



Highlights of [GAO-06-245T](#), testimony before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate

## Why GAO Did This Study

In 2004, a series of media articles alleged that financial firms were marketing expensive and potentially unnecessary insurance or other financial products to members of the military. GAO's report for this committee examined (1) features and marketing of certain insurance and securities products being sold to military members and (2) how financial regulators and the Department of Defense (DOD) were overseeing the sales of insurance and securities products to military members. GAO also examined issues relating to DOD's oversight of insurance sales for a report issued in June 2005.

## What GAO Recommends

GAO's report to this committee recommends that Congress consider acting to ban contractual plans, have regulators ensure that products being sold to military members meet existing insurance requirements, and have appropriateness or suitability standards for military sales developed. GAO's report also recommends that DOD and financial regulators take steps to improve information sharing between them and take other steps to improve their oversight efforts. These organizations provided comments generally agreeing with this report and its recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-06-245T](http://www.gao.gov/cgi-bin/getrpt?GAO-06-245T).

To view the full product, click on the link above. For more information, contact Richard Hillman (202) 512-8678 or [hillmanr@gao.gov](mailto:hillmanr@gao.gov).

# FINANCIAL PRODUCT SALES

## Actions Needed to Protect Military Members

### What GAO Found

A limited number of firms accused of using deceptive sales practices are targeting costly financial products to military members with features that reduce their benefits to military purchasers. Although some service members benefited from a product that combines insurance with a savings component, the additional coverage was more expensive than the low-cost government insurance almost all service members already receive. One feature reducing these products' benefits was that if the service member ever stopped making payments and did not request a refund, the accumulated savings is used to continue the life insurance coverage. With military members often leaving the service within a few years, most stopped their payments and likely failed to amass any savings from their purchase. Various regulatory and other actions have been taken against the insurance companies that sell these products in the past and new investigations are underway in 14 states over whether these companies have failed to clearly identify the products as insurance as required by law or whether the products' features comply with all state insurance requirements. A small number of broker-dealers were also marketing a securities product—the mutual fund contractual plan—that has largely disappeared from the civilian marketplace. Although potentially providing returns equivalent to other products if steady payments are made over a long period, these contractual plans proved more expensive to most military purchasers than other widely available alternative products because many military members stopped making payments in the first few years. In addition, the largest broker-dealer selling contractual plans has already been sanctioned by regulators for using misleading marketing materials and examinations into the practices of other firms marketing this product are also underway.

A lack of routine complaint sharing by DOD prevented financial regulators from identifying inappropriate sales to military service members earlier. Although insurance regulators in some states review sales activities periodically, most rely on complaints to indicate that potentially problematic sales are occurring, particularly since no appropriateness or suitability standards exist for insurance. Securities regulators' efforts were also hampered by the lack of complaint sharing from DOD personnel. Because sharing with financial regulators can be complicated by privacy regulations and potential legal restrictions, DOD personnel at individual installations generally resolved matters involving product sales with companies directly. However, in light of the problems identified in our June 2005 report and the report issued for this committee, DOD has efforts underway to revise its solicitation policies regarding such sales, and has reviewed ways in which it can legally share additional information with financial regulators. However, DOD has not yet issued these new policies or coordinated with military installation personnel or with regulators on appropriate ways that additional sharing could occur.