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DIRECTORATE FOR FREEDOM OF INFORMATION AND SECURITY REVIEW
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21 SEP 2000

Ref: 00-F-2275

Mr. Ronald J. Stading
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Dear Mr. Stading:

This is in reference to your August 22, 2000, Freedom of Information Act request for a "report on the topic of Insurance Solicitation on Military Installations." Your letter was received in this Directorate on August 22, 2000.

The enclosed document entitled, "Final Report, Insurance Solicitation Practices on Department of Defense Installations," is provided as responsive to your request. Ms. Jeanne B. Fites, Deputy Undersecretary of Defense for Program Integration and an Initial Denial Authority, has determined that bracketed portions of the report could be expected to constitute a clearly unwarranted invasion of the personal privacy of individuals. Therefore, the information contained in those brackets is withheld pursuant to 5 USC § 552(b)(6).

You may appeal Ms. Fites' decision to withhold this information by submitting your rationale to reverse the initial denial. Any such appeal should be postmarked within 60 days of the date of this letter and forwarded to the address on the letterhead above.

The Office of the Secretary of Defense incurred expenses of $19.20 for the reproduction of 128 pages at $.15 per page. The reproduction fee is chargeable. Please indicate the reference number above and remit a check or money order made payable to the U.S. Treasurer in the amount of $19.20 within 30 days to this Directorate. Please note the billing date above since payments received later than 30 days after the billing date may incur additional interest charges.

Sincerely,

H. J. McIntyre
Director

#F963

Enclosure:
As stated

#963

Final Report
Insurance Solicitation Practices
on
Department of Defense Installations

Presented to:

Deputy Under Secretary of Defense (Program Integration)

May 15, 2000

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EXECUTIVE SUMMARY

Thirty Years of Deceptive Practices

For nearly 30 years the sale of life insurance on military bases has been the subject of controversy and repeated violations of Department of Defense (DoD) policies by insurance sales agents. Since 1971, when the issue first came to the attention of then Secretary of Defense Melvin Laird, DoD has reformed and refined policies that have attempted to deal with deceptive and coercive sales tactics by unethical sales agents.

Policies Are Understandable—and Ignored

The policies are clear and understandable. Violations of the policies continue to occur throughout the DoD, including the Far East, Europe and the United States, for several reasons:

- Unscrupulous agents subtly deceive and coerce young service members by preying on the special character of military life that inculcates willing obedience.
- Insurance companies that serve the military market continue to employ agents who are unwilling or unable to comply with basic ethical precepts.
- The extent of the deceptive and coercive insurance sales practices is not widely understood below the level of the Office of the Secretary of Defense staff.
- The controlling DoD directive has inadequate reporting and inspection requirements.
- Investigations and due process hearings for potential insurance policy violations excessively consume scarce and valuable personnel, investigative and staff resources at field command levels.
- Neither the military services nor their field commands have staffs that are sufficiently sized or expert to regulate the conduct of the companies and their agents.
- The DoD allotment system permits unscrupulous agents to mislead service members and to avoid consumer protections established by DoD and service policies.
- Current DoD education policies provide inadequate training in personal finance for junior enlisted personnel.

$240 Million Annually in Questionable Sales

Insurance companies whose sale practices on military installations have raised ethical questions receive allotments in excess of $240 million annually. One company, Academy Life Insurance Company, was barred from soliciting insurance sales on military installations in November 1998 based on repeated DoD policy violations throughout Europe and in the Jacksonville, Florida, area. This company receives more than $25 million annually from more than 28,000 service members. Litigation with these companies is expensive and time consuming. To date, judicial remedies have been ineffective at preventing the deceptive practices.

Service members routinely do not understand they are buying life insurance policies. They believe they are investing in savings programs that will net them a tax deferred growth rate of 10%-14%. Agents routinely advise service members to cancel their Servicemembers' Group Life Insurance and to withhold less than the proper amount from their federal tax payments to pay for this insurance. Impartial experts rate the policies

bought through these deceptive or coercive practices as "very bad" or the "worst" among available competitive insurance opportunities.

