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Banks Hit Consumers With Escalating Fees

Bank fees for consumer checking and savings accounts have increased dramatically in number and in cost since 1990, according to a report released in June by CFA and U.S. Public Interest Research Group (U.S. PIRG).

From 1990 to 1993, consumer bank account fees overall rose more than the Consumer Price Index during the same period, and some fees increased by more than double the rate of inflation.

"It is significant that bank fees aimed at consumers continue to escalate while banks enjoy record profits — over $32 billion last year alone," said CFA Legislative Representative Chris Lewis. "This is outright price-gouging by the banking industry."

The following are among the principal findings of the report, which is based on a survey of more than 300 banks in 23 states.

- The average cost to maintain a NOW interest-bearing checking account grew by 22 percent between 1990 and 1993 to $197. Average monthly account fees, a key part of that cost, rose 27 percent to $7.56.
- The average cost to maintain a regular checking account grew by 18.5 percent to $184 a year from 1990 to 1993. Key factors contributing to that increase were average bounced check fees, which rose 21 percent to $18, and average ATM charges, which rose 37 percent to 98 cents.
- Consumers with savings account balances of $200 lose an average of $23 a year; those with lower balances lose more. Monthly fees for savings accounts went up 33 percent to $28.44 from 1990 to 1993.
- The cost of using ATMs increased by 34 percent to 95 cents for local networks and by 55 percent to $1.10 for national networks.

Some banks offer a no-frills alternative to regular checking, but its average cost, $136 a year, is out of reach of many consumers.

Fees Rise Despite Declining Costs

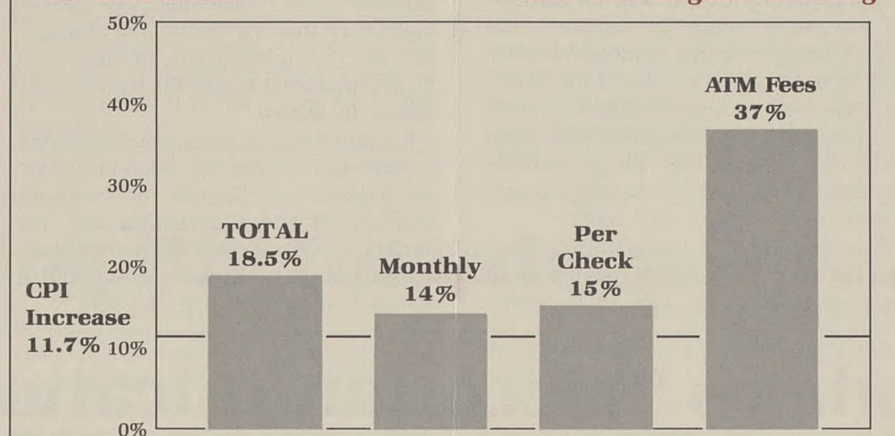
"No longer simple service charges, account fees are now an increasing arbitrary financial burden — a tax — imposed on consumers to boost the balance sheets of banks," Lewis said. "They bear little, if any, relationship to actual administrative costs of providing banking services."

That finding is verified by banking industry and Federal Reserve Board data.

For example, bank costs for regular checking account activities decreased one percent from 1988 to 1991, according to the Federal Reserve Board. During that period, banks raised their monthly maintenance fees by 18 percent and their check-cashing fees by 52 percent.

In addition, the American Bankers Association reported that, from 1988 to 1990, minimum balance requirements on savings accounts at large banks doubled, making it more difficult for consumers to avoid the ever increasing fees.

Furthermore, when one industry trade paper began publishing its list of sources of fee income four years ago, based on service charge schedules from financial institutions nationwide, its list included 96 items. That total has since jumped to 225.



"The billions of dollars that are now annually transferred from the pockets of consumers to the banks, through the collection of this blizzard of fees, unequally and unfairly burdens low income and elderly consumers," Lewis said.

