



ARIZONA MONEY TRANSMITTERS

SAFEGUARDS PROTECT CONSUMERS USING LICENSED MONEY TRANSMITTERS

Arizona Money Transmitters¹ are licensed and supervised by the Arizona Department of Insurance and Financial Institutions. Money Transmitters that would otherwise need a license may be accepted to enter the Attorney General’s Regulatory Sandbox Program (RSP) to test “innovative” products and services.² Money transmitters are exempt from state licensing requirements under a law enacted in 2019 if the service is delivered largely electronically, is for \$6,000 or less per contract, and the provider has aggregate profit up to \$150,000 per year.³

Types of Companies Licensed as Money Transmitters in Arizona

Licensed money transmitters include wire transfer companies that accept funds from their customers and deliver that money to a recipient, such as Western Union or MoneyGram. Others provide wallet services for consumers, such as PayPal and Square, Inc. Specialized services include JPay, Inc. which handles funds sent electronically to prisoners in Arizona facilities. Prepaid card companies are licensed as money transmitters, including Green Dot Corporation, NetSpend Corporation, American Express Prepaid Card Management Corporation, and CheckFreePay Corporation.

A company that handles payments for cannabis stores, 36money, LLC, is a licensed money transmitter and settles transactions with customers using the Dash blockchain. Bill payment companies and applications include AvidXchange, Inc. and Alipay, as well as U.S. Payments, LLC in Tulsa, which has 27 licensed branches in Arizona. National cryptocurrency exchanges licensed in Arizona include bitFlyer USA, Inc.; Bitstamp USA, Inc.; Bittrex, Inc.; Chime Inc.; Circle Internet Financial, Inc.; Coinbase, Inc.; CoinX, Inc.; Coinme Inc.; and CoinZoom, Inc.

Check cashers are licensed as money transmitters. Check Into Cash of Arizona, Inc. now licenses its parent company and 22 branches in Arizona. Dolex Dollar Express, Inc. has a total of 35 licensed locations.

¹ Ariz. Rev. Stat. Ann. §§ A.R.S. 6-1200 *et. seq.* at <https://www.azleg.gov/arsDetail/?title=6>, See Chapter 12

² <https://www.azag.gov/fintech>

³ Ariz. Rev. Stat. Ann §44-171(B)

Money Transmitter Law Requires a License

Most money transmitters are licensed by the Department of Insurance and Financial Institutions per Arizona's Money Transmitter law A.R.S. § 6-1201(11) which defines a "money transmitter" according to the activities performed, such as "Sells or issues payment instruments," "Engages in the business of receiving money for the transmission of or transmitting money," "Engages in the business of exchanging payment instruments or money into any form of money or payment instrument," and "Engages in the business of receiving money for obligors for the purpose of paying that obligor's bills, invoices or accounts."

A company is also a money transmitter if it "Meets the definition of a bank, financial agency or financial institution as prescribed by 31 United States Code section 5312 or 31 Code of Federal Regulations section 1010.100."

Licensing by DIFI is handled electronically through the NMLS online portal. See the page at <https://dfi.az.gov/money-transmitters-dfi> for DIFI Money Transmitter licensing.

Application fees for Money Transmitter licensing are set by law at \$1,500 plus \$25 for each branch office and authorized delegate to a maximum of \$4,500. Annual renewal fees are \$500 per company plus \$25 for each branch or authorized delegate.⁴ The Attorney General charges \$500 for companies, including Money Transmitters, to apply to enter the Regulatory Sandbox Program.

Arizona Department of Insurance and Financial Institutions Money Transmitter Licensees

As of December 2020, the Arizona Department of Insurance and Financial Institutions licensed 162 companies as Money Transmitters with 279 licensed locations. Of those licensed locations, only **three** of the companies list headquarters in Arizona although several out-of-state licensees have branches located in the state.⁵

The Largest Money Transmitters by number of licensed locations are:

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|----------------------------------|------|
| Dolex Dollar Express, Inc. | (35) |
| U.S. Payments, LLC | (28) |
| Check Into Cash of Arizona, Inc. | (23) |
| TouchPay Holdings, LLC | (21) |
| Keefe Commissary Network, LLC | (9) |

⁴ A.R.S. §§ 6-126 (A) (29) and (C)(9). <https://www.azleg.gov/ars/6/00126.htm>

⁵ Money Transmitter licensee roster obtained via public records request December 2020. On file with CEI.

Large national and international money transmitters typically have one license in Arizona, such as Apple Payments Inc.; Facebook Payments Inc.; Google Payment Corp.; Green Dot Corporation; MoneyGram Payment Systems, Inc.; NetSpend Corporation; and PayPal, Inc.

