

Getting Started with Check Cashing

***Whether you run a thriving store,
or are an entrepreneur just getting started,
check cashing could be a great opportunity for you.***

Read on to learn what's involved in setting up a successful check cashing business.

Check Cashing Prospects

It's good to get a read on your current customer base (or the neighborhood you are thinking about opening a business) to determine if you have enough check cashing customers, before getting started.

- Large immigrant neighborhoods are good candidates, although only 19% of unbanked consumers are Hispanic; while 60% are white, with 16% being black and 5% listed as other*
- If you currently have a store you might look at daily sales, and see if there is a spike on Friday / Saturday or on 1st and 15th of month – paydays.
- What's the split of payment types? If your customers are paying in cash, they probably have recently been to a check cashing store!

* Source: Center for Financial Services Innovation

Now that you know you have a customer base, there are a few more things to do ...

Banking Relationship

This is a critical aspect for a new check cashing business! Know that offering check cashing services can raise some flags with banks. Banks are traditionally risk averse and sometimes have issues with accepting third-party checks. If you are an existing retailer, talk with your bank upfront to determine if they have any concerns; and discuss what if any reserve requirements they might have to service your check cashing business.

Who are the unbanked?

Unbanked are individuals who have no relationship with traditional financial institutions – they do not have a bank account or credit cards; and transact on the financial fringes primarily via cash, money orders, money transfers and to some extent prepaid cards. A large percentage of this market are new immigrants who have language barriers, thin credit files or an inherent distrust of banks stemming from their native country.

Underbanked individuals are people who are 'underserved' by financial institutions. These individuals often have some connection with traditional banking; but chose to do some or all of their financial transactions outside the banking arena.

This large consumer base looks to alternate financial service providers to cash their paychecks, pay bills, wire money, buy calling cards, etc.

Licensing

If you are just starting out you will probably need to get a business license.

In addition, you'll want to make sure that you are complying with all local, state and federal licensing requirements for check cashing. Thirty-one states require license or registration; while seventeen are unregulated. Review FinCEN's list of state regulators (<http://www.fincen.gov/>) or visit your states government website to determine if they regulate check cashers; and what, if any, licensing and reporting requirements are in place. Rules may vary by state if your primary business is not check cashing.

Why offer check cashing?

There's a large profit share out there... In 2007, the **check cashing market was \$300B**, and generated **\$2.6B in check cashing fee revenue**. In addition to the check cashing revenue generated by check cashers, these consumers often need other financial services, like bill payment, prepaid cards, money transfer, etc.

Cashing a check is often the first step in meeting these underbanked consumers financial service needs. And, once they have their cash, they can pay bills, wire money, as well as purchase items from your store.

Federal Compliance

As a result of September 11th and the USA Patriot and Bank Secrecy Acts, there are federal requirements for money service businesses to comply with as well. Any business classified as a Money Service Business (an 'MSB'), which includes those conducting money transactions in amounts over \$1,000, would need to register with FinCEN (the Financial Crimes Enforcement Network), a division of the Department of Treasury.

Also, any business doing wire transfers, regardless of the amount, is automatically considered an MSB. For more information visit http://www.fincen.gov/financial_institutions/msb/, where you can download MSB registration forms, guidance and support materials (available in multiple languages).

In addition to registering with FinCEN, you will need to develop an Anti-Money Laundering (AML) Program and designate a Compliance Officer. These program requirements were designed to prevent MSBs from being used to facilitate money laundering. Your AML program must be in writing and you need to identify a compliance officer and provide adequate training to your staff. You can do this yourself; but there are several companies who specialize in developing custom programs specifically designed for your business. Check out www.amlhelp.com if you need some guidance.

Fraud Concerns: Software Solutions

To better assist your check cashing business you should definitely consider using a comprehensive check cashing software solution. These software programs will help you maintain customer data and check cashing history; so you won't have to manage paper records. There are a number of different solutions that employ fraud prevention techniques including biometrics; as well as some that perform detailed analysis of consumer and check issuer (or maker) data to provide you with an 'accept' or 'decline' recommendation for each transaction.