"Our results suggest that lower income and elderly consumers are often, and sometimes deliberately, priced right out of the banking system by high balance requirements and high maintenance fees. For these consumers, the taxpayer-supported system of government subsidies to the banking industry has bought nothing," he said.

Congress Urged To Act

Based on the report's findings, CFA and U.S. PIRG urged Congress to:

- enact basic banking legislation;
- create a national Financial Consumers Association (FCA), a citizen-supported, nonprofit bank watchdog group chartered by the federal government; and
- establish a Cost Accounting Standards Board (CASB), made up of representatives from the banking and accounting professions, relevant government agencies, and consumer organizations, to establish uniform cost accounting procedures for federally insured depository institutions.

"For years, Congress has considered, but failed to pass, lifeline checking or basic banking legislation to mandate the provision of low-cost services for low income consumers," Lewis said. "Continued bank fee increases further warrant the guarantee of a safe harbor from industry price-gouging for low income consumers."

Modeled on the successful New York and Illinois Citizen Utility Boards, an FCA would, among other activities, release reports on local bank and other financial fees, "filling a gap left by the federal agencies' failure to provide relevant fee information to consumers," Lewis added.

Finally, with a CASB, "costs could be used as a basis for any fees assessed, instead of allowing banks to gouge customers by charging whatever fee the captive market will bear," Lewis said.

"The increasing proliferation of bank fees has obscured the costs of products in the financial services marketplace and has generated massive — perhaps deliberate — consumer confusion," he added.

"If the industry is unwilling to cooperate to remedy these market imperfections, then Congress should step in and enact firm price controls on deposit accounts to protect the legitimate interests of consumers," he said.

FCC Delay Costs Cable Consumers Millions

Ten days before the new cable rate regulations were set to go into effect, the Federal Communications Commission announced that it was too underfunded and understaffed to implement the regulations until October.

Not only did the agency delay implementation for more than twice as long as even the cable industry had requested, but it also ruled that, when the regulations do go into effect, cable customers will not be able to seek refunds retroactive to the original implementation date of June 21.

That move will deny consumers more than $300 million in rate reductions the commission has already determined are necessary to bring rates down to reasonable levels, said CFA Legislative Director Gene Kimmelman.

"Justice delayed is unfortunate. The problem here is that this is justice denied," he said. "They have wiped out anyone's legal right to a rate reduction from June 21 to at least October 1."

Under the two-tiered approach to rate regulation approved by the Commission, basic service and equipment charges are subject to automatic regulation by local franchising authorities, while all other non-premium tiers of service are subject to FCC regulation in response to complaints from consumers or the local franchising authority.

The FCC's move delays both the date when franchising authorities can begin to file for certification to regulate basic service rates and the date when consumers and franchising authorities can begin to file complaints about rates for non-basic tiers of service.

Because of the delay, the earliest consumers can now hope to see any rate reductions is November, and possibly later, according to the FCC.

The FCC could have handled the resource problem differently, by delaying all aspects of the rate regulation except the effective date of the rate rollback and refunds, Kimmelman said.

"While delay in implementing the mechanics of rate regulation may be necessary, the commission has no rational basis — involving either resources or legal obligations — to deny consumers the ultimate rate relief that the FCC's rules call for," he said.

The FCC should have permitted complaints to be filed beginning the original date of June 21 or at least have made rollbacks and refunds for basic and cable programming service retroactive to that date, he said.

"This approach would have permitted consumers to obtain the rate relief the commission has found is warranted without overburdening the commission's current resources," he said.

> As this issue of the newsletter went to press, Congress passed and the president signed a bill appropriating the $11.7 million more the FCC said it needs to implement the cable act.
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> In passing the bill, Congress said FCC must begin implementing the law immediately and set September 1 as the deadline for beginning rate relief.
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> FCC Chairman James Quello had assured Congress he would put rate regulations "on a fast track" as soon as the money was appropriated, but after the bill passed the commission questioned whether it will be able to meet the September 1 deadline.

