

MONEYGRAM INTERNATIONAL INC

Form 10-K

March 16, 2017

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2016.

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission File Number: 001-31950

MONEYGRAM INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware 16-1690064
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

2828 N. Harwood St., 15th Floor 75201
Dallas, Texas (Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code
(214) 999-7552

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, \$0.01 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The aggregate market value of voting and nonvoting common stock held by non-affiliates of the registrant, computed by reference to the last sales price as reported on the NASDAQ Stock Market LLC as of June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was \$258.6 million.

53,899,897 shares of common stock were outstanding as of March 15, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this report is incorporated by reference from the registrant's proxy statement for the 2017 Annual Meeting of Stockholders.

Table of Contents

TABLE OF CONTENTS

	Page
PART I.	
Item 1. <u>Business</u>	<u>3</u>
Item 1A. <u>Risk Factors</u>	<u>12</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>24</u>
Item 2. <u>Properties</u>	<u>24</u>
Item 3. <u>Legal Proceedings</u>	<u>25</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>26</u>
PART II.	
Item 5. <u>Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>27</u>
Item 6. <u>Selected Financial Data</u>	<u>29</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>49</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>54</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>54</u>
Item 9A. <u>Controls and Procedures</u>	<u>55</u>
Item 9B. <u>Other Information</u>	<u>55</u>
PART III.	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>56</u>
Item 11. <u>Executive Compensation</u>	<u>56</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>56</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>56</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>56</u>
PART IV.	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>56</u>
Item 16. <u>Form 10-K Summary</u>	<u>56</u>
<u>Signatures</u>	<u>57</u>
<u>Exhibit Index</u>	<u>58</u>

Table of Contents

PART I

Item 1. BUSINESS

Overview

MoneyGram International, Inc. (together with our subsidiaries, “MoneyGram,” the “Company,” “we,” “us” and “our”) is a global provider of innovative money transfer services and is recognized worldwide as a financial connection to friends and family. Whether online, through a mobile device, at a kiosk or in a local store, we connect consumers in any way that is convenient for them. We also provide bill payment services, issue money orders and process official checks in select markets. Our primary customers are persons who may not be fully served by other financial institutions, which we refer to as unbanked or underbanked consumers. Unbanked consumers do not have a relationship with a traditional financial institution. Underbanked consumers are not fully served by traditional financial institutions. The World Bank, a key source of industry analysis for cross-border remittance data, estimates that 2 billion adults are unbanked, based on 2014 global data. As an alternative financial services provider, we provide these consumers with essential services to help them meet the financial demands of their daily lives. Many of our customers utilize traditional banking services but prefer to use our services based on convenience, quality of our service, trust of our brand, cost or to make urgent payments or transfers.

Our offerings include money transfers, bill payment services, money order services and official check processing. Our money transfer services are our primary revenue driver. Money transfers are movements of funds between consumers from the origination or "send" location and the designated "receive" location. MoneyGram earns revenue from the fees paid by the consumers sending the funds and from the management of currency exchange spreads on money transfer transactions involving different “send” and “receive” currencies. We share a significant portion of that fee with both the sending and receiving agents. We also earn bill payment services revenues primarily from transaction fees charged to consumers for each transaction completed. Additionally, we earn revenue from the sale of our money order and official check products and generate revenue from the investment of funds underlying these products.

Our money transfer services enable our consumers to send and receive funds around the world through our extensive global network of locations, which are primarily operated by third-party businesses ("agents"), but also include Company-operated retail locations. Operating in more than 200 countries and territories, we have nearly doubled our network since 2009 to approximately 350,000 locations. We also offer Digital solutions such as moneygram.com, mobile solutions, account deposit and kiosk-based services. We have one primary customer care center in Warsaw, Poland, with regional support centers providing ancillary services and additional call center services in various countries. We provide call center services 24 hours per day, 365 days per year and provide customer service in 27 languages.

The MoneyGram® brand is recognized throughout the world. We use various trademarks and service marks in our business, including, but not limited to, MoneyGram, the Globe design logo, MoneyGram Bringing You Closer, MoneyGram MyWay, MoneyGram MobilePass, MoneyGram Kameleon, ExpressPayment, Send It. Pay It. Load It., Moneygrado, FormFree, AgentWorks, Agent-Connect, Delta, DeltaWorks, PowerTransact and PrimeLink, some of which are registered in the United States and other countries. This document also contains trademarks and service marks of other businesses that are the property of their respective holders and are used herein solely for identification purposes. We have omitted the ® and ™ designations, as applicable, for the trademarks we reference.