Safety and Soundness Requirements for Licensed Arizona Money Transmitters

Arizona requires licensed money transmitters to meet several financial standards to ensure they stand behind the funds they hold, transmit, or convert for consumers. These safety and soundness requirements include:

Bond Requirement. The size of the bond depends on the number of authorized delegates and locations, starting at \$25,000 for five or fewer. For a company with more than five delegates/locations and up to twenty, the bond is \$100,000, with an additional \$5,000 for each delegate/location more than 20 but fewer than 201. The maximum bond is \$500,000. (§ 6-1205)

Net Worth Requirement. At least \$100,000 in net worth maintained, plus an additional net worth of \$50,000 for each location or authorized delegate located in Arizona up to a maximum \$500,000. (§ 6-1205.1)

Permissible Investments. These are either market value of not less than the aggregate amount of all of its outstanding payment instruments or a net carrying value of not less than the aggregate amount of all of its outstanding payment instruments, provided the market value of investments is at least 95 percent of net carrying value. The Director of DIFI may limit or set rules on types of investments. "Permissible investments" are defined in § 6-1201(14) as money on hand or on deposit in the name of the licensee; certificates of deposit or other debt instruments of a bank, savings and loan association or credit union; bills of exchange or time drafts drawn on a bank; commercial paper with a high rating; securities or obligations backed by a government entity; stocks and bonds with a high rating; and any receivable due the licensee from its authorized delegate under a contract with limits. (§ 6-1212)

Liability of Licensees. "Each licensee is liable for the payment of all moneys covered by payment instruments that it sells or issues in any form in this state..." (§ 6-1214)

Money Laundering Provisions. Arizona law at § 6-1241 requires reports by licensed money transmitters to the Attorney General of transactions of \$5,000 or more if the transmitter has reason to know or suspect that the activity involves funds from illegal activities or has no apparent business or lawful purpose. Suspicious Activity Reports must be filed for transactions of \$10,000 or more. The transmitter must keep customer information for any transaction of \$1,000 or more, including name, social security or taxpayer identification number, verified photographic identification, occupation,

residential address, and customer's signature. Section 6-1242 authorizes the Attorney General to conduct investigations into money laundering and failure to file a required report.

Sandbox Money Transmitter

As of April 2021, one money transmitter is operating in the Regulatory Sandbox Program in the Office of Attorney General. Zona Digital Commodity, LLC (d/b/a "Alta") was admitted July 11, 2019. The URL for the Alta website is <http://whatisalta.com/>. The RSP Sandbox Participant roster describes Alta as "A financial services "club" using money transmission services in connection with the sale of digital assets aimed at providing a cash management solution for licensed medical marijuana providers."⁶ The users of Alta are businesses, not consumers.

The "sandbox" law permits money transmitters to make individual transactions up to \$2,500 and an aggregate of \$25,000 money transmitter transactions, per consumer, to a total of 10,000 consumers during the two-year trial period. If a money transmitter participant is judged to be well financed, it can provide services for up to 17,500 consumers with individual transactions up to \$15,000 and a total aggregate of \$50,000 per consumer.⁷ There is no public reporting on the activities of companies in the Attorney General's Sandbox.

No Safety and Soundness Requirements for Sandbox Money Transmitters

The Arizona Regulatory Sandbox law does not require that sandbox participants that would otherwise be required to be licensed as money transmitters comply with any Arizona Money Transmitter law provisions if admitted to the "sandbox." The law permits sandbox money transmitters to handle up to \$250,000,000 in transactions (10,000 consumers x \$25,000 total transactions per consumer) and for "financially sound" money transmitters in the sandbox \$875,000,000 in transactions (17,500 consumers x \$50,000 total transactions) without any *required* protections. The Attorney General has the authority to require individual sandbox participants to comply with state law.

No Protections Apply to Money Transmitters Under the "Rivero" Amendment

Pursuant to HB 2146 sponsored by Rep. Rivero in 2019, section 44-171 Exemption from licensure, certification, registration or other authorization to act was added to the law.

Money transmitters are permitted to operate without a Money Transmitter license from DIFI or admission to the Regulatory Sandbox Program by the Office of Attorney General as long as minimal criteria of this law are met: The contract is between two or more private parties; the subject of the contract is substantially delivered by electronic means; the contract specifies the laws from which the person is exempt; the subject of the contract is lawful; the exemption does

⁶ <https://www.azag.gov/fintech/participants> viewed 4/6/2021

⁷ A.R.S. §§ 41-5605(B)(4), 41-5605(B)(2) and 41-5605(C)(1)

not materially affect a third party; the exemption does not clearly harm or damage public health or safety; and the subject of the contract does not exceed \$6,000 per transaction between any two parties and \$150,000 in total aggregate profit in the previous calendar year for all parties related to the services provided in the contract.⁸

Since there is no supervision or reporting for companies that take advantage of this new law, it is unknown how many, if any, money transmitters are operating without a license, without a bond, and without complying with the safety and sound protections of the money transmitter law that applies to licensed money transmitters. It is not known if any money transmitters are using Section 44-171 to avoid filing anti-money laundering reports with the Office of Attorney General.

⁸ A.R.S. Title 44, Chapter 1, Article 6 at <https://www.azleg.gov/ars/44/00171.htm>