DOE To Focus On Domestic Energy Sources

The Department of Energy has changed its priorities and will increasingly focus research and development and other initiatives on enhancing the availability of domestic energy sources, according to Susan Tierney, Assistant Secretary for the Office of Domestic and International Energy Policy at DOE.

Tierney made her remarks in a keynote address on "Energy Concerns and Priorities: The Administration's Perspective" at CFA's Consumers and Utilities conference in May.

A major focus of the department will be reducing the country's dependency on foreign oil, which represents the largest portion of our trade deficit and is at the same level as it was in 1973, she said. As a part of that program, the administration hopes to increase the penetration of alternative fuels vehicles, she said.

Will Consumers Benefit From Electricity Reforms?

In the area of electricity reforms, the question the department will ask is "how can the DOE help assure that competition moves forward in a way that protects consumers and providers," she said.

That question also dominated the discussion in a session on "The Future of Public Utilities."

"These are natural monopolies," cautioned William A. Spratley, Ohio Consumers' Counsel. "Before we take apart regulated monopolies, we must ask if we will be better off than before."

The problem is that, during the transition from a regulated monopoly to a competitive industry, regulators will be asked to micromanage the utility, and it is questionable whether "the regulatory police can do the job," he said.

Ronald L. Lehr, an attorney and consultant, agreed that it will be difficult to adequately police the industry. The key, if competition is to move forward, will be to set up "the rules of the game" to ensure that consumers benefit, he said.

Consumers and regulators will need to be vigilant to see that "the pie" is fairly divided, agreed Roberta Bradley, Superintendent of Seattle City Light.

The telecommunications market is also moving from a monopoly environment to a competitive one, said Eli M. Noam, Professor of Economics in the Institute for Tele-information at Columbia University, in a session on "The Future of Telecommunications."

Competition can produce efficiency gains, but it also leads to the erosion of common carriage principles and the availability of lifeline services, he said. Universal service needs to be protected now so it doesn't get lost, he said.

All Must Pay to Maintain Universal Service

As competition increases, all the players in the market should be asked to pay for universal service, said CFA Legislative Director Gene Kimmelman. We need to make sure that the benefits of competition are felt by everyone, and that can't be accomplished simply through deregulation, he added.

It is important, as competition develops, to have an evolving definition of universal service, said Charles M. Firestone, Director of the Communications and Society Program at the Aspen Institute. The lines must have open access, but that access may not be free, he said.

Modernizing the Telecommunications Infrastructure

Part of protecting universal access is ensuring that basic ratepayers are not forced to pay for expensive infrastructure investments that primarily benefit the wealthy, said CFA Research Director Mark Cooper in a session on "Modernizing the Telecommunications Infrastructure: The Role of ISDN."

Adding digital switches (ISDN) to the network is the logical next step, he added. ISDN should be universally available, but consumers should only pay for ISDN if they want the service, he said.

It is not necessary to choose between ISDN and a fiber optic network, said Daniel J. Weitzner, Senior Staff Counsel for the Electronic Frontier Foundation. ISDN is a useful short-term step on the road to developing a fiber optic network, he said.

Jennings Bryant, Director of the Institute for Communication Research at the University of Alabama, said such decisions can't be based on assumptions about what consumers want, they must be based on consumer research.

CFA Board Updates Telecommunications Policies

At its June meeting, the CFA Board passed resolutions updating CFA's telecommunications policies and its policy resolutions process.

After divestiture in 1984, CFA members approved a resolution opposing local phone company expansion into such areas as information services, long distance service, and equipment manufacturing under all circumstances.

Although the large majority of consumer groups still favor an absolute prohibition on expanded powers, recent legislative, judiciary, and regulatory decisions to permit this expansion have led consumer advocates to emphasize the importance of Congress's establishing adequate consumer safeguards.

For several years, that has in fact been the position taken by CFA lobbyists in Congressional testimony and in serious negotiations with one Bell company over the nature of the protections. They have expressed a willingness to allow Bell company expansion if Congress fully protects consumers from inflated prices and anticompetitive practices.