The Company utilizes specific terms related to our business throughout this document, including the following:

Corridor — With regard to a money transfer transaction, the originating "send" location and the designated "receive" location are referred to as a corridor.

Corridor mix — The relative impact of increases or decreases in money transfer transaction volume in each corridor versus the comparative prior period.

Face value — The principal amount of each completed transaction, excluding any fees related to the transaction.

Foreign currency — The impact of foreign currency exchange rate fluctuations on our financial results is typically calculated as the difference between current period activity translated using the current period's currency exchange rates and the comparable prior-year period's currency exchange rates. We use this method to calculate the impact of changes in foreign currency exchange rates on revenues, commissions and other operating expenses for all countries where the functional currency is not the U.S. dollar.

Table of Contents

History and Development

We conduct our business primarily through our wholly-owned subsidiary, MoneyGram Payment Systems, Inc. ("MPSI"), under the MoneyGram brand. The Company was incorporated in Delaware on December 18, 2003 in connection with the June 30, 2004 spin-off from our former parent company, Viad Corporation. Through the Company's predecessors, we have been in operation for over 70 years.

The 2008 and 2011 Recapitalizations and 2011 Stock Split — In March 2008, we completed a recapitalization pursuant to which we received an infusion of \$1.5 billion of gross equity and debt capital, referred to herein as the 2008 Recapitalization. The equity component consisted of the sale to affiliates of Thomas H. Lee Partners, L.P. ("THL") and affiliates of Goldman, Sachs & Co. ("Goldman Sachs") (collectively with THL, the "Investors") in a private placement of Series B Participating Convertible Preferred Stock of the Company (the "B Stock") and Series B-1 Participating Convertible Preferred Stock of the Company (the "B-1 Stock" and, collectively with the B Stock, the "Series B Stock") for an aggregate purchase price of \$760.0 million. We also paid Goldman Sachs an investment banking advisory fee equal to \$7.5 million in the form of additional shares of the B-1 Stock.

In May 2011, we completed a second recapitalization, referred to herein as the 2011 Recapitalization. Pursuant to the 2011 Recapitalization, (i) THL, as the holder of all of the B Stock, converted all of the shares of B Stock into shares of our common stock in accordance with the Certificate of Designations, Preferences and Rights of Series B Participating Convertible Preferred Stock of MoneyGram International, Inc., (ii) Goldman Sachs, as the holder of all of the B-1 Stock, converted all of the shares of B-1 Stock into shares of Series D Participating Convertible Preferred Stock of the Company (the "D Stock") in accordance with the Certificate of Designations, Preferences and Rights of Series B-1 Participating Convertible Preferred Stock of MoneyGram International, Inc., and (iii) THL received approximately 3.5 million additional shares of our common stock and \$140.8 million in cash, and Goldman Sachs received 15,503 additional shares of D Stock and \$77.5 million in cash.

On November 14, 2011, we filed a certificate of amendment to our Amended and Restated Certificate of Incorporation to effect a reverse stock split of our common stock at a reverse stock split ratio of 1-for-8 and to decrease the number of authorized shares of common stock from 1.3 billion to 162.5 million shares. As the par value of common stock was not affected, \$3.5 million was transferred from common stock to additional paid-in capital. In connection with the reverse stock split, the conversion ratio of the D Stock to common stock decreased from 1,000 to 1 to 125 to 1.

Merger Agreement — On January 26, 2017, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") among the Company, Alipay (UK) Limited, a United Kingdom limited company ("Parent"), Matrix Acquisition Corp., a Delaware corporation and wholly owned subsidiary of Parent ("Merger Sub") and, solely for purposes of certain specified provisions in the Merger Agreement, Alipay (Hong Kong) Holding Limited, a Hong Kong limited company. The Merger Agreement provides that, subject to the terms and conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company (the "Merger"), with stockholders of MoneyGram receiving \$13.25 per share in cash. Following the Merger, the Company will be a wholly owned subsidiary of Parent. The Merger Agreement contains certain termination rights for the parties, including the right of either party, subject to specified limitations, to terminate the Merger Agreement if the Merger is not consummated by January 26, 2018 (the "end date"); provided, that either Parent or the Company may extend the end date until April 19, 2018, if necessary to obtain required approvals with respect to money transmitter licenses, if, at the end date, all of the other conditions to closing are satisfied. The terms of the Merger Agreement did not impact the Company's consolidated financial statements as of and for the year ended December 31, 2016.