Insurance companies implicated in these schemes have retained millions of dollars in allotments received even after their policies have been cancelled. These same insurance companies have permitted agents to engage in DoD policy violations throughout the country, even though the practices of the companies were under the current scrutiny of the federal courts and state regulatory agencies. Companies whose agents have been involved in these practices have previously avoided the effects of all local or regional military bars to their activities. Similarly, state insurance regulation programs, upon which the DoD has relied, are not effective at protecting military insurance consumers.

Violations Affect Morale, Discipline and Unit Integrity

Victimized service members who discover their losses blame their leaders as well as the agents for the deception. Where the sales occur in a unit, or as a result of a class conducted by the unit, the victims are particularly concerned about why the unit exposed them to these "counselors" or how the command permitted the "instructors" to solicit them. The integrity of the military leaders and their military commands is directly impacted by these sales. Indeed, the integrity of the DoD has been exposed to ridicule for permitting these practices to continue.

Recommendations

To reduce the impact of these unethical and misleading sales practices on the morale, discipline and integrity of the Armed Forces this report recommends:

- Eliminate On Base Insurance Solicitation.
- Establish Meaningful Consumer Protections for the Allotment System.
- Direct a Detailed Inquiry into the Disposition of Unlawfully Withheld Allotment Payments.
- Require Improved Personal Finance Training in All Enlisted Schools.
- Establish Minimum Standards for All Personal Finance Training Conducted by Non-DoD Personnel.
- Establish a DoD Consumer Affairs Education and Communications System.
- Establish a DoD Reporting and Inspection System.

1.0 INTRODUCTION

On September 11, 1998, Francis M. Rush, Jr., Acting Assistant Secretary of Defense, Force Management Policy, barred Academy Life Insurance Company and its agents from conducting commercial activities on Department of Defense (DoD) installations for a period of 3 years. This action, based on clear and repeated violations of DoD policies designed to protect military personnel and their families from deceptive sales practices, marked the first time that a commercial life insurance company had been banned from all military installations.

During the review that led to action against Academy Life, a troublesome pattern appeared to officials within the Office of the Secretary of Defense. First, the problems with Academy Life and its military sponsor, the Non Commissioned Officers Association (NCOA), had been well documented during the 1970s. Captive audiences, deceptive sales, use of official position to solicit subordinates, and more had occurred without question 25 years earlier. At that time the DoD established new and detailed regulatory requirements intended to protect military personnel and limit the sale of commercial life insurance on military installations. Second, allegations similar to those made against Academy Life were now being made against several other insurance companies and the private associations affiliated with those companies. What was the scope of the problem? Were the regulations effective? If abuses were continuing, how could the problems be resolved? These questions, and others that are related, are answered in this report. But first, a few words to describe the scope of the problem and the manner in which this problem affects the lives of service members are appropriate.

The economic impact of deceptive insurance sales practices within the DoD is real and significant but not widely known. At the time action was taken against Academy Life, the insurance company was receiving more than $25 million annually in premiums from more than 28,000 service members. These service members were paying, on average, $80 per month in after-tax income for their policies. Payments to other insurance companies whose practices have been questioned exceed $240 million annually. Several of these companies receive average monthly premiums from service members that exceed $100 per month. For service members, all of whom are eligible to purchase $200,000 of life insurance from the Government for $16 per month, the loss of $80 to $100+ per month in take-home pay has a real impact on their quality of life.