At the same time, CFA and many other consumer groups have supported H.R. 5069, the "Brooks bill," which would maintain the Bell restrictions for a number of years, subject to a Justice Department review process. This support reflected not only the continuing preference of many consumer groups for strict controls on the Bells, but also the need to combat a very powerful and expensive campaign by the Bell companies for removal of restrictions.

At CFA's Annual Meeting last March, several labor and consumer groups proposed a policy change, whose implications were somewhat ambiguous, but which could have had the effect of reversing CFA's policy opposing expanded powers. Though rejected by the Policy Resolutions Committee, this resolution was introduced on the floor of the Annual Meeting.

In part because this meeting occurred during a blizzard which prevented many CFA members from attending, members present voted to submit the issue to the CFA Board for consideration at its June meeting.

Between the March Annual Meeting and June Board meeting, CFA staff worked to craft policy resolution revisions that would not dilute CFA's leadership on telecommunications issues, but which were acceptable to all members. In consultation with members who had the strongest opinions on the issue, staff worked out a policy update with three parts:

- acceptance of Bell company expanded powers provided Congress approves adequate consumer protections;
- support for a presidential commission to consider future telecommunications policy that would consider not only consumer but also worker interests; and
- creation of an ad hoc Board committee that would seek to resolve any future conflicts between the consumer and worker interests on telecommunications issues. Although the Communications Workers of America is not a member of CFA, a CWA representative would be invited to attend these meetings.

At the June meeting, CFA Board members passed a motion approving this update of CFA policy. They also approved changes in the CFA policy resolutions process to ensure that, in the future, adopted policies are carefully considered and support the consumer interest. These changes include:

- required submission of potentially controversial resolutions at least one month before the Annual Meeting or approval by at least three-quarters of the votes cast at this meeting;
- justification of all resolutions in terms of the consumer interest, broadly defined; and
- prohibition of organizations not part of CFA, especially business groups, from participating in the policy resolutions process unless that participation is solicited by CFA.

Noted CFA Executive Director Stephen Brobeck: "These changes should transform a policy resolutions process that has bordered on the anarchistic into one that is more orderly and provides all CFA members with the opportunity to have adequate input."

Senate Panel Approves Weakened Rollup Bill

The Senate Banking Committee voted 18-0 in June to report out a watered down version of legislation designed to eliminate abuses of limited partners by general partners in limited partnership "rollups."

"The good news is that the Senate is finally moving this long overdue legislation," said CFA Director of Investor Protection Barbara Roper. "The bad news is that the committee unnecessarily weakened a bill which already lacked adequate investor protections and which got overwhelming, filibuster-proof support last time it was brought to the Senate floor."

Rollups are highly controversial reorganizations in which generally two or more of the finite-life partnerships are reorganized into a single infinite-life, exchange-traded investment. While rollups almost universally generate lucrative fees for general partners, the American Association of Limited Partners estimates that, since 1983, rollups have resulted in an average loss of 71 percent and a total loss of $1.7 billion for limited partners.

S. 424, like the bill that earlier this year passed the House on a 408-6 vote, would make it easier for limited partners to organize in opposition to the transaction, improve disclosure to limited partners, and better protect the rights of limited partners, including those who oppose the rollup.

In a June letter to members of the Senate Banking Committee, CFA urged the panel to add two key investor protections:

- requiring the provision of an independent fairness opinion to all limited partners to help them assess the implications of the proposed rollup and possible alternatives; and
- restricting use of alternatives to financial compensation for partners who oppose the rollup to situations in which financial compensation is either infeasible or not in the dissenting partners' best interests.

Both provisions are included in the House bill.

Instead of adopting the stronger House language, however, the Senate committee unanimously adopted a substitute amendment worked out by bill sponsor Christopher Dodd (D-CT) and Sen. Phil Gramm (R-TX), who has been the bill's strongest opponent.

Particularly harmful are provisions in the amendment that would: exclude certain types of rollups from the definition and thus from the improved disclosure and dissenter's rights contained in the bill; deny dissenters' rights in rollups approved by three-quarters of all partners; and allow rollups to go forward in violation of the legislation while the SEC is writing the implementing rules.

