To Market, To Market Jiggety-Jig!
How to Maintain Compliance When Launching Emerging Fintech Products from Business, Compliance, Bank, Legal and Regulatory Perspectives

SPEAKERS:

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The Product and Engineering Team at Loot.com saw the recent Fortnite tournament and freaked out.
Case Study 1: Digital/Gaming Payments

Loot.com, a digital content start-up, has decided to get into payments for gaming.

They see a $2-5 billion dollar opportunity.

Gaming assets and currency exchange are growing 22% year over year offering:
- Accounts
- Loot boxes, points, skins
- Virtual currency
Case Study 1: Product Design Challenges

The product team’s roadmap for the remainder of 2019 includes:

<table>
<thead>
<tr>
<th>Product Idea</th>
<th>Capability/Product needed</th>
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<tbody>
<tr>
<td>Creating a digital goods marketplace so anyone can buy/ sell virtual goods and digital content</td>
<td>-Teen Accounts&lt;br&gt;-Global expansion of accounts&lt;br&gt;-New ways for sellers to get paid&lt;br&gt;-Support all forms of digital (games, skins, characters, accounts, e-books, tickets, etc)</td>
</tr>
<tr>
<td>Address high fraud and chargeback rates</td>
<td>-Add funds to balance (stored value)&lt;br&gt;-Offer gift-cards&lt;br&gt;-Load to pre-paid to withdraw</td>
</tr>
<tr>
<td>Expand platform to create and exchange that includes all forms of digital currency</td>
<td>-Cross-platform goods&lt;br&gt;-Support Bitcoin, V-card, Linden dollars exchanges</td>
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Case Study 1: Digital/Gaming Payments

Product wants to launch the Loot.com Digital Marketplace in the next 4-6 weeks at the Las Vegas Video Gaming Convention.

“Launch a Digital Marketplace”
- Product wants to allow listings for gaming content: loot, skins, accounts, weapons and characters using gaming account verification status instead of Loot.com to reduce friction.
- 2nd Phase - Product wants to allow sell any kind of account.
Case Study 1: Digital/Gaming Payments

“Create Alternative Payment methods”
- Most sites have a complicated fee structure and are prone to high fraud rates; as high as 25% chargebacks.
- To remove some of this risk the Product team wants to offer a load funds to balance feature and offer gift cards in time for Christmas.

“Create Decentralized Currency Exchange”
- New startups have created decentralized marketplaces using blockchain, but are all extremely early-stage with no market traction yet. Most marketplaces can only spend currency within the platform.
  - Need to exchange multiple types of digital and crypto currency.
  - Need to be able to withdraw to US dollars and send to other accounts or provide loads to pre-paid cards.
“Expand Customer Base”

- The demographics for gaming mean that Product needs to target different types of customers than are currently allowed on Loot.com, including non-US and teens.
  - Based on market research, Teen spending and gaming accounts are on the rise: Product wants to allow accounts for users (13-18). Also want to market gift cards (and the new Loot.com gift card!) focused on the teen segment in Christmas promotions.
- Product team wants to allow transactions from Europe and Asia, as many platforms are based there.
- Offer Loot.com accounts for gaming exchanges OR send sales/escrow balance as a money transfer.
Case Study 1: Teen Account Sign Up Flow

1. Parents sign up for an account on Loot.com

2. Parent Account will need to validate their identity and show proof of email verification prior to being allowed to add teen account

3. Parents can designate a specific email address as the teen account

4. Parent will have to provide proof that teen account is 14 or 16+

5. Once the teen’s age has been set, Parents are required to sign TOS making them liable for teen’s actions on Loot.com

6. Parent sets controls over what the teen account can see and what they can buy

7. Teen accounts can only purchase from balance on account that have been pre-loaded from Parent Account

8. Full account details of teen account is shared with the parent account to ensure clarity and safety

Parent Account pre-loads money into teen account balance

Parent Account Sets Permissions

Teen Account TOS

Proof of age

ID Validation Check

Teen

Shared with Parent Account

Messaging History

Purchasing History

Balance

Parent

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Case Study 1: Challenges or Issues

- **Compliance**
  - AML Risks
  - Privacy
  - ID Theft/Fraud
  - Marketing

- **Legal/ Regulatory**
  - Licensed? Changes?
  - Notifications and Timing
  - TOS (internal & external)
Case Study 2: Marketplace/Gig Economy Payments