All of the service members who purchase this $80 to $100+ insurance believe they are saving and investing for the future. Many actually do not understand they are buying life insurance. These service members are sold "Wealth Builders," "Security Builders," "Flexible Dollar Builders," or similar sounding products. The products they purchase are life insurance policies with add-on features titled as savings products. These service members' aspirations are to provide for themselves and their families at a future time when they ultimately purchase a home, retire or educate their children. As most learn the truth about the quality of these so-called "Wealth Builders," the allotments are stopped, the policies lapse or are cancelled, and the service members receive nothing or a few cents on the dollars invested in return. Obviously, these service members have learned a harsh lesson about consumer economics and the insurance industry. Not so obvious is the fact that these service members also view with disappointment or even disdain the

military leaders who exposed them to these deceptive practices. Beyond question, this issue has a real impact on unit integrity and the morale of those who conclude they were misled.

The problem of deceptive sales practices is not new to the insurance industry. Major insurance companies recently have agreed to refund billions of dollars in fines and restitution to policyholders. State regulatory agencies deal with the larger issues relating to these practices every day. This report is limited to those questionable sales practices that flourish because of the unique nature of the military community. Nevertheless, the detailed discussion will address the reasons why the consumer protections, provided by state regulatory authorities, are of marginal value to service members and their families.

Within the military community, military authority affects the private commercial behavior of military personnel as well as their public behavior. Subordinates heed their superiors in their private financial dealings in ways that are not common to the civilian community. Historically, military superiors have played a quasi-parental role in regard to personal financial affairs. Even today, mentors play a real role in these activities. In almost all cases of on base insurance sales, the agent has a letter signed by a senior military official that authorizes the sales activity. In addition, the consumer's guard is down when the sale occurs on the installation because mere presence on a military installation connotes approval by official authority. This issue becomes more significant when the agent has no authorization to be on the installation, as frequently occurs.

In addition, the military pay system, with its no-cost payroll deductions, called allotments, is conducive to abuse by those who would use coercive or deceptive sales practices. The allotment system ensures a steady stream of payments from the buyer to the seller unless the buyer makes a formal written request to appropriate military authority to cancel the allotment. Moreover, because sellers frequently possess the allotment forms, contrary to DoD regulations, obtaining the service member's signature and submitting the forms to finance authorities is easily accomplished.

This report begins with a detailed description of the background of this problem. In doing so, separate appendices describe how military authorities have attempted to deal with companies that have repeatedly been connected with adverse allegations related to sales practices. The report then moves on to the regulatory environment established for insurance sales. After discussing state and federal roles in the regulation of insurance, the report discusses and assesses the effect of DoD and military service regulations. Thereafter, the discussion turns to the role of the military and naval mutual aid associations. After discussing the recent field surveys relating to this issue, the report then discusses the issues relating to the allotment process, coercive environment (high-pressure sales), deceptive practices, conflict of interests, and training. The report concludes with findings and recommendations that relate to current practices and future prospects.

2.0 BACKGROUND

The sale of life insurance on military installations has been a source of controversy within the defense personnel community since at least the 1970s. During the1970s, the Army Times Publishing Company ran a series of articles charting the growth of the Non Commissioned Officers Association (NCOA) and its related insurance companies sale of life insurance. The articles detailed the corporate structure of both NCOA and the insurance companies and described the phenomenal growth in sales achieved by the NCOA "counselors." In 1971 the insurance companies' sales exceeded $109 million, and in 1972 those sales were increased by 250%. The series detailed a collection of unethical practices by NCOA "counselors" that occurred on installations throughout the DoD. The rate structure for policies endorsed by NCOA was exposed as excessive, and the rates of ethical competitors were discussed. The series went on to allege a serious conflict of interest on the part of an Air Force Colonel who was the director of personal commercial affairs in the Office of the Secretary of Defense.

