

Xoom

...think Western Union without the excessive fees...

– TechCrunch, Sep 28, 2007

Founded in 2001 by Kevin Hartz and Alan Braverman, Xoom was created to up-end the money remittance market that had for generations been dominated by Western Union. Xoom offered remittance services (money transfer) for customers who wanted to send money to relatives and friends abroad, without paying the exorbitant fees then being charged by incumbents. The San Francisco based team raised its initial seed capital in 2003 from Peter Thiel, followed by a Series A led by Sequoia Capital. The company raised additional capital from Fidelity Ventures, SVB Capital, and New Enterprise Associates, and by 2013, Xoom went public in a successful IPO. Two years later, in 2015, the company was acquired by PayPal for more than \$1 billion.

Xoom charged users a fee based on the type of payment they were making. The most expensive transactions were the ones in which the recipient received payments through transferring banks. These transactions varied in price based on the amount of money being sent through debit or credit card to the bank. The cheapest transactions involved receiving payment through a direct debit to a bank account. Like all payment companies, there were several regulatory obstacles along the road that threatened the future of the company, but the Xoom team never let strict compliance drive the company's decision-making or strategy. In particular, the company was required by law to apply for and receive Money Transmitter Licenses in each state in which it operated; Money Transmitter Bonds to ensure adequate capital liquidity; and compliance with the requirements of the United States Office of Foreign Asset Control (OFAC), the federal intelligence and enforcement agency responsible for economic and trade sanctions, including anti-terrorism activity. Xoom would be at significant risk if it did not comply with these and other requirements. As late as 2010, Xoom was still not in full compliance.

Xoom plowed resources into rapid growth: the company partnered with Ria, a subsidiary of Euronet Worldwide (the global leader in money remittances) to allow customers to use their mobile phones to quickly send money internationally with a cash pickup option. The Ria partnership extended Xoom's coverage with cash pickup to over 150,000 locations worldwide. This caused Xoom's presence through Africa and Eastern Europe to skyrocket. The Ria partnership also allowed Xoom to not only improve speed, but also accuracy. American customers could reach over 70% of the countries throughout the world through either a PC or mobile phone.

To earn trust with its potential customers, Xoom was certified by TRUSTe and licensed by the TRUSTe Privacy Seal Program. Xoom also sought and won accreditation by the Better Business Bureau and Verisign. The Wall Street Journal honored Xoom in both 2011 and 2012 on their "Next Big Thing List," naming Xoom one of the 50 most promising venture backed companies. Consumers also gave glowing reviews and awarded Xoom the title "highest consumer satisfaction rating in transparency of the foreign exchange and value" in 2010. Consumers didn't feel that Xoom had tried to hide behind small print or technical jargon.

In 2015, when PayPal acquired Xoom for more than \$1 billion, the merger gave Xoom a financially stable parent company under which it could continue to operate. PayPal viewed the merger as an opportunity to extend its commitment to empower individuals and businesses with access to financial remittance tools to improve their financial lives. Xoom's international presence gave PayPal access to a new base of customers that were already in the Xoom ecosystem. In 2015, there were 1.3 million active users in the US alone who accounted for \$7 billion in total transactions. The regions that Xoom had a presence in were the Philippines, Germany, Mexico, Pakistan, Australia, Guyana, India, Bangladesh, and China, with a total of 131 different countries represented. In 2021, Xoom still operates as a subsidiary of PayPal with a far reach across the global remittance market.

Exhibit 1: Xoom Stock Chart, 2013-2016



Exhibit 2. Xoom's Compliance Requirements

Compliance is a critical requirement to starting a financial services company, especially one involving payments. Among the requirements that Xoom decided not to fully comply with were the money transmitter license, money transmitter bonds, and the regulations of the Office of Foreign Assets Control (OFAC).

MONEY TRANSMITTER LICENSE

The federal government, forty-seven states, and the District of Columbia all require licenses for money transmitter businesses. The federal license is administered by FinCen, the Financial Crimes Enforcement Network of the United States Department of Treasury. A Money Transmitter falls within the federal definition of a Money Services Business (MSB).

“A business is an MSB and must register if it conducts more than \$1,000 in business with one person in one or more transactions (in any category of activity listed below) on the same day in one or more of the following services:

- Money Orders
- Traveler’s Checks
- Check Cashing
- Currency Dealing or Exchange
- OR the business provides Money Transfer services in any amount.”

