



## Department of Banking Issues Consumer and Industry Advisory on Money Transmission

July 20, 2022

The money transmission industry is rapidly evolving as the number of entities participating in the space increases and new innovative business models are developed. The increased use of technology to enable immediate payment mechanisms, as well as the explosion of virtual currency, has caused significant disruption to traditional money transmission systems. Consumers have become accustomed to using money transmitters in their daily lives online, whether or not they realize or understand the regulatory landscape that applies to such transactions. Through this advisory, the Department of Banking (“Department”) seeks to highlight some common activity requiring money transmission licensure in Connecticut and provide guidance for those engaging in such activity or considering money transmitter licensure in Connecticut.

### When is money transmission licensure required?

Sections 36a-595 to 36a-612, inclusive, of the Connecticut General Statutes set forth the requirements for money transmission licensure in Connecticut, and Section 36a-596(9) of the Connecticut General Statutes defines “money transmission” as “engaging in the business of issuing or selling payment instruments or stored value, receiving money or monetary value for current or future transmission or the business of transmitting money or monetary value within the United States or to locations outside the United States by any and all means including, but not limited to, payment instrument, wire, facsimile or electronic transfer.”

Generally speaking, this means that any time a person takes possession or control of monetary value belonging to another person for the purposes of holding such monetary value for a period of time or transmitting monetary value to a third party, such person engages in money transmission. Section 36a-596(8) of the Connecticut General Statutes defines “monetary value” as “a medium of exchange, whether or not redeemable in money.” Monetary value includes fiat currency, virtual currency, payment instruments<sup>1</sup> and stored value<sup>2</sup>. Examples of money transmitters include bill payers, payroll processors, persons that accept funds for merchants, and entities that provide virtual accounts through which individuals can send money to family or friends. Issuers and sellers of payment instruments and stored value, such as prepaid cards, money orders and virtual accounts, are also money transmitters. Each circumstance is unique and the Department has issued numerous opinions indexed here, beginning on page 141, [Index to Banking Opinions and Decisions \(ct.gov\)](#)<sup>3</sup>, which further elaborate on money transmission activity requiring licensure in Connecticut.

Pursuant to Section 36a-597 of the Connecticut General Statutes, money transmission is considered to occur in Connecticut and be subject to licensure by the Department when the money transmitter:

- (1) Has a place of business located in this state, (2) receives money or monetary value in this state or from a person located in this state, (3) transmits money or monetary value from a location in this state or to a person located in this state, (4) issues stored value or payment instruments that are sold in this state, or (5) sells stored value or payment instruments in this state.

It is also important to note that there are a handful of exemptions to money transmission licensure set forth in Section 36a-609 of the Connecticut General Statutes. Federally insured banks and credit unions are among the persons exempt from money transmission licensure because they are already extensively regulated. The Department has also issued a no action position stating that it will not take enforcement action against certain persons that engage in money transmission without a license when they perform such activity as an agent of payee. The position is set forth here: [10-24-17 Memorandum re: Agent of Payee \(ct.gov\)](#), and primarily covers persons that accept funds on behalf of merchants and certain persons already licensed by the Department such as mortgage servicers, student loan servicers and consumer collection agencies, if certain conditions are met.

### Virtual Currency

Licensure may also be required of persons that engage in virtual currency transactions to the extent they take possession or control of virtual currency belonging to another person, or transmit or receive virtual currency for another person. Section 36a-595(18) of the Connecticut General Statutes defines “virtual currency” as “any type of digital unit that is used as a medium of exchange or a form of digitally stored value or that is incorporated into payment system technology.” This includes the numerous commonly termed “virtual currencies” such as Bitcoin and Ethereum, as well as stablecoins and any other digital asset that is used as a medium of exchange. Anytime a person engages in the business of holding a wallet of virtual currency for another person in Connecticut, they are engaging in activity requiring licensure in Connecticut. In addition, persons that exchange virtual currency with fiat currency or operate virtual currency ATMs and who may allow for transmission of such virtual or fiat currency to a third party require money transmission licensure. Additional guidance concerning virtual currency exchanges and ATMs is available here: [Virtual Currency Money Transmission FAQs \(ct.gov\)](#).

### How do I seek licensure?

The Connecticut Department of Banking licenses persons that engage in money transmission via the Nationwide Mortgage Licensing System and Registry, also known as “NMLS”. NMLS is used by most states<sup>4</sup> that license money transmitters and the procedure for licensure in Connecticut is set forth here: [CT Money Transmission License New Application Checklist \(nationwidelicingsystem.org\)](#).