"These provisions seriously chip away at the investor protections and undermine the whole purpose of the legislation," Roper said. "We will be working to get them stripped from the bill, and the stronger House provisions added, in conference committee."

Product Safety Update:

CPSC Votes To Make Lighters Child-Resistant

The Consumer Product Safety Commission (CPSC) voted unanimously in June to set a mandatory safety standard requiring most cigarette lighters to be child-resistant beginning in the summer of 1994.

"We are delighted to see the agency take this long overdue action," said CFA Product Safety Director Mary Ellen Fise. "It is a highlight in a time otherwise characterized by agency inaction and indecision."

Children under five playing with lighters cause more than 5,000 residential fires each year, resulting in approximately 150 deaths and more than 1,000 injuries. The agency expects the new standard to prevent about 100 of those fire-related deaths each year.

The standard covers more than 95 percent of the estimated half-billion lighters purchased annually in the United States, including all disposable butane lighters and most novelty lighters, which sometimes resemble cartoon characters, animals, or other items that may be especially appealing to children. It exempts more expensive luxury lighters which the agency says are rarely associated with child-play fires.

Under the standard, disposable and toy-like novelty lighters will have to resist the efforts of 85 percent of the children to operate them in a specified test. The test will use lighters that produce a signal, rather than a flame.

"This commission has traveled a long and sometimes difficult road in the development of this standard," said CPSC Chairman Jacqueline Jones-Smith. "But it has been time and resources well spent."

"This standard has the potential to save more lives than any standard issued by the commission in its 20-year history," she added.

Consumer Groups Endorse Child Safety Bills

At a July 1 hearing before the Consumer Subcommittee of the Senate Commerce Committee, CFA joined with four other consumer groups in expressing support for both S. 680, the Child Safety Protection Act, and S. 799, the Bucket Drowning Prevention Act.

S. 680, introduced by Sens. Slade Gorton (R-WA) and Jay Rockefeller (D-WV), is a companion to legislation which has already passed the House. It addresses the hazards posed to children by toys and by inadequate bicycle helmet safety standards.

To reduce toy-related deaths and injuries, S. 680 would require that toys which are intended for children between the ages of three and six and which contain small parts be clearly labeled to inform those purchasing the toys of the choking hazard they pose for younger children. It would also set a larger minimum size requirement for balls intended for use by children under three and require warning labels on balloon packages.

On bike helmets, the bill would require the CPSC to develop a uniform national standard for bicycle helmets that includes provisions to protect against helmet roll-off during a crash and to address the need for special protection for young children's heads.

"Through enactment of S. 680, Congress will fulfill a role which the Consumer Product Safety Commission has refused to accept — the role of protecting the health and safety of our country's children," said Herta B. Feely, Executive Director of the National SAFE KIDS Campaign, in testimony on behalf of SAFE KIDS, CFA, Consumers Union, Public Citizen's Congress Watch, and the U.S. Public Interest Research Group.

Congressional Action Needed To Combat Bucket Drownings

S. 799, introduced by Sen. Howard Metzenbaum (D-OH), would require all five-gallon buckets to bear large, permanent warning labels in Spanish and English to warn parents and other caretakers of the drowning hazard they present. It would also require the CPSC to develop a performance standard for buckets to address the drowning hazard to infants.

Since 1985, approximately 400 infants have drowned in five-gallon buckets. It is estimated that nearly one child a week drowns in this manner, and 130 infants are sent to emergency rooms each year.

"The danger of infants' drowning in five-gallon buckets is one of the most serious and deadly product hazards to children, and yet CPSC and the bucket industry have failed to take steps that would significantly reduce the rates of death and injury associated with this product," said Kristen Rand, Counsel with the Washington Office of Consumers Union, in testimony on behalf of the five groups listed above.

"Congressional action is necessary if these unnecessary deaths are to be prevented," she added.