The states have not adopted a uniform definition of a Money Transmission so the definition may vary state to state. Any business performing money transmission is subject to money transmitter license requirements.

The state laws apply broadly to businesses that receive money for the purposes of transmitting it, including Xoom.

Money Transmitter licenses often require surety bonds, financial statements, and minimum net worth requirements. State processing times can be lengthy and operating without a license will result in high fines and/or an order to cease operations.

MONEY TRANSMITTER BONDS

A money transmitter bond is a surety bond which assures the professional and honest delivery of services by money transmitters, in agreement with state regulations.

This form of insurance is generally required by those companies that rely on the use of a banking system for transferring, wiring, or sending money between parties. This bond guarantees that the money will be dealt with as expected and that the company will act honestly and lawfully. In case a problem arises, the bond will compensate the party whose money was lost.

The bond requirement guarantees that a business is duly licensed and pays heed to industry regulations. Three entities are found in a contract which are:

- Obligee, which is the public and the state agency or bureau,

- Principal, which is the money transmitter and
- Surety Bond Company, which backs the bond.

Some examples of money transmitters are PayPal, Western Union, Xoom, and MoneyGram.

OFAC

What is OFAC and what does it do?

The Office of Foreign Assets Control administers and enforces economic sanctions programs primarily against countries and groups of individuals, such as terrorists and narcotics traffickers. The sanctions can be either comprehensive or selective, using the blocking of assets and trade restrictions to accomplish foreign policy and national security goals.

Who must comply with OFAC regulations?

U.S. persons must comply with OFAC regulations, including all U.S. citizens and permanent resident aliens regardless of where they are located, all persons and entities within the United States, all U.S. incorporated entities and their foreign branches. In the cases of certain programs, foreign subsidiaries owned or controlled by U.S. companies also must comply. Certain programs also require foreign persons in possession of U.S.-origin goods to comply.

How much are the fines for violating these regulations?

The fines for violations can be substantial. In many cases, civil and criminal penalties can exceed several million dollars. Civil penalties vary by sanctions program, and the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Federal Civil Penalty Inflation Adjustment Act Improvements Act of 2015, requires OFAC to adjust civil monetary penalty amounts annually. For current penalty amounts, see section V.B.2.a of Appendix A to OFAC's Economic Sanctions Enforcement Guidelines at 31 C.F.R Part 501.

How can I report a possible violation of OFAC regulations by my company to OFAC? Will I receive "amnesty" if I report a possible violation to OFAC or if my failure to comply with OFAC regulations was inadvertent?

OFAC encourages anyone who may have violated OFAC-administered regulations to disclose the apparent violation to OFAC voluntarily. Voluntary self-disclosure to OFAC is considered a mitigating factor by OFAC in enforcement actions, and pursuant to OFAC's Enforcement Guidelines, will result in a reduction in the base amount of any proposed civil penalty.

Please submit all voluntary self-disclosures electronically to OFACDisclosures@treasury.gov. Unless the disclosure is an initial disclosure which will be supplemented with additional information, the submission should contain sufficient detail to afford OFAC a complete understanding of an apparent violation's circumstances. Please review the Office of Compliance and Enforcement ("OCE") Data Delivery Standards Guidance: Preferred Practices for Productions to OFAC, which details OFAC's preferred technical standards for formatting electronic document productions submitted to OCE.

OFAC does not have an "amnesty" program. OFAC does, however, review the totality of the circumstances surrounding any apparent violation, including whether a matter was voluntarily self-disclosed to OFAC. OFAC will also consider the existence, nature, and adequacy of a subject person's risk-based OFAC compliance program at the time of the apparent violation, where relevant, among other factors. Please see OFAC's Enforcement Guidelines for additional information regarding voluntary self-disclosures and other mitigating factors, as well as the agency's general framework for the enforcement of economic sanctions programs administered by OFAC.

DISCUSSION QUESTIONS

1. What was responsible for Xoom's early success?
2. Were the Money Transmitter Licenses, Money Transmitter Bonds, and OFAC strictly necessary?
3. Being in full legal compliance would have dramatically diminished Xoom's early break-out success. Did the ends justify the means here?
4. Xoom attracted some of venture capital's most storied investors. Why do you think they invested, knowing that the company was not in full compliance?