During 1971 the issue of improper insurance solicitation became so significant within the DoD that then Secretary of Defense Melvin Laird personally directed a revision of the rules relating to the solicitation of insurance sales on military installations. The insurance companies were to be given a choice: stop referring to their agents as counselors or they would be barred from selling insurance on base. The directive was watered down in private negotiations between the Colonel in the Office of the Secretary of Defense and representatives of NCOA and the insurance companies. Six weeks after the regulation was published the Colonel retired. He accepted an executive position with an insurance company at 150% of his active duty pay. The Colonel's response to questions about this conflict was that his sole reason for eliminating the reform was that the Chairman of the House Armed Services Committee placed pressure on the Colonel's superiors. The Colonel's former superiors did not agree with this response, and ultimately revised the directive in accordance with Mr. Laird's original intent. The controversy remained in the years that followed, and the activities of these "counselors" were again the subject of intense scrutiny in the 1990s.

The DoD directive that controls insurance solicitation went through another major revision in the 1980s as a result of concerns expressed by service members. That directive, DoD Directive 1344.7, "Personal Commercial Solicitation on DoD Installations," February 13, 1986, is examined in detail in Sections 3.3 through 3.5 of this report. For the purposes of this section, it is sufficient to indicate that this directive is the product of serious thought, negotiation and compromise. This directive is not simply the product of internal DoD policy analysis and implementation. Real controversies and real abuses are the subject of nearly every provision relating to insurance sales in the directive. It is noteworthy that the directive controls all commercial solicitation on military installations, although insurance sales have led to almost all of the serious controversies relating to the directive.

During the past 2 years the issue of on base insurance solicitation has again become a major source of controversy within the DoD. The Army Inspector General in Europe investigated a series of complaints against NCOA, its "counselors" and Academy Life Insurance Company. The investigation concluded that:

- Senior non-commissioned officers (NCOA Members) improperly used their authority to require soldiers to attend assemblies/meetings for the purpose of signing up new NCOA members in violation of military regulations.

- NCOA/Academy Life improperly conducted commercial solicitation during duty hours in violation of military regulations.

- NCOA/Academy Life improperly conducted commercial/membership solicitation on post in violation of military regulations.

- Members of the chain of command improperly pressured subordinates to join NCOA in violation of military regulations.

- NCOA/Academy Life improperly conducted deceptive insurance solicitation practices in violation of DoD Directive 1344.7 and military regulations.

The practices documented in Europe were exposed in greater detail by a Navy investigation conducted on naval bases in the Jacksonville, Florida, area. Here, as in Europe, the conclusions reached by the investigators established that regulations established for the protection of service members were being violated with impunity by members of the insurance industry involved with Academy Life and NCOA. A brief statement of the facts supporting these conclusions is in Appendix A.

In April 1998, acting independently against two other insurance companies that solicited insurance sales on military installations throughout the world, the Department of Justice brought suit in Seattle, Washington, against American Fidelity Life Insurance Company and Trans World Assurance Company. This suit was brought on behalf of named and unnamed service members who had bought insurance from those companies. Although this suit was filed by an independent agency of the Federal Government without formal coordination with the DoD, the practices that led to the suit were remarkably similar to those that led to the bar against Academy Life. The victims identified in the Department of Justice complaint were serving primarily in the Puget Sound area, although not all had purchased their insurance there. At the same time, military officials in Korea barred American Fidelity and two of its agents from selling insurance throughout a large portion of Korea and requested that the Department of the Army extend the bar throughout the world. (To date, no action has been taken on this request.) Again, the reasons were remarkably similar to the findings against Academy Life. Other installations throughout the United States have taken similar action against these companies as detailed in Appendix B.

During 1999 the DoD Inspector General concluded a detailed evaluation of DoD practices concerning insurance solicitation. After a year-long survey conducted by 9 experienced professionals at 11 separate installations in the United States, the Inspector General found violations of DoD policies controlling insurance solicitation at every 1 of the 11 installations surveyed. (The Inspector General report is discussed in detail in

Section 4.1 of this report.) While the violations were not all serious, the Inspector General concluded unequivocally that either insurance solicitation on military installations must be prohibited or the DoD must make extensive provisions to improve and execute the existing solicitation regulations.