- 3 in 10 adults engaged in at least one gig activity in the prior month, with a median time spent on gig work of 5 hours.
- Perhaps surprisingly, little of this activity relies on technology: 3% of all adults say that they use a website or an app to arrange gig work.
Case Study 2: Marketplace/Gig Economy Payments

- Gigifi is a “unicorn” start-up (valued at over $1B), which connects individual services providers (“Giggers”) to consumers online who need stuff done around their home, office or even virtually!
- Users just list the task that needs doing through the mobile app, and Gigifi’s platform immediately connects them to a Gigger who can get it done . . . and fast!
- The Gigifi Product design team wants to take Gigifi to the next level in FY 2019, in the U.S. and globally.
Case Study 2: Marketplace/Gig Economy Payments

The product team’s roadmap for 2019 includes launching the ability for users to:

<table>
<thead>
<tr>
<th>Receive payments via:</th>
<th>Pay Giggers from:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Gigifi stored value (SV) account.</td>
<td>• SV account.</td>
</tr>
<tr>
<td>• Direct deposit to bank account.</td>
<td>• Direct from bank account or credit/debit card.</td>
</tr>
<tr>
<td>• Gigifi prepaid card.</td>
<td>• External cryptocurrency wallet.</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Stored Value Accounts:</th>
<th>Tips/Gratuity</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Automatically open upon sign up.</td>
<td>• Voluntary payment to Giggers.</td>
</tr>
<tr>
<td>• Load from bank account, credit/debit card or third party</td>
<td>• No min/max.</td>
</tr>
<tr>
<td>cryptocurrency wallet.</td>
<td></td>
</tr>
<tr>
<td>• Giggers can receive payment to SV account.</td>
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</table>

Expand User Base to Small Businesses.
Case Study 2: Marketplace/Gig Economy

**Buyer**
- Gigifi Stored Value Acct.

**Gigifi**
- Ph 1: Digital Services Marketplace
- Ph 2: V-currency Exchange

**Services Provider**
- Gigifi Stored Value Acct.
- Gigifi prepaid card
- Bank or third party remitter
- Ext. Crypto Wallet
- Credit/Debit Card
Case Study 2: Product Design Issues/Challenges

The Product Team has some interesting ideas to “reduce user friction” and create a first-class services marketplace:

“Stored Value Accounts for All!”
- Want a stored value account to be opened for all users upon sign up.

“Receive Instant Payment!”
- Want Gigifi to “pre-fund” payments to the Giggers from its corporate funds, so they get “instant payment.”

“Create Community by Tipping!”
- Want to promote Gigifi as a community of people helping people.
- Want any user to be able to tip any other user, at any time, for any reason (regardless of whether they did a job for them through Gigifi).
Case Study 2: Product Design Challenges

“Receive Instant Payment!”

• Payment would be released to Gigers “in minutes,” once the Gigger marks the job as complete in the app.
• Funds in a user’s SV account would be the default payment method, followed by bank account via ACH, and then cc/debit cards.
• Product also wants buyers to be able to pre-pay for services.

1. **Licensing/Regulatory Structure** - Money Transmission Licenses required?
   • Who will issue and hold stored value accounts?
   • How are the SV accounts funded? How can the SV be used?
Case Study 2: Challenges or Issues

“Easy Onboarding – Streamlined User Interface!”

- Product only wants to collect 1) name and 2) mobile number, in order to participate in Gigifi. If we really have to collect SSN, only want to collect last 4 digits. And certainly no birthdate – too intrusive!

- Anti-Money Laundering (AML)/Know Your Customer (KYC) Obligations
  - Bank Secrecy Act obligation of a MSB to have effective AML program
  - Federal Funds Transfer and Travel Rule
  - FinCEN Prepaid Access Rule - Name, address, DOB and SSN; limited exceptions.
  - State laws - specified KYC information above certain dollar thresholds (e.g., AZ, FL, NM)
Case Study 2: Product Design Challenges

“Phase 2 will really put Gigifi on the cutting edge. We will accept cryptocurrency, exchange it for the buyer, and pay out to the services provider’s external crypto wallet in a different cryptocurrency.”

- The Product Team thinks this is a really “value add” service feature and hopes they can avoid it being regulated.