Our Segments

We manage our business primarily through two reporting segments: Global Funds Transfer and Financial Paper Products. The following table presents the components of our consolidated revenue associated with our reporting segments for the years ended December 31:

	2016	2015	2014
Global Funds Transfer			
Money transfer	89 %	89 %	88 %
Bill payment	6 %	7 %	7 %
Financial Paper Products			

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Money order	3	%	3	%	3	%
Official check	2	%	1	%	2	%
Total revenue	100	%	100	%	100	%

See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 15 — Segment Information of the Notes to the Consolidated Financial Statements for additional financial information about our segments and geographic areas.

4

Table of Contents

During 2016, 2015 and 2014, our 10 largest agents accounted for 36%, 37% and 40%, respectively, of total revenue and 37%, 39% and 41%, respectively, of Global Funds Transfer segment revenue. Wal-Mart Stores, Inc. (“Walmart”) is our only agent that accounts for more than 10% of our total revenue. In 2016, 2015 and 2014, Walmart accounted for 18%, 19% and 22%, respectively, of total revenue. Walmart accounted for 19% of Global Funds Transfer revenue in 2016 and 2015 and 23% of Global Funds Transfer segment revenue in 2014.

Global Funds Transfer Segment

The Global Funds Transfer segment is our primary revenue driver, providing money transfer services and bill payment services primarily to unbanked and underbanked consumers. We utilize a variety of proprietary point-of-sale platforms, including AgentConnect, which is integrated into an agent’s point-of-sale system, DeltaWorks and Delta T3, which are separate software and stand-alone device platforms, and moneygram.com.

We continue to focus on the growth of our Global Funds Transfer segment outside of the U.S. During 2016, 2015 and 2014, sends originated outside of the U.S. generated 47%, 46% and 44%, respectively, of our total Company revenue, and 49%, 48% and 46%, respectively, of our total Global Funds Transfer segment revenue. In 2016, our Global Funds Transfer segment had total revenue of \$1.6 billion.

Money Transfer — We earn our money transfer revenues primarily from consumer transaction fees and the management of currency exchange spreads on money transfer transactions involving different “send” and “receive” currencies. We have corridor pricing capabilities that provide us flexibility when establishing consumer fees and foreign exchange rates for our money transfer services, which allow us to remain competitive in all locations. In a cash-to-cash money transfer transaction, both the agent initiating the transaction and the receiving agent earn a commission that is generally a fixed fee or is based on a percentage of the fee charged to the consumer. When a money transfer transaction is initiated at a MoneyGram-owned store, staging kiosk or via our online platform, typically only the receiving agent earns a commission.

In certain countries, we have multi-currency technology that allows consumers to choose a currency when initiating or receiving a money transfer. The currency choice typically consists of local currency, U.S. dollars and/or euros. These capabilities allow consumers to know the amount that will be received in the selected currency.

The majority of our remittances constitute transactions in which cash is collected by one of our agents and funds are available for pick-up at another agent location. Typically, the designated recipient may receive the transferred funds within 10 minutes at any MoneyGram agent location. In select countries, the designated recipient may also receive the transferred funds via a deposit to the recipient’s bank account, mobile phone account or prepaid card. Through our online product offerings, consumers can remit funds from a bank account, credit card or debit card.

We offer a variety of services to provide the best consumer experience possible at our agent locations. We offer transaction-staging kiosks at select agent locations around the world. Through our FormFree service, consumers are directed via phone to one of our customer care centers where a representative collects transaction information and enters it directly into our central data processing system. Our MoneyGram MobilePass product allows customers to stage a transaction on a mobile device or online and pay for the transaction at one of MoneyGram's thousands of locations across the U.S.

We offer our money transfer services on the internet via our moneygram.com service in the U.S., United Kingdom and Germany and through affiliate websites. Through moneygram.com, consumers have the ability to send money from the convenience of their home or internet-enabled mobile device to any of our agent locations worldwide or to a recipient's bank account through a debit or credit card or, in certain cases, funding with a U.S. checking account.