At approximately the same time the Inspector General's Survey was being conducted, a field command in Europe began an extensive investigation of the practices of American Amicable Insurance Company and Pioneer American Insurance Company in that command. This investigation disclosed that five agents of these companies—15% of their sales force in Europe—committed numerous and serious violations of DOD Directive 1344.7 and the implementing Army regulations. Included in these violations were:

- Soliciting without an appointment.
- Soliciting in the barracks.
- Possessing and processing allotment forms.
- Failing to prepare counseling forms (Department of the Army (DA) Form 2056)
- Soliciting during duty hours/on-duty status.

While considering the appropriate sanction for these offenses, 1st Personnel Command (PERSCOM) Europe, learned that American Amicable and Pioneer American had a long history of violations and adverse actions within Europe and the United States. These revelations led to a suspension of insurance solicitation privileges within U.S. Army Europe until September 1, 2000—approximately 2 years from the date of the initial suspension of privileges. Thereafter, the Commander, 1st PERSCOM, Europe, forwarded the investigation to Headquarters, Department of the Army, with a recommendation that the Army consider an Army-wide bar of these companies. Particulars of this action are detailed in Appendix C.

In summary then, the regulation of insurance sales of DoD installations has been a contentious issue for nearly 30 years. What is not in contention is that DoD policies have been routinely violated by insurance agents' sales throughout the 30-year period. During the late 1990s, extensive investigations in Europe, Korea and the United States have established that violations of well-established policies continue unabated. The investigations have been resource intensive, and they require skilled investigators. Today, careful analyses of this issue suggest that the DoD is confronted with a dilemma: either devote substantial additional resources to the regulation of insurance sales on military installations or flatly prohibit the on-base solicitation of life insurance products. Devoting additional enforcement resources that add nothing to the war-fighting capacity of the units concerned is a questionable alternative. Neither choice would be a complete resolution of the problem, but either choice would reduce the incidence of improper sales practices.

3.0 LEGAL AND REGULATORY CONTROLS

3.1 Federal Statutory Controls

Until 1944 insurance was not considered "commerce" under the Commerce Clause of the U.S. Constitution. Accordingly, until that time there was no legal possibility of a federal role in the regulation of the insurance industry. However, in the 1944 case of *United States v. Southeastern Underwriters Association*, the Supreme Court held that Congress could regulate insurance transactions that were truly interstate.

3.1.1 *McCarran-Ferguson Act*

Congress then enacted the *McCarran-Ferguson Act,* 15 United States Code. Sections 1011-1015, which provided that the laws of the several states should control the insurance business, except that certain federal laws not applicable to this discussion would control matters unregulated by state law. Broadly speaking then, state law and state regulatory authorities provide exclusive control of the insurance industry.

3.1.2 *The Financial Services Management Act*

On November 12, 1999, President Clinton signed into law *The Financial Services Management Act, Public Law 106-102 (1999)*. This law enacted major financial reforms that were intended to permit the United States banking industry to compete in international markets. Among other changes in federal law, this enactment will permit banks to sell life insurance throughout the country. Under the new law there is a distinct possibility that federal banking regulators rather than state regulators will regulate these insurance sales, but the details of implementing the major reforms in this law will not be known for more than a year.

3.2 State Controls

For the foreseeable future, state insurance regulators will continue their exclusive role in controlling the insurance industry. Accordingly, a brief discussion of how these regulators affect insurance sales within the military community is appropriate. Each state regulatory authority is organized differently, but some details about three state agencies that affect military insurance sales will aid in understanding what is involved.

