

**Statement of Chairwoman Sue Kelly**

**House Committee on Financial Services**  
**Subcommittees on Oversight & Investigations**  
**and Financial Institutions -**  
**Joint Hearing entitled "Protecting Consumers:**  
**What can Congress do to help financial regulators**  
**coordinate efforts to fight fraud?"**

**Tuesday, March 6, 2001 at 2:00 p.m. in 2128 Rayburn**

Today, we are here to hold the first of many subcommittee hearings on issues of importance to consumers, regulators and the financial services industries. As this is a joint hearing of the Oversight and Investigations Subcommittee and my colleague from Birmingham, Mr. Baucus', Subcommittee on Financial Institutions. I want to thank him for allowing me to Chair this hearing and for his invaluable thoughts and observations on the issues before us. In addition, I want to thank the Ranking Member of our Subcommittee on Oversight and Investigations, the gentleman from Chicago, Mr. Gutierrez and the Ranking Member of the Financial Institutions Subcommittee, the gentlewoman from Los Angeles, Ms. Waters, for their work on this issue and for agreeing to hold this hearing on this very important issue. I look forward to continuing to work with you along with all the members of our committee as we consider potential legislation that may result from the information we gather at this hearing.

With the recent enactment of the Gramm-Leach-Bliley Act, Congress required 'functional regulation' of our financial services industry. In order to make functional regulation work, Congress directed regulators to work together in the policing of their industries. Particularly in the insurance industry since the enactment of the 1994 Insurance Fraud Prevention Act, the insurance industry has been unable to access the necessary information enforce this law. This act prohibits anyone who has been convicted of a felony involving dishonesty or a breach of trust from engaging in the business of insurance. However, the law did not provide any means for potential employers or insurance regulators to check for a criminal background.

Proper implementation of these acts clearly requires both increased coordination and communication among the regulators and the highest of standards for those who work in the financial services industry. We must ensure that the regulators have all the tools they need to meet these goals. To add to this problem we have clear cases where criminals after being banned from one financial industry have gone to another financial industry to continue their fraud. The best example of this is the case of Martin Frankel who was just reported to have been extradited back to the U.S. to face charges for his crimes after his failed escape attempt last week. After being permanently banned from the securities industry in August, 1992, Mr. Frankel migrated to the insurance industry, where he is

charged with perpetrating an investment scam which stole more than \$200 million from insurance companies. Representatives from the General Accounting Office are here with us today who will provide some details of his alleged activities before he fled the country in 1999. Mr. Frankel faces a thirty-six-count indictment with twenty counts of wire fraud, thirteen counts of money laundering, and one count each of securities fraud, racketeering and conspiracy.

We have called this hearing to gain a better understanding of these issues from the perspective of regulators and the industry. It is our hope that this can lead to legislation to facilitate communication, which can prevent criminals from exploiting this perceived weakness as was perpetrated by Mr. Martin Frankel. At issue before us is the impact these problems have upon consumers and what we can do to further protect consumers by better regulatory oversight.

Before us today we are honored to have two distinguished panels of witnesses to share their thoughts and observations about this problem. I thank all of you for taking time out of your busy schedules to discuss these issues with us.