Money transfer transactions through moneygram.com grew 12% and revenue grew 19% in 2016 over the prior year. We also offer our money transfer services via virtual agents allowing our consumers to send international transfers conveniently from a website or their mobile phone in over 15 countries. We continue to expand our money transfer services to consumers through the addition of transaction-staging kiosks, ATMs, prepaid cards and direct-to-bank account products in various markets around the world.

As of December 31, 2016, our money transfer agent network had approximately 350,000 locations. Our agent network includes agents such as international post offices, formal and alternative financial institutions as well as large and small retailers. Additionally, we have Company-operated retail locations in the U.S. and Western Europe. Some of our agents outside the U.S. manage sub-agents. We refer to these agents as super-agents. Although these sub-agents are

under contract with these super-agents, the sub-agent locations typically have access to similar technology and services as our other agent locations. Many of our agents have multiple locations, a large number of which operate in locations that are open outside of traditional banking hours, including nights and weekends. Our agents know the markets they serve and they work with our sales and marketing teams to develop business plans for their markets. This may include contributing financial resources to, or otherwise supporting, our efforts to market MoneyGram's services.

Table of Contents

Bill Payment Services — We earn our bill payment revenues primarily from fees charged to consumers for each transaction completed. Our primary bill payment service offering is our ExpressPayment service, which we offer at substantially all of our money transfer agent and Company-operated locations in the U.S., Canada and Puerto Rico, at certain agent locations in select Caribbean and European countries and through our Digital solutions.

Through our bill payment services, consumers can complete urgent bill payments, pay routine bills, or load and reload prepaid debit cards with cash at an agent location, company-operated locations or through moneygram.com with a credit or debit card. We offer consumers same-day and two or three day payment service options; the service option is dependent upon our agreement with the biller. We offer payment options to over 13,000 billers in key industries, including the ability to allow the consumer to load or reload funds to nearly 400 prepaid debit card programs. These industries include the credit card, mortgage, auto finance, telecommunications, corrections, health care, utilities, property management, prepaid card and collections industries.

Marketing — We have global marketing and product management teams located in multiple geographical regions. We employ a strategy of developing products and marketing campaigns that are global, yet can be tailored to address our consumer base and local needs. A key component of our marketing efforts is our global branding. We use a marketing mix to support our brand, which includes traditional, digital and social media, point-of-sale materials, signage at our agent locations, targeted marketing campaigns, seasonal campaigns and sponsorships.

Sales — Our sales teams are organized by geographic area, product and delivery channel. We have dedicated teams that focus on developing our agent and biller networks to enhance the reach of our money transfer and bill payment products. Our agent requirements vary depending upon the type of outlet, location and compliance and regulatory requirements. Our sales teams and strategic partnership teams continue to improve our agent relationships and overall network strength with a goal of providing the optimal agent and consumer experience.

Competition — The market for money transfer and bill payment services continues to be very competitive and the World Bank estimates that in 2017 cross-border remittances will be over \$600 billion. We generally compete for money transfer agents on the basis of value, service, quality, technical and operational differences, price, commission and marketing efforts. We compete for money transfer consumers on the basis of trust, convenience, availability of outlets, price, technology and brand recognition.

Our competitors include a small number of large money transfer and bill payment providers, financial institutions, banks and a large number of small niche money transfer service providers that serve select regions. Our largest competitor in the money transfer industry is The Western Union Company ("Western Union"), which also competes with our bill payment services and money order businesses. In 2014, Walmart launched a white label money transfer service, a program operated by a competitor of MoneyGram that allows consumers to transfer money between Walmart U.S. store locations. In October 2016, Walmart announced the expansion of the white label money transfer service product, which is discussed in more detail in our "Management's Discussion and Analysis — Overview" section in Item 7 of this Annual Report on Form 10-K. We will encounter increasing competition as new technologies emerge that allow consumers to send and receive money through a variety of channels, but we continue to be an innovator in the industry by diversifying our core money transfer business through new channels, such as online, mobile solutions, kiosk and other digital offerings.

Seasonality — A larger share of our annual money transfer revenues traditionally occurs in the third and fourth quarters as a result of major global holidays falling during or around this period.