Banking Update:

Check Cashing Bill Introduced

Legislation has been introduced in the House to address abuses in the rapidly growing check cashing industry and to require federally insured financial institutions to cash government checks.

H.R. 1448, the "Check Cashing Act of 1993," is "designed to provide protection for the millions of American citizens who have been abandoned and ignored by the nation's insured and subsidized banking industry," said CFA Legislative Representative Chris Lewis in June testimony before the Human Resources and Intergovernmental Affairs Subcommittee of the House Committee on Government Operations.

Introduced by freshman Rep. Cleo Fields (D-LA), the bill would:

- place limits on the amount check cashing outlets can charge;
- provide for uniform regulation of check cashing operations, including the establishment of market entry requirements and minimum solvency standards; and
- require federally insured depository institutions to cash government checks when proper identification is presented.

"These are critical first steps in extending basic consumer protections to millions of American citizens who are beyond the physical reach and marketing plans of federally insured banks," Lewis said in endorsing the legislation.

When CFA last surveyed fees at check cashing outlets in 1989, firms charged slightly less than three percent of the face value of the check on average, but 10 percent fees were not uncommon, and some firms charged fees as high as 20 percent.

"CFA regards the Fields legislation as the first step — a very important first step — in the fight to bring banking services to all areas and all citizens on a non-discriminatory basis," Lewis said.

Senate Considers Legislation To Address Home Equity Scams

Legislation has been introduced in the Senate, S. 924, the "Home Ownership and Equity Protection Act," to address the recent rash of home equity scams.

The bill, introduced by Senate Banking Chairman Donald Riegle (D-MI) and ranking minority member Alfonse D'Amato (R-NY), would make it illegal for the highest priced home equity loans to contain balloon payment, negative amortization, and prepayment penalty clauses — loan terms that have led many homeowners to lose their homes.

As such it "is a good first step toward developing the kind of legislative remedy that is needed to end the predatory practices that cost consumers their homes and their life savings," said Michelle Meier, Counsel for Government Affairs in the Washington office of Consumers Union (CU), in May testimony before the Senate Banking Committee. Meier testified on behalf of CFA, Public Citizen, and U.S. Public Interest Research Group (U.S. PIRG), as well as CU.

Beyond these specific solutions, what is needed is "a broad approach — one that generally prohibits unfair and deceptive practices in the home equity market," Meier said. "Without broad prohibitions against predatory equity loan practices, prohibiting today's unconscionable deeds will only spur the creation of new ones tomorrow."

Meier advocated three additional systemic reforms to "reduce or eliminate the incentives that produce the problems in the first place," including:

- either setting a national usury ceiling and other comprehensive protections or giving back to states their traditional authority in these areas;
- changing the legal rules under which foreclosed property is sold to eliminate the "powerful incentives for unscrupulous lenders to coerce consumers into equity loans they can't afford;" and
- extending the rules to the secondary lenders who purchase such loans.

Meier also urged the sponsors to strengthen the bill by applying its protections not just to closed-end loans, but also to all loans secured by the home but not used to purchase the home.

By adopting such reforms, the sponsors would ensure "that today's problems don't reappear in different form tomorrow," she said.

Fair Credit Bills Introduced

Credit reporting reform legislation has been introduced in both houses of Congress without the preemption provision that caused consumer groups to oppose last year's bills.

In late May, the Senate Banking Committee held a hearing on the legislation, introduced by Sens. Richard Bryan (D-NV) and Christopher Bond (R-MO) and Chairman Riegle.

Testifying on behalf of CU, CFA, U.S. PIRG, and Bankcard Holders of America, Meier said the reforms are needed to improve the accuracy of credit reports and to better protect the privacy of credit files.

A key to accomplishing both those goals is improving enforcement, including making it easier for consumers to recover damages and giving the Federal Trade Commission (FTC) broader oversight and enforcement authority, she said.

