco Rendimento and Banco Paulista, Division of Banks examiners selected remittances to Brazil to each of the Banks, asked the Banks to report if those remittances were processed through them and with the collaboration of both Banks it was proven that “*21 of the 40 transactions had not been remitted through Banco Rendimento*” and “*11 of the 20 transactions had not been remitted through Banco Paulista, S.A*”. Authorities in several countries are tracing the third party payment providers through which those illegal remittances were sent.

Although the US authorities have moved to crack down on US Money Transmitters using these third party payment providers, Europe, especially the United Kingdom where they are mainly located, has not moved to control such illicit activity. As an attorney clearly explained to me: “*Unless each jurisdiction clearly states that no licensed entity can make payments to another country through unlicensed entities in that destination country it is hard for local enforcement agencies to act*”. The Massachusetts Division of Banks acted on the grounds that Braz Transfers “*falsified payment receipts*” to deceive the supervising body, which gave them ground to act.

It is my personal experience, visiting money transfer companies in the US, Europe and other regions, that a very large volume of remittances to Brazil is still flowing through the parallel market and that compliance officers in such entities are not totally aware of the risks their companies are facing and company officials are pleased with the foreign exchange differential they receive working with these third party payment providers to Brazil.

Maybe these recent actions by law enforcement will deter other money transmitters in the US and in other parts of the world to avoid the risk and discard these third party payment providers and decide one and for all to work directly with the large number of authorized entities in Brazil providing a fast, secure and efficient payment of remittances in the country.

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⁶³ <http://www.imtconferences.com/docs/MA-Div-of-Banks-Industry-Letter-July-2012.pdf>

⁶⁴ <http://www.finextra.com/blogs/fullblog.aspx?blogid=7577>

⁶⁵ <http://www.mass.gov/ocabr/banking-and-finance/laws-and-regulations/enforcement-actions/2013-dob-enforcement-actions/braz04012013.html> - download: <http://www.imtconferences.com/docs/2013/Braz-Transfers-Cease-and-Desist-2013.pdf>