Financial Paper Products Segment

Our Financial Paper Products segment provides money orders to consumers through our agents and financial institutions located throughout the U.S. and Puerto Rico and provides official check outsourcing services for financial institutions across the U.S.

In 2016, our Financial Paper Products segment generated revenues of \$75.6 million from fee and other revenue and investment revenue. We earn revenue from the investment of funds underlying outstanding official checks and money orders. We refer to our cash and cash equivalents, settlement cash and cash equivalents, interest-bearing investments and available-for-sale investments collectively as our "investment portfolio." Our investment portfolio primarily consists of low risk, highly liquid, short-term U.S. government securities and bank deposits that produce a low rate of return.

Money Orders — Consumers use our money orders to make payments in lieu of cash or personal checks. We generate revenue from money orders by charging per item and other fees, as well as from the investment of funds underlying outstanding money orders, which generally remain outstanding for approximately five days. We sell money orders under the MoneyGram brand and on a private label or co-branded basis with certain agents and financial institutions in the U.S. As of December 31, 2016, we issued money orders through our network of approximately 44,000 agents and financial institution locations in the U.S. and Puerto Rico.

Table of Contents

Official Check Outsourcing Services — Official checks are used by consumers where a payee requires a check drawn on a bank. Financial institutions also use official checks to pay their own obligations. Similar to money orders, we generate revenue from our official check outsourcing services through U.S. banks and credit unions by charging per item and other fees, as well as from the investment of funds underlying outstanding official checks, which generally remain outstanding for approximately four days. As of December 31, 2016, we provided official check outsourcing services through approximately 850 financial institutions at approximately 5,700 branch bank locations.

Marketing — We employ a wide range of marketing methods. We use a marketing mix to support our brand, which includes traditional, digital and social media, point of sale materials, signage at our agent locations and targeted marketing campaigns. Official checks are financial institution branded, and therefore, all marketing to this segment is business to business.

Sales — Our sales teams are organized by product and delivery channel. We have dedicated teams that focus on developing our agent and financial institution networks to enhance the reach of our official check and money order products. Our agent and financial institution requirements vary depending upon the type of outlet or location, and our sales teams continue to improve and strengthen these relationships with a goal of providing the optimal consumer experience with our agents and financial institutions.

Competition — Our money order competitors include a small number of large money order providers and a large number of small regional and niche money order providers. Our largest competitors in the money order industry are Western Union and the U.S. Postal Service. We generally compete for money order agents on the basis of value, service, quality, technical and operational differences, price, commission and marketing efforts. We compete for money order consumers on the basis of trust, convenience, availability of outlets, price, technology and brand recognition.

Official check competitors include financial institution solution providers, such as core data processors, and corporate credit unions. We generally compete against a financial institution's desire to perform these processes in-house with support from these types of organizations. We compete for official check customers on the basis of value, service, quality, technical and operational differences, price and commission.

Regulation

Compliance with laws and regulations is a highly complex and integral part of our day-to-day operations. Our operations are subject to a wide range of laws and regulations of the U.S. and other countries, including anti-money laundering laws and regulations; financial services regulations; currency control regulations; anti-bribery laws; regulations of the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"); money transfer and payment instrument licensing laws; escheatment laws; privacy, data protection and information security laws; and consumer disclosure and consumer protection laws. Regulators worldwide are exercising heightened supervision of money transfer providers and requiring increased efforts to ensure compliance. Failure to comply with any applicable laws and regulations could result in restrictions on our ability to provide our products and services, as well as the potential imposition of civil fines and possibly criminal penalties. See "Risk Factors" section in Item 1A for additional discussion regarding potential impacts of failure to comply. We continually monitor and enhance our global compliance programs in light of the most recent legal and regulatory changes. We also launched the compliance enhancement program in 2014 to enhance our systems and processes.