Although S. 783 contains a number of the needed reforms, she said, it falls short in several key areas:

- it should give consumers the right to receive a free report from each of the major reporting agencies at least once a year;
- it should impose basic duties on banks and other businesses that supply information to bureaus, including subjecting them to liability when they fail to comply;
- it should improve the civil liability rules of the current law by making statutory damages available without the need to show the violation was willful; and
- it should limit disclosure of a consumer's credit report file to cases in which the consumer has authorized the disclosure and only for the purposes authorized, thus prohibiting all pre-screening.

"We are disappointed, then, that the bill weakens the FTC's current rule by authorizing all forms of pre-screening, including pre-screening for direct marketing purposes, under an 'opt out' approach," Meier said. "The bill dismantles existing privacy protections when they need to be tightened."

CONSUMER FEDERATION OF AMERICA
1424 16th Street, N.W., Washington, D.C. 20036
(202) 387-6121

President: *Jean Ann Fox*
Executive Director: *Stephen Brobeck*
Legislative Director: *Gene Kimmelman*
Assistant Director: *Ann Lower*
Research Director: *Mark Cooper*
Public Affairs Director: *Jack Gillis*
Product Safety Director: *Mary Ellen Fise*
Legislative Representative: *Chris Lewis*
Coalition Coordinator: *Diana Neidle*
Executive Assistant: *Edith Furst*
Conference Manager: *Sheila Meade*
Legislative Counsel: *Bradley Stillman*
Administrator: *Miguel Carpio*
Secretary: *Lydia Grogan*
Administrative Assistant: *Karen Edwards*
Administrative Assistant: *Milena Carpio*
CFAnews Editor: *Barbara Roper*

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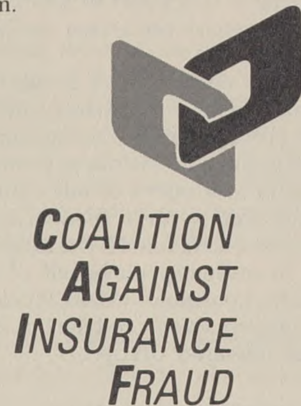
Campaign Launched Against Insurance Fraud

Consumer groups, government agencies, and insurance companies launched a new campaign in June to combat the growing incidence and cost of insurance fraud.

The campaign is led by a new organization, the Coalition Against Insurance Fraud, which will aggressively promote initiatives to help prevent and detect insurance fraud by insurers, policyholders, and others seeking to rip off the insurance system.



"The most conservative estimates of insurance fraud suggest that it costs the country tens of billions of dollars each year," said CFA Executive Director Stephen Brobeck, who serves as co-chair of the new coalition.

"By reducing this fraud even modestly, consumers can achieve significant premium savings," he added.

Although the extent of fraud is difficult to quantify, recent media reports of insurance fraud cases and studies of specific aspects of the problem provide evidence of how pervasive the problem is.

For example, a 1991 study of injury claims from auto accidents in Massachusetts found that 9 percent were completely fraudulent, and an additional 45 percent were exaggerated. A 1992 audit of workers compensation policies in Florida found that 46 percent of employers underreported the level of their payroll or misclassified employee occupations.

Coalition Releases Study

The first initiative of the coalition is the release of a study on the costs of auto insurance fraud and potential solutions to it. According to the study prepared by CFA Research Director Mark Cooper:

- auto insurance fraud is increasing and now costs at least $8 billion annually;
- anti-fraud programs potentially can reduce auto insurance fraud by about $2 billion annually; and
- key elements of effective anti-fraud programs include inspecting automobiles before insurance is issued, creating special investigative units, installing fraud hotlines, and developing consumer education programs.

"To succeed, anti-fraud programs must be comprehensive and rigorous," Cooper said. Based on experience in the few states that have adopted such programs, it is clear that "anti-fraud programs in general, and pre-inspection programs in particular, are cost-justified," he added.

