

# FDIC TAKES ACTION AGAINST BANCORP AND DISCOVER



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What's Next In Payments®

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The Federal Deposit Insurance Corp. (FDIC) is stepping up its efforts to quash crooks' ability to hide illicit funds, as it recently issued at least two consent orders against financial-services providers to bolster their protections against "unsafe or unsound banking practices."

The agency's primary objective: compliance with anti-money laundering (AML) provisions under the Bank Secrecy Act (BSA).

The FDIC this month issued consent orders against both prepaid card issuer Bancorp Bank and Discover Financial Services aimed at improving their compliance with the BSA provisions.

The FDIC declined to comment on the consent orders or on whether more might be forthcoming. A search on the FDIC's website found four other consent orders since November regarding BSA/anti-money laundering compliance, but none involved institutions near the sizes of Bancorp Bank and Discover.

Bancorp Bank's decree has especially far-reaching implications. PYMNTS.com was unable to secure any comments or statements from the institution by deadline.

Under the decree, in which Bancorp Bank admitted to no wrongdoing, the bank may continue to issue prepaid cards through existing distribution channels, contracts with third-party prepaid program managers or card processors. However, it may not enter into any new contractual relationships with any third-party prepaid card processors or program managers, except for benefit and nonreloadable cards.

"With respect to general purpose reloadable card activities, the bank shall not establish any new prepaid card program or issue any new prepaid card product, or establish any new distribution channel for existing prepaid card products," the decree notes. The decree also places similar restrictions on the bank's future credit card merchant-acquiring activities and the third parties it works with providing those services, including independent sales organizations.

But the decree's impact on the bank's prepaid operations will be the most far-reaching. According to Nilson Report, as of 2013, Bancorp by far is the nation's largest prepaid issuer with \$30 billion in volume. Metabank, which faced its own crackdown that limited future partnerships in 2010, was the next largest at \$17 billion.

"As the largest issuer of prepaid cards in the U.S., this will create disruption for many program managers and innovators as they look for alternatives to keep new programs moving forward," Gloria Colgan, managing director of Market Platform Dynamics, tells PYMNTS.com. "The consent order is fairly limiting, which will make it difficult for their current clients to easily launch new programs and products without having to seek a new partner."

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programs and products without having to seek a new partner.

Indeed, it's likely more prepaid card providers will seek other partnerships.

At a minimum, Bancorp Bank's situation will likely create a ripple effect of product or program delays while innovators and program managers try to find a new bank for future programs, Colgan said.

Moreover, she said, it sends a warning shot across the bow of other institutions that they need to button up their compliance with anti-money laundering rules.

"I would think this action sends a message to every other prepaid issuer that they better be buttoned up on AML processes and work very closely with their clients," Colgan said. "Prepaid is a great product and platform for innovation and money movement, but issuers will have to build solid processes and tools to ensure they stay on top of it or risk potentially large ramifications."

In Discover's consent decree, where it similarly admits to no wrongdoing, there is no similar mention that would restrict Discover's existing or future initiatives or relationships. Instead, the company and its Discover Bank agreed to increase the supervision and review of the bank's BSA compliance program.

Within 120 days, it must develop, adopt, and thereafter implement a revised, written BSA compliance program with the assistance of a third-party consultant, and it must conduct periodic risk assessments. The order also describes in detail the processes for getting this done, including the designation of a "BSA Officer" to administer the compliance program.

In a statement to PYMNTS.com, Discover noted that its mutual agreement on the consent order calls for additional enhancements to the programs it has in place in order to meet heightened regulatory requirements. "Discover is committed to continuously making our compliance program stronger, including our policies, procedures, training and other internal controls designed to mitigate inherent risks in our business," the company said.

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