Deferred Prosecution Agreement — In November 2012, we announced that a settlement was reached with the U.S. Attorney's Office for the Middle District of Pennsylvania (the "MDPA") and the U.S. Department of Justice ("U.S. DOJ") relating to the previously disclosed investigation of transactions involving certain of our U.S. and Canadian agents, as well as fraud complaint data and the consumer anti-fraud program, during the period from 2003 to early 2009. In connection with this settlement, we entered into a deferred prosecution agreement (the "DPA") with the MDPA and U.S. DOJ dated November 8, 2012. Under the DPA, we agreed to a forfeiture of \$100.0 million that is available as restitution to victims of the consumer fraud scams perpetrated through MoneyGram agents. Also under the DPA, we have agreed, among other things, to retain an independent compliance monitor for a period of five years and in the first quarter of 2013, Aaron Marcu, a litigation partner with Freshfields Bruckhaus Deringer, LLP in New York and head of its global financial institutions litigation group, was selected as our independent compliance monitor. We have received four annual reports from the compliance monitor, and we continue to make investments in

various areas related to our compliance systems and operations in order to comply with the requirements contained in the DPA and recommendations of the compliance monitor. If the Company is unable to meet such requirements in the allotted time period, the term of the DPA and the independent compliance monitor could be extended, which could result in additional costs. See “Risk Factors — We face possible uncertainties relating to compliance with and the impact of the deferred prosecution agreement entered into with the U.S. federal government” for additional information.

7

Table of Contents

Anti-Money Laundering Compliance — Our money transfer services are subject to anti-money laundering laws and regulations of the U.S., including the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001, as well as state laws and regulations and the anti-money laundering laws and regulations in many of the countries in which we operate, particularly in the European Union. Countries in which we operate may require one or more of the following:

- reporting of large cash transactions and suspicious activity;
- screening of transactions against government watch-lists, including but not limited to, the watch-list maintained by OFAC;
- prohibition of transactions in, to or from certain countries, governments, individuals and entities;
- limitations on amounts that may be transferred by a consumer or from a jurisdiction at any one time or over specified periods of time, which require aggregation over multiple transactions;
- consumer information gathering and reporting requirements;
- consumer disclosure requirements, including language requirements and foreign currency restrictions;
- notification requirements as to the identity of contracting agents, governmental approval of contracting agents or requirements and limitations on contract terms with our agents;
- registration or licensing of the Company or our agents with a state or federal agency in the U.S. or with the central bank or other proper authority in a foreign country; and
- minimum capital or capital adequacy requirements.

Anti-money laundering regulations are constantly evolving and vary from country to country. We continuously monitor our compliance with anti-money laundering regulations and implement policies and procedures in light of the most current legal requirements.

We offer our money transfer services primarily through third-party agents with whom we contract and do not directly control. As a money services business, we and our agents are required to establish anti-money laundering compliance programs that include: (i) internal policies and controls; (ii) designation of a compliance officer; (iii) ongoing employee training and (iv) an independent review function. We have developed an anti-money laundering training manual available in multiple languages and a program to assist with the education of our agents on the various rules and regulations. We also offer in-person and online training as part of our agent compliance training program and engage in various agent oversight activities. We have also adopted a global compliance policy that outlines key principles of our compliance program to our agents.

In connection with regulatory requirements to assist in the prevention of money laundering, terrorist financing and other illegal activities and pursuant to legal obligations and authorizations, the Company makes information available to certain U.S. federal and state, as well as certain foreign, government agencies when required by law. In recent years, the Company has experienced an increase in data sharing requests by these agencies, particularly in connection with efforts to prevent money laundering or terrorist financing or reduce the risk of identity theft. In certain cases, the Company is also required by government agencies to deny transactions that may be related to persons suspected of money laundering, terrorist financing or other illegal activities, and as a result the Company may inadvertently deny transactions from customers who are making legal money transfers, which could lead to liability or reputational damage. Responding to these agency requests may result in increased operational costs.

Money Transfer and Payment Instrument Licensing — In most countries, either we or our agents are required to obtain licenses or to register with a government authority in order to offer money transfer services. Almost all states in the U.S., the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam require us to be licensed to conduct business within their jurisdictions. Our primary overseas operating subsidiary, MoneyGram International Ltd., is a licensed payment institution under the Payment Services Regulations adopted in the United Kingdom pursuant to the European Union Payment Services Directive. Upon the United Kingdom's exit from the European Union, we would be required to obtain a license in the European Union for the conduct of our business in that region. We are also subject to increasingly significant licensing or other regulatory requirements in various other jurisdictions. Licensing requirements may include minimum net worth, provision of surety bonds or letters of credit, compliance with operational procedures, agent oversight and the maintenance of reserves or "permissible investments" in an amount equivalent to outstanding payment obligations, as defined by our various regulators. The types of securities that are considered "permissible investments" vary across jurisdictions, but generally include cash and cash equivalents, U.S.

government securities and other highly rated debt instruments. Many regulators require us to file reports on a quarterly or more frequent basis to verify our compliance with their requirements. Many regulators also subject us to periodic examinations and require us and our agents to comply with anti-money laundering and other laws and regulations.