Experts attribute the rise in insurance fraud to several factors, including:

- cutbacks by insurance companies that reduced the number of trained staff engaged in detecting insurance fraud;
- a willingness on the part of many insurance companies to pay suspicious claims rather than fight them;
- a reduction in profits in certain segments of the health care industry which tempts some treatment facilities and health care providers to make up the difference by inflating or fabricating claims;
- insufficient penalties for perpetrators and insufficient law enforcement and regulatory attention to the problem; and
- a tendency on the part of the public to see insurance fraud as a victimless crime justified in part by high insurance premiums.

Campaign Will Include Three-pronged Offensive

At the state level, the coalition will push for adoption of anti-fraud programs including the key elements identified in the report.

On the federal level, the coalition will push for passage of a federal proposal to punish insurers that defraud consumers or provide false information to insurance regulators.

"We will also ask insurers and their policyholders to do their part," Brobeck said. "Only such a three-pronged offensive can win the war against insurance fraud."

The coalition, which was organized by CFA and the American Insurance Association, represents a partnership of 17 consumer groups, government agencies, and insurance organizations.

Coalition members include CFA, the National Association of Insurance Commissioners, the National District Attorneys Association, the National Association of Consumer Agency Administrators, Consumer Fraud Watch, the International Association of Insurance Fraud Agencies, Office of Attorney General in Minnesota, National Urban League, and the National Insurance Crime Bureau.

Insurance company members are: American Insurance Association, Aetna Life & Casualty, The Continental Corporation, Fireman's Fund, ITT Hartford Insurance, Nationwide Insurance, State Farm Insurance Companies, and The Travelers Insurance Companies.

The coalition appointed Dennis Jay, who has extensive experience in developing consumer/industry initiatives, to serve as executive director. Other staff will be appointed later this summer to implement the coalition's communications and legislative strategies, according to Jay.

"Our coalition has great expectations," Brobeck said. "Because of its broadbased membership, it has the potential not only to effectively advocate new anti-fraud measures, but also to convince the public that fraud is harmful to them and they must fight it. At stake is tens of billions of dollars of wasted insurance premiums."

Proposal To Allow Off-Page Mutual Fund Sales Questioned

The American Association of Retired Persons (AARP) and CFA filed comments in June questioning both the advisability of and the need for the Securities and Exchange Commission (SEC) proposal to allow mutual funds to be sold through order forms included in advertisements that contain certain specified disclosures.

Currently, investors in direct marketed mutual funds must receive a full prospectus before they can place an order, while investors who purchase a mutual fund through a sales representative can do so without receiving a full prospectus until the confirmation of sale.

The primary strength of SEC's proposal is its potential for promoting the sale of no-load and low-load funds, most of which are direct marketed, and for allowing easier comparison of key information about funds, including costs, risks, performance history, and investment objectives and policies, said CFA Director of Investor Protection Barbara Roper. However, the proposal "is seriously flawed in other ways," she said.

The reason behind the current disparity in prospectus requirements between direct marketed funds and those sold by commissioned sales representatives is that the sales representatives have a legal responsibility to determine the suitability of the investment for the investor. "Since no similar protection exists for investors in direct marketed funds, more complete advance disclosure is required to enable those investors to make their own suitability determination. In light of the degree to which investor protection in the securities industry is based on adequate advance disclosure, we seriously question the advisability of lessening those protections," the groups stated in their comments.

CFA and AARP proposed an alternative approach that would require all prospectuses to report the key core information identified by the SEC for inclusion in the "off-the-page prospectus" at the front of the prospectus, in plain English, and in strictly comparable format. Furthermore, all investors would have to receive such a prospectus before investing, not just those who invest in direct marketed funds. "If adequate disclosure is to form the foundation of investor protection, then it seems obvious that the disclosure has to take place before the purchase," Roper said.

CFA and AARP's alternative "would provide all investors, not just those who purchase direct marketed funds, with more easily understood information on which to base their investment decisions," the groups stated. "Furthermore, it would help to increase competition based on the cost of funds as well as performance, which would clearly benefit consumers."

CFAnews
Consumer Federation of America
1424 16th Street, N.W. • Washington, D.C. 20036 • (202) 387-6121

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