3.2.1 Role of State Regulatory Authorities

The State of California has approximately 1,000 employees involved in the regulation of insurance in that state. Attorneys, actuaries, field investigators and clerical personnel make up this work force. The State of Missouri, with a smaller population and less geographic dispersion, employs only 200 personnel in its insurance regulation operation, but the same mix of skills is necessary. Missouri alone has more than 60 field investigators routinely involved in the oversight of companies operating in that state. Missouri has conducted two separate

investigations of companies involved in sales to military personnel in recent years, and these investigations have both lasted longer than 2 years. Similarly, the State of Florida has conducted a nearly 2 years-long investigation into the activities of American Fidelity Life Insurance Company and Trans World Assurance Company. This latter investigation has resulted in the two companies paying a $2 million penalty and disgorging $4.6 million in premiums improperly withheld from military personnel. These regulatory operations are high-skill, high-dollar operations. They are subject to intensive lobbying and the practices of highly skilled litigation attorneys.

Under almost all circumstances these state regulatory authorities do not attempt to remedy problems that occur outside their state borders. Moreover, some of these state authorities are reluctant to exercise jurisdiction over the actions of insurance companies and their agents on military installations within the state's borders. In some cases this reluctance stems from the fact that some military installations are subject to exclusive federal jurisdiction, but more often than not the reluctance arises because "we don't have any constituents out there." There is a separate issue that arises in a subtler manner. If a state regulator gets draconian with an insurance company, the losses to the company may hurt all the policyholders in the state. Thus, a regulator's willingness to intervene on behalf of service members may be related to concerns about harming large numbers of "innocent" policyholders in order to compensate transient nonresident military policyholders.

3.2.2 National Association of Insurance Commissioners

Obviously, the several states have substantial difficulty in coordinating remedies against insurance companies and their agents when insurance company operations cross-state borders. To this end, the National Association of Insurance Commissioners (NAIC), operating from Kansas City, Missouri, provides an administrative venue for state regulators to arrive at common solutions to common problems. NAIC presently is undertaking a serious effort to coordinate information flow and increased cooperation among state agencies. Included among these efforts will be the establishment of a web site on the Internet that will list agents and companies subjected to disciplinary sanctions by the state agencies. It is possible that the DoD could get access to this limited access web site, as long as the DoD is willing to subscribe to the established protocol. These efforts may significantly improve the identification of rogue agents and rogue companies selling to unwitting consumers. But the history of these cooperative efforts is not a happy story, and the interest of transient military personnel probably will not weigh heavily in comparison to those legitimate political concerns facing each state agency.

3.3 Department of Defense Controls

3.3.1 DoD Directive 1344.7, Personal Commercial Solicitation on DoD Installations, February 13, 1986

Within the DoD the controlling authority for insurance sales is DoD Directive 1344.7. This directive controls all personal commercial solicitation and insurance sales on DoD installations. Key principles of this DoD Directive 1344.7 are summarized below.

3.3.1.1 Solicitation, General

Solicitation on military installations is not a matter of right. Solicitation on base is a matter of command discretion. Solicitation will be permitted only when the solicitor meets certain minimal conditions established by DoD, its subordinate commands and the local commander of the installation.

At all installations the solicitors must possess the appropriate federal, state and local licenses. Sales literature may be displayed only at locations approved by the commander. Sales may only occur in family quarters or at another area designated by the commander. Solicitation may only occur pursuant to a specific appointment between the service member and the solicitor.

In addition to these positive controls, a specific list of prohibitions governs all on base solicitation. There shall be no:

- Solicitation of recruits, trainees and transient personnel in a "mass" or "captive" audience.
- Making appointments with or soliciting military personnel who are in an "on-duty" status.
- Soliciting without an appointment.
- Using official identification cards by retired or reserve service members to gain access to DoD installations for the purpose of soliciting.
- Procuring, attempting to procure or supplying personnel rosters for the purpose of soliciting except in accordance with DoD release of information regulations.
- Offering unfair, improper and deceptive inducements to purchase or trade.
- Using rebates to facilitate transactions or eliminate competition.
- Using deceptive materials, including misleading advertising and sales literature.
- Giving the appearance that the DoD sponsors or endorses any company, its agents or the goods, services and commodities it sells.
- Soliciting junior personnel by senior DoD personnel.
- Entering an unauthorized or restricted area.
- Using on base facilities as showrooms or storerooms.