8

Table of Contents

Escheatment Regulations — Unclaimed property laws of every state in the U.S., the District of Columbia, Puerto Rico and the U.S. Virgin Islands require that we track certain information on all of our payment instruments and money transfers and, if they are unclaimed at the end of an applicable statutory abandonment period, that we remit the proceeds of the unclaimed property to the appropriate jurisdiction. Statutory abandonment periods for payment instruments and money transfers range from three to seven years. Certain foreign jurisdictions also have unclaimed property laws. These laws are evolving and are frequently unclear and inconsistent among various jurisdictions, making compliance challenging. We have an ongoing program designed to comply with escheatment laws as they apply to our business.

Data Privacy and Cybersecurity Laws and Regulations — We are subject to federal, state and international laws and regulations relating to the collection, use, retention, security, transfer, storage and disposal of personally identifiable information of our consumers, agents and employees. In the U.S., we are subject to various federal privacy laws, including the Gramm-Leach-Bliley Act, which requires that financial institutions provide consumers with privacy notices and have in place policies and procedures regarding the safeguarding of personal information. We are also subject to privacy and data breach laws of various states. Outside the U.S., we are subject to privacy laws of numerous countries and jurisdictions. In some cases, these laws are more restrictive than the U.S. laws and impose more stringent duties on companies or penalties for non-compliance. For example, the General Data Protection Regulation in the European Union, effective May 2018, will impose a higher standard of personal data protection with significant penalties for non-compliance for companies operating in the European Union or doing business with European Union residents. In addition, government surveillance laws and data localization laws are evolving to address increased and changing threats and risks. All of these laws are continuing to develop and may be inconsistent from jurisdiction to jurisdiction.

Dodd-Frank Act — The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law in 2010. The Dodd-Frank Act imposes additional regulatory requirements and creates additional regulatory oversight over us. The Dodd-Frank Act created a Bureau of Consumer Financial Protection (the "CFPB") which issues and enforces consumer protection initiatives governing financial products and services, including money transfer services, in the U.S. The CFPB's Remittance Transfer Rule became effective on October 28, 2013. Its requirements include: a disclosure requirement to provide consumers sending funds internationally from the U.S. enhanced pre-transaction written disclosures, an obligation to resolve certain errors, including errors that may be outside our control, and an obligation to cancel transactions that have not been completed at a customer's request. As a "larger participant" in the market for international money transfers, we are subject to direct examination and supervision by the CFPB. We have modified our systems and consumer disclosures in light of the requirements of the Remittance Transfer Rule. In addition, under the Dodd-Frank Act, it is unlawful for any provider of consumer financial products or services to engage in unfair, deceptive or abusive acts or practices. The CFPB has substantial rule making and enforcement authority to prevent unfair, deceptive or abusive acts or practices in connection with any transaction with a consumer for a financial product or service.

Foreign Exchange Regulation — Our money transfer services are subject to foreign currency exchange statutes of the U.S., as well as similar state laws and the laws of certain other countries in which we operate. Certain of these statutes require registration or licensure and reporting. Others may impose currency exchange restrictions with which we must comply.

Regulation of Prepaid Cards — We sell our MoneyGram-branded prepaid card in the U.S., in addition to loading prepaid cards of other card issuers through our ExpressPayment offering. Our prepaid cards and related loading services may be subject to federal and state laws and regulations, including laws related to consumer protection, licensing, unclaimed property, anti-money laundering and the payment of wages. Certain of these federal and state statutes prohibit or limit fees and expiration dates on and/or require specific consumer disclosures related to certain categories of prepaid cards. We continually monitor our prepaid cards and related loading services in light of developments in such statutes and regulations.

Anti-Bribery Regulation — We are subject to regulations imposed by the Foreign Corrupt Practices Act (the "FCPA") in the U.S., the U.K. Bribery Act and similar anti-bribery laws in other jurisdiction