



CURRENCY

Committee on Financial Services

Michael G. Oxley, Chairman

**For Immediate Release:
Tuesday, March 6, 2001**

Contact: Peggy Peterson at 226-0471

**Opening Statement
The Honorable Michael G. Oxley
Chairman, House Financial Services Committee
March 6, 2001
Joint Hearing
Subcommittee on Oversight and Investigations and
Subcommittee on Financial Institutions and Consumer Credit
"Protecting Consumers: What Can Congress Do To Help Financial Regulators
Coordinate Efforts To Fight Fraud?"**

Last Sunday, the United States extradited international fugitive Martin Frankel from Germany to face a 36 count indictment for insurance fraud, money laundering, and racketeering. Before he committed these crimes, Frankel had been banned for life from the securities industry for fraudulent activities. But the State insurance regulators had no knowledge of this ban, and Frankel easily switched from the securities to the insurance industry, where he proceeded to defraud State regulators out of hundreds of millions of dollars in lost assets.

Unfortunately, Martin Frankel is but one of thousands of fraudulent actors that are undermining our financial system every day. Modern technology and the Internet have created wonderful new opportunities to begin reshaping our financial services industry to better serve consumers, but they are also fraught with the potential for fraud. Consumers and regulators can no longer rely on face-to-face contact and communication to determine trustworthiness. Instead, the technology of the future demands an evolution in our regulatory oversight to protect consumers. If we're not willing to invest now to coordinate the anti-fraud systems of our financial regulators, I guarantee that the next Martin Frankel is waiting to take advantage of us again, at a much higher cost.

Overall, the financial regulators here before us today have done a good job of protecting consumers, and should be commended for upgrading their computer systems and

beginning discussions of cross-industry coordination. But these efforts are not enough. And they can never be enough when done solely on an ad-hoc basis.

We need a coordinated anti-fraud computer system that establishes an automated information connection among regulators. Each regulator keeps a database of individuals and entities that have been censured for wrongful acts. In most cases, these violations are already publicly accessible on each agency's website. But there's no way for any regulator to look the information up without manually going to each website. Yes, the State insurance regulators could have gone to the SEC website and discovered Frankel had been barred from the securities industry. But with literally millions of agents and company licenses being processed each year, that search will never happen unless Congress steps in and creates a simple computer search engine networking the systems of the financial regulators

This sounds simple, and it's something that every national and international business is doing today. But it's not happening in the government because there is no entity tasked with coordinating regulations across all financial industries. And there is no mechanism now for regulators to share information without losing critical legal privileges and confidentiality protections for the material, as well as potentially being subjected to unlimited liability. The regulators can not set up this system by themselves without congressional legislation and coordination.

An anti-fraud coordination mechanism can be put together without requiring any new collection of information, with no additional bureaucracy or regulation, and with long-term cost savings for consumers. The network would be only accessible to regulators and only include data on financial professionals, not individual consumers. Even if this coordination effort only catches one future Martin Frankel, it will have paid for itself many times over.

Three years ago, the Members of this Committee helped enact historic financial services modernization legislation to integrate the cornerstones of our financial world. Today, we are taking the next step forward. Having begun integration of the industries, we must now turn to integrating financial regulation, to create a coordinated and seamless anti-fraud system to protect consumers.

I thank Chairwoman Sue Kelly for braving the snowstorms in New York to Chair this hearing today and my friends Chairman Bachus, and ranking Members Maxine Waters and Luis Gutierrez for their leadership in putting this hearing together.

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