- Soliciting door to door.
- Advertising on base addresses or phone numbers as solicitation locations, except for authorized businesses being conducted by family members in Government quarters.
- Using manipulative, deceptive or fraudulent devices, schemes or artifices, including misleading advertising and sales literature.

3.3.1.2 Insurance and Securities Solicitation

Additional positive controls apply to life insurance and securities products. Insurance agents are required to disclose that they are agents for specific insurance companies. Commanders are required to make disinterested third party counseling available to all who desire assistance. DoD personnel are prohibited from representing any insurance company. No agent may participate in any insurance education or orientation program. Commanders may not make office space available for any insurance activity other than a scheduled appointment.

3.3.1.3 Denial and Revocation Procedures

Grounds: An installation commander is required to deny or revoke permission to solicit on base if it is the best interests of the command. Violation of any of the prohibitions described above is a basis for removal or denial of solicitation privileges. In addition, personal misconduct by an agent on the installation and possession or attempted possession of allotment forms by an agent serve as valid bases for eliminating solicitation privileges.

Due Process: Commanders must provide the agent and the company with oral or written notice of the commander's intent to eliminate solicitation privileges. The respondents must be given an opportunity to present facts on an informal basis (show cause) to demonstrate why the solicitation privileges should not be eliminated. An immediate suspension of solicitation privileges for 30 days during which an investigation is conducted is authorized. Any final denial or withdrawal of privileges must be for a time certain, but no particular length is prescribed.

3.3.1.4 Education

The military departments are required to develop and disseminate information and educational programs for service members on how to conduct their personal commercial affairs. Insurance, Government benefits, savings and budgeting are among the required educational topics. The services of credit unions, banks and those nonprofit military associations (provided a commercial insurance company does not underwrite such associations) approved by the military departments may be used for this purpose. Presentations by approved organizations shall only be conducted at the express request of the installation commander.

3.3.1.5 Life Insurance Product Prerequisites

The Directive establishes six separate minimal standards. These standards require compliance with state and federal law and disclosure of terms that are unfavorable to members of the military services. These standards do not establish any meaningful consumer protections.

3.3.1.6 Allotments

The directive permits the use of the allotment system for life insurance products and establishes a minimum 7 day cooling off period for personnel in pay grades E-1, E-2 and E-3 so that counseling can occur between signing the application and certification of the allotment.

3.3.1.7 Military Associations

The directive holds all military associations, regardless of origin or status, profit or nonprofit, accountable under the directive's provisions.

3.3.1.8 Overseas Operations

To operate at overseas installations, an insurance company must receive accreditation from the Office of the Assistant Secretary of Defense (Force Management and Policy). Two criteria must be satisfied to achieve this accreditation. First, the company must have 5 years of continuous successful operation prior to the year in which the application is filed. Second, the company must be listed in Best's Life-Health Insurance Reports and receive a B+ (Very Good) or better rating for the most recent Government fiscal year. These criteria may be waived. (The Best's rating relates solely to financial solvency.)

The applicants also must agree to several administrative conditions including the use of agents who have at least 1 year of experience and who will not change affiliation once accredited. The company must demonstrate that it will comply with the requirements of the overseas command. Other provisions permit withdrawal of accreditation upon good cause shown.

3.3.2 Service Regulations

Each of the military departments takes a different approach to implementing the DoD directive. Because these departmental regulations are included in Appendix D, only the differences are summarized below.

3.3.2.1 Army Regulation 210-7, Commercial Solicitation on Army Installations, April 22, 1986.

This regulation includes all the significant provisions of the DoD directive. The organization of the regulation is in character with typical Army regulations and, hence, does not follow the structure of the DoD directive.

