

MONTANA STATE AUDITOR

JOHN MORRISON
STATE AUDITOR



COMMISSIONER OF INSURANCE
COMMISSIONER OF SECURITIES

EXHIBIT NO. 0012
DATE 2/1/05
BILL NO. SB

Memorandum of Support for SB 238 and SB 239

To: Members of the Senate Business, Labor and Economic Affairs committee
From: Montana State Auditor John Morrison
Date: January 14, 2005
Re: Support of SB 238 and SB 239 – Investor and Consumer Education Funds

The Montana State Auditor's office supports SB 238 and SB 239, both carried by Senator Mike Wheat.

The first bill creates a consumer education fund, funded through a portion of premium tax, and would be available to the department to provide insurance consumers with education on fraud matters, how to choose an agent and other insurance issues.

The second bill creates an investor education fund managed by the securities department. The fund, which is funded by a portion of the fees paid to the department, would be available to provide for investor education on fraud matters, how to choose an investment advisor and other securities issues.

The benefit of conducting consumer/investor education seminars became very clear last year when we were able to work with AARP and MSCA to sponsor limited consumer education/fraud seminars. In five weeks we reached over 1875 seniors in 23 communities and educated them on securities, fraud, identity theft and other scams aimed at seniors. We also trained local law enforcement on scam recognition and prevention.

But there is so much more work to do. We have been asked to return to many locations. Limited resources make outreach difficult.

Assisting Securities Clients

A senior advocate contacted us on behalf of a retired nurse. She invested her entire retirement with a securities salesperson who had illegally taken more than \$150,000 for his own benefit. When the securities salesperson failed to repay the money, the retired nurse was forced to take out a second and third mortgage, was on the verge of losing her home and was unable to pay for food and medications. The State Auditor's Office investigated the case and ultimately gained restitution for the retired nurse. We were able to arrange for the securities firm to pay off the third mortgage, and arranged for the salesperson to make monthly payments.

"It is so great to know that people like you are looking out for the welfare of the senior citizens. I wish I could be more poetic in thanking you ..."

Consumer comment from senior

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Assisting Insurance Consumers

After attending an outreach consumer seminar, one senior called our office to inquire about an agent selling Medicare supplement policies. The agent, it turned out, was selling fraudulent policies. Several seniors had actually dropped their valid Medicare supplement policies for his 'fake' policy.

Because of the tip from the senior who had attended the seminar, we were able to get folks back onto their original insurance coverage. Because of quick action by the State Auditor's Office, we were able to investigate and criminally prosecute the agent. The senior told us that he wouldn't have known to contact our office to check out this agent without having attended the seminar.

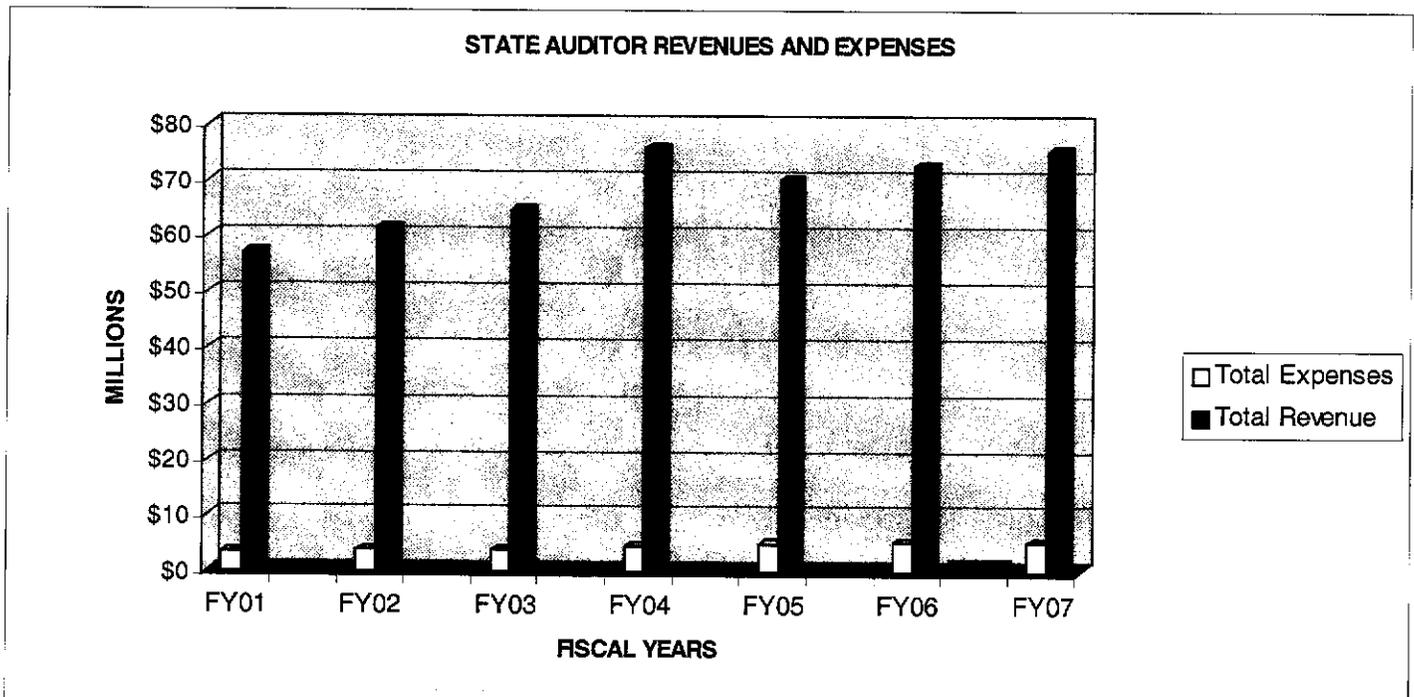
As wonderful as these stories are, there are thousands of Montanans who don't know what to look for or where to turn when a fraudulent offer comes to their door. Sadly, by the time we get many of these cases, the money and the fraudster are long gone. Fraud prevention is the only solution to preventing the action before it occurs.

Many other states have investor protection funds specific to securities including:

- ◆ Utah
- ◆ New Mexico
- ◆ Delaware
- ◆ Illinois
- ◆ Kansas
- ◆ North Carolina
- ◆ Tennessee
- ◆ Wisconsin
- ◆ Iowa
- ◆ Oklahoma

We urge your support for SB 238 and 239 so that Montana's investors and consumers can become well informed and knowledgeable -- our most powerful tool in preventing fraud.

Department budget in comparison to revenues generated for Montana general fund



This bill will have little impact on revenues generated.