- Good news and bad news – still regulated as money transmission in most states, some exceptions.
- May be differences in how you satisfy compliance obligations (e.g., permissible investments)
Case Study 2: Compliance Tips

● **Roadmap, Roadmap, Roadmap!**
  ○ Encourage internal processes to map out the product features “wants” and “must haves”, as early as possible, so Compliance/Legal can advise on how to get where you want to go.

● **Be Open With Your Advisors – Or Else, We Don’t Know What We Don’t Know.**
  ○ Product should give as much information as possible to Compliance/Legal to help advise on and Compliance should engage with Product both formally and informally.

● **Get Partner Feedback Early in Product Design.**
  ○ Discuss the funds and data flows early with external partners such as banking partners, card processors/acquirers, payment networks, or other entities that help process the payments.

● **Remember, Regulators Can be a Resource!**
  ○ Develop a rapport and regularly educate your regulators on your business, so if you need advice on how to approach a regulatory requirement or to request an exception, everyone is up to speed and can help achieve a result that works for your business.
Case Study 3: Bank and near-bank products

Two former bankers teamed up with an app developer to build their idea of the perfect banking platform to help consumers manage their funds.

**Goals:** Provide higher yield checking accounts (both FDIC insured).
- Non-interest bearing wallet accounts with a card.
- Free transfer of funds between users on the platform and nominal fee for transfers outside the platform.
- Easy to use user interface (UI) with 24/7 customer support.

They initially soft launched with the app and a business account in the name of the business at a bank that considered them a tech company.

The founders entered the US market without a clear understanding about the regulatory landscape.
Case Study 3: Bank and near-bank products

• The app functionality included the checking account, wallet and money transfer components.
  • They have no licenses or banking charter.

• Quickly realizing their mistake, the app was removed from the app store and any existing users refunded balances held.

• New investors however, were interested and excited by the soft launch.

➢ The founders are now planning to bring the app back to market as quickly as possible and have hired a knowledgeable compliance officer to build their compliance program and pursue appropriate licensing.
Case Study 3: Bank and near-bank products

New Product Description:

- Easy to use money management tools including:
  - Easy onboarding with minimal friction
  - Budget breakdown and recommendations
- Ability to set up automatic transfers to high yield checking, pay bills, or to investment accounts
- Receive funds from anyone without sharing your personal information, via a QR code
- Cards, physical and digital
- Instantaneous notification of new purchases (optional) to combat fraud or account takeover
Case Study 3: Funds Flow - Phase 1

FBO Banking Partner would stand-in for licensing and manage all aspects of the program.
Case Study 3: Funds Flow - Phase 2

Partner Bank

Client trust accounts in name of the bank

Client trust account in name of company

Checking Account

Recipient

Wallet

FBO Banking Partner would manage the checking account.

Company would obtain licensing to manage the wallet.

Cards: Digital and Plastic

Customer
Case Study 3: Challenges or Issues

- Managing multiple regulatory regimes
  - UI
  - TOS
  - Disclosures
  - Information sharing and safeguarding
  - Marketing
  - BSA (CIP, KYC and SARs)
- Segregation and safeguarding of funds
- Partner Relationships and expectations
Case Study 3: Compliance tips

- Maintain open lines of communication with banking partners and share information regularly.
- In the initial FBO stage, understand that the bank bears the risk of the entire program and their regulators and stakeholders may have questions about the program.
- Leverage audits to demonstrate compliance with regulations and compliance obligations. Think beyond the BSA scope to include additional testing.
- Strategically plan long term and short term product changes.
Internal Product Review

1. ASSESS
   Understand nature of request & obtain data

2. ENGAGE
   Reach out to subject matter experts and partners for support

3. REVIEW
   Evaluate level of Compliance, Regulatory, Brand or customer impacts

4. ADVISE
   Summarize assessment & provide Compliance requirements

5. SIGNOFF
   Obtain signoff from all stakeholders

Identify:
- Product Type
- Business Impact
- Relationship

Engage Internal Compliance and Partners for Collaboration:
- Compliance functions (Legal, UX, Privacy, Brand, etc)
- Main Partners (Legal & UX)
- Other verticals e.g. Sales, Platform

Provide Compliance Assessment

Hand off assessment solution for implementation:

MTTRA
Questions?