What should you look for in a check cashing software solution?

Speed of transaction – if you have a high volume check cashing business you'll want customers through the line as fast as possible. Biometric identification is a great way to facilitate this; as consumers simply put their finger on a scanning device to access their record. The best systems are ones that identify customers by their fingerprint only, which is fastest and safest. This minimizes language barriers and clerk time manually accessing data, and enables you to easily confirm individual identity as well as view their check cashing history within your store.

Velocity for Customers & Check Issuers – there are risks associated with check cashing, and you don't want to be burned more than once for any given customer or maker (check issuer). Velocity tools empower you by managing your check cashing rules for you. You establish the parameters in the software, e.g. how many checks / total dollar value accepted by individual or check maker within a given time period. You can also identify individuals and makers, so the transaction is automatically declined. Make sure the software you select allows for both maker and consumer velocity triggers and enables easy access to historical data; ensuring you are not susceptible to future fraud.

National negative network – As a retailer new to check cashing, access to historical check cashing data will be crucial in your first few months. You are learning the business and do not want to be caught by criminals or bad checks that can easily be avoided. Software that offers access to a national network of bad check cashing data is the answer. But, make sure that the data is updated regularly and that your system cross checks the data automatically on every transaction.

Data access – Choose a solution that allows you to access your data in multiple ways. For example, if you expect to have multiple locations in the future, you'll want a system that connects transaction data between stores. Also, as noted below the federal government (and some states) require businesses to maintain check cashing records. Automatic backups are the easiest way to ensure compliance.

Note: The federal required AML program requires businesses to maintain records for 5 years. You should also keep that in mind when looking into software solutions; ensure that the solution can store data; and have reporting capabilities that offer easy access to your transaction data should you get audited.

Cash Concerns

Offering services that require large amounts of cash-on-hand do present some potential challenges. Here are a few things to consider, outside of the obvious security measures.

Prepaid Cards

You can limit or virtually eliminate the need for cash-on-hand when you offer a network branded prepaid card. The value from your customers check cashing transaction is loaded directly onto a prepaid card, in-part or full value. You customers can then withdraw the funds at an ATM or use the card anywhere Visa® or MasterCard® debit cards are accepted.

Electronic Deposits

Electronic Deposits (also known as Check 21) is a way to deposit checks electronically. In the check cashing world as the saying goes "Cash is King". You need to have ready access to it; and

you want to deposit your checks as quickly as you can. Look for an integrated check cashing solution integrated with Electronic Deposits or talk to your bank. With electronic deposits you can deposit your checks whenever you choose, straight from your store. This service offers you faster access to funds (next-day funding options available), and faster reporting on potential fraudulent items.

ROI Calculator

Check cashing can provide a great new revenue stream for your business. When managed correctly with proper tools it is also a low risk profit center. Complete the following ROI table to determine your potential return from a check cashing investment.

Our average check cashing store does 500-600 checks per month; and average check is for \$450.

Using averages stated above, a retailer charging 1.5% check fee rate, would see over \$3,500 in fee revenue/month. For a more detailed return on investment calculation, use the formula below:

___ average weekly customers x ___% prospect check cashers = ___ estimated check cashers/wk

___ check cashers/wk x \$450 (average check size) x 4 = \$_____ monthly total check volume

\$_____ monthly volume x ___% check cashing fee = \$_____ monthly check cashing revenue

\$_____ monthly volume x ___% fraud/loss/write-offs = \$_____ monthly check cashing expense

Conclusion

While there are certainly risks with check cashing there is a lot of revenue potential. Invest in technology and educate your employees to detect and prevent fraud. Using available technology and good check cashing practices will go a long way to protect your business. Read our "Check Fraud White Paper" for more on fraud prevention techniques.

Take the time now to due your due diligence; and you should find yourself prepared to operate a successful and profitable check cashing business.

Additional Resources:

Financial Crimes Enforcement Network (www.fincen.gov)

Financial Service Centers of America (www.fisca.org)

AllTrust Networks (www.alltrustnetworks.com)