Persons seeking licensure in Connecticut must first pay application fees on NMLS and fill out an application, including an MU1 form, and disclose pertinent information concerning all control persons on an MU2 form. See [Manage Company \(MU1 & MU2\) and Branch \(MU2 & MU2\) Licenses/Registration \(nationwidelicingsystem.org\)](#). Control persons are subject to credit report review and criminal background checks. All applicants must also register with the Connecticut Secretary of State as an entity doing business in Connecticut. The application process requires, among other items, the submission of financial statements, a business plan, flow of funds explanation, management chart and policy addressing federal Anti-Money Laundering and Bank Secrecy Act requirements. Applicants must also demonstrate sufficient net worth and obtain a surety bond in favor of the Commissioner for protection of Connecticut consumers and businesses.

The Department maintains a public list of all persons licensed as a money transmitter in Connecticut here: [Money Transmitters Licensed in Connecticut](#), and a search to determine whether any particular entity is licensed as a money transmitter in Connecticut can be performed via Consumer Access on NMLS here: [www.NMLSCConsumerAccess.org](#). Along with identifying information and licensure status, enforcement actions taken by states for violations of law are publicly available on NMLS.

### What is the benefit of licensure?

Licensure ensures regulatory oversight over persons that accept funds of Connecticut consumers and businesses and guards against financial loss and criminal activity. All persons that are licensed as money transmitters by the Department must undergo extensive vetting concerning financial responsibility and criminal background. The Department is prohibited from issuing licenses to individuals on the Specially Designated Nationals and Blocked Persons List prepared by the United States Department of the Treasury. In addition, regulatory and litigation history of applicants is reviewed by the Department prior to licensure.

Upon licensure, all money transmitters are required to maintain a surety bond in an amount between \$300,000 and \$1 million, depending on their money transmission volume in Connecticut. Bonds provide a safety net in the event of loss by Connecticut consumers and businesses. Although claims are rare, surety bonds have resulted in reimbursement to individuals, such as in 2016 when a money transmission licensee, Century Union, failed to transmit over \$200,000 to intended recipients on behalf of Connecticut consumers. See [Century Union Services, LLC et al - Findings of Fact, Conclusions of Law and Order \(ct.gov\)](#).

Pursuant to federal and state law, money transmitters are also required to know their customers. Such reporting and oversight requirements of money transmitted within and from the United States helps to track financial activity in the United States, as well as stop and deter criminal and terrorist activity.

### What are the penalties for failing to obtain licensure?

Engaging in money transmission in Connecticut without a license is a serious violation and may result in numerous sanctions by the Department and criminal authorities. Pursuant to Section 36a-50 of the 2022 Supplement to the General Statutes, the Department may seek a penalty of up to one hundred thousand dollars (\$100,000) per violation, as well as restitution and disgorgement.

Unlicensed money transmission in Connecticut is also a crime. Pursuant to Section 36a-597(b) of the Connecticut General Statutes, “[a]ny person who knowingly engages in the business of money transmission in this state, without obtaining a license, as provided in sections 36a-595 to 36a-612, inclusive, shall be guilty of a class D felony.”

The Department has seen a recent increase in the number of entities engaged in unlicensed money transmission activity, many of whom provide money transmission services via the Internet or utilizing virtual currency. The Department will continue to address such activity through investigations and enforcement actions when appropriate. Most instances of unlicensed activity could easily be avoided with adequate due diligence. The Department advises industry participants to determine whether they need to apply for a money transmitter licensure pursuant to Sections 36a-595 to 36a-612, inclusive, of the Connecticut General Statutes, and obtain such licensure *prior* to engaging in money transmission or soliciting Connecticut consumers and businesses.

Should you have any questions concerning this advisory, money transmission activities in Connecticut or the need for licensure, please do not hesitate to contact Jason Gworek at Jason.Gworek@ct.gov. You may also wish to seek legal counsel to assist you in determining whether your activity requires money transmitter licensure in Connecticut.

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<sup>1</sup> Section 36a-596(11) of the Connecticut General Statutes defines “payment instrument” as “a check, draft, money order, travelers check or electronic payment instrument that evidences either an obligation for the transmission of money or monetary value or payment of money, or the purchase or the deposit of funds for the purchase of such check, draft, money order, travelers check or electronic payment instrument.”

<sup>2</sup> Section 36a-596(15) of the Connecticut General Statutes defines “stored value” as “monetary value that is evidenced by an electronic record. For the purposes of this subdivision, ‘electronic record’ means information that is stored in an electronic medium and is retrievable in perceivable form.”

<sup>3</sup> Copies of legal opinions can be obtained by contacting Emily Bochman at [emily.bochman@ct.gov](mailto:emily.bochman@ct.gov).

<sup>4</sup> Additional information concerning the state system of supervision for money transmitters is available here: [Chapter 4 - Overview of Money Service Businesses \(csbs.org\)](#)