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MoneyGram Case Teaches Costly Lesson in Corporate Compliance (or Lack of It)

Dallas-based MoneyGram agreed Thursday to pay $125 million to settle allegations that the money transfer company failed to fulfill nearly all the compliance requirements of a 2009 order from the Federal Trade Commission. MoneyGram also violated the terms of its 2012 deferred prosecution agreement with the U.S. Department of Justice.

By Sue Reisinger | November 09, 2018 at 03:31 PM

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General counsel and their companies can take a valuable lesson from the MoneyGram International Inc. case—dragging your feet on compliance can be costly in more ways than one.

Dallas-based MoneyGram agreed Thursday to pay $125 million to settle allegations that the money transfer company failed to fulfill nearly all the compliance requirements of a 2009 order from the Federal Trade Commission. MoneyGram also violated the terms of its 2012 deferred prosecution agreement with the U.S. Department of Justice.

But in addition to paying the settlement, MoneyGram agreed to rigorous new compliance requirements from the FTC and the DOJ, and it agreed to extend its DPA for 30 more months—including continued oversight by a corporate monitor.

The DPA was supposed to expire this month, after a one-year extension in 2017. MoneyGram chief compliance officer Andres Villareal, who joined the company in 2015 and was named CCO a year later, was not available for comment Friday.

But in a statement Alex Holmes, the company's chairman and CEO, said, "Over the past several years, we have taken significant steps to improve our compliance program and have remediated many of the issues noted in the agreements. Currently, our consumer fraud reports are at a 7-year low … We will continue to bolster our compliance program to ensure it meets the highest industry standards."

The company said since 2012, MoneyGram has invested more than $100 million in compliance technology, agent oversight and training programs.

The compliance efforts also have hit the company's bottom line. MoneyGram reported its third quarter financial results Thursday, including a nearly $21 million loss in net income and a 15 percent drop in money transfer revenue. It specifically cited "the impact of higher compliance standards and newly implemented corridor specific controls."

Attorney Julie Myers Wood, CEO of Guidepost Solutions, an international investigations and compliance firm, told Corporate Counsel on Friday that the new penalty of $125 million was "quite significant. Not only is there a sizable penalty involved, but the FTC has issued a modified order that greatly broadens the compliance cooperation required from MoneyGram and expands the ability of the FTC to monitor MoneyGram's behavior."

Among other things, the FTC is requiring a comprehensive compliance report from MoneyGram every year for the next 12 years. And it must be signed by a responsible senior corporate manager.

That could be a scary job, since the U.S. Treasury Department went after Thomas Haider, MoneyGram's then-chief compliance officer in 2009. In the first suit ever filed against an individual compliance officer in finance, the government reached a settlement with Haider on civil charges that he failed to stop money laundering and consumer fraud activities.

Under the settlement, Haider agreed to pay a $250,000 civil penalty and to accept a three-year bar on acting as a compliance employee.

In the latest action against MoneyGram, DOJ modified its DPA to expand compliance and reporting requirements. In particular, it wants monthly reports on agents' misconduct and fraud complaints.

David Zinn, of Williams & Connolly, represented MoneyGram. Karen Dodge and Joannie Wei represented the FTC, and U.S. Attorney David Freed of the Middle District of Pennsylvania represented DOJ.
The FTC filing said MoneyGram hadn't "properly investigated or disciplined agents who were responsible for high volumes of fraud complaints." In fact, in the last five-plus years, about 4 percent of MoneyGram's agents accounted for over 84 percent of all fraud complaints.

MoneyGram seldom took disciplinary action against large "chain" agents with 10 or more locations and focused its disciplinary efforts instead on lower-volume "mom and pop" agents, the FTC said.

"The key lesson for general counsel is that deferred prosecution agreements do not equal deferred compliance," noted Wood, the compliance attorney.
She said the government will track activities much more closely during any monitor or probation period.

"So, it is important to ensure that your company always makes full efforts to abide by the requirements," Wood said. "Anything short of that could be cause to extend—and, in some cases, expand—monitorships or other government oversight."

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