The Army regulation does contain some additional specific prohibitions that clarify prohibitions in the DoD directive. Insurance agents may not solicit basic trainees and advanced individual trainees in the first half of their training at any time. The DoD prohibition against group and captive solicitation is also clarified. Additional prohibitions relate to advertising and literature distribution practices.

The Army regulation also encourages insurance sales to service members but does not endorse any particular sales program. In a related provision, this regulation establishes special provisions relating to soliciting soldiers in grades E-1, E-2 and E-3. These provisions require counseling by military superiors and additional disclosure on the part of the agents.

In addition, the Army regulation establishes detailed due process provisions that extend protections to the insurance agents and their companies that are substantially in excess of the provisions required by the DoD directive. In essence, these provisions grant the agent and the company two full due process hearings before final action is taken.

The Army regulation also provides that Headquarters, Department of the Army, is to be notified in every case where an agent or a company is denied an opportunity to solicit. Follow-on provisions of the regulation require the Headquarters to send a quarterly report to the field that includes all these adverse actions. In addition, the regulation provides for field commands to forward a recommendation and supporting documentation to the Headquarters when violations are sufficient to justify a wider ban than just a single installation.

3.3.2.2 Secretary of the Navy Instruction 1740.2D, Solicitation and Conduct of Personal Commercial Affairs, April 27, 1987

The Navy instruction, which governs the Marine Corps as well as the Navy, is also a restatement of DoD policy in a format consistent with Navy regulatory practice. The due process provisions for agents and companies suspected of violating DoD or Navy policies are consistent with the DoD directive but provide fewer procedural rights than occur in the Army process.

The Navy instruction does have a requirement that any individual with information that may constitute grounds for suspension shall report the information to his or her commanding officer. In addition, commanders of ships and tenant activities are required to report violations of these policies to the installation commander. The instruction does not require notification of headquarters above installation level, but there are provisions for the Secretary of the Navy to extend a bar throughout the Navy if he or she determines such action is appropriate.

As in the case of the Army regulation, the education provisions of the instruction are identical to those contained in the DoD directive.

3.3.2.3 Air Force Policy Directive 36-29, Military Standards, June 1, 1996

In three brief lines, this directive incorporates the DoD directive on commercial solicitation by reference and assigns responsibility for compliance to installation commanders.

3.4 Critique, Regulatory Structure

3.4.1 State Regulatory Authority

The discussion above related the difficulty state regulatory authorities face when they attempt to regulate insurance companies that operate throughout the world on military installations. Even though these agencies are staffed with hundreds of skilled employees, the cultural differences between state civilian and federal military authorities are substantial. Even when the state regulators and military authorities operate in full cooperation, the coordination of remedies is difficult. The principal reason for this difficulty is that the state agency has a different constituency that has very different requirements. Thus, the DoD's reliance on state regulatory authorities to resolve all matters of product quality, agent qualification and remedial action when issues arise probably is misplaced. Certainly, the state agencies are not focused on the problems of the military community. This is not to suggest that the state regulatory authorities lack the qualifications or the interest in the problems that are discussed in this paper. It is my assessment, however, based on many conversations with these officials and with some of their critics, that the DoD cannot rely on state regulatory authorities to eliminate the abuses experienced by military insurance consumers.

Whether any system based on state regulatory authority can effectively regulate huge, multinational, financial conglomerates that operate across state and international borders via 21st century communications systems is a question that will be answered by others. To raise that question is to suggest that state regulatory authorities have a major struggle ahead. New federal law expanding bank insurance operations will not make this struggle easier. These complications make it more unlikely that the problems of the individual service member will be a matter of high priority as this struggle is resolved.

In sum, DoD reliance on state regulatory authorities to protect service members here and abroad is misplaced.

3.4.2 DoD Regulatory Authority

DoD Directive 1344.7, as is the case with most DoD directives, establishes policy and leaves implementation to the military departments. However, most DoD directives establish some minimal reporting and inspection requirements in addition to stating basic policy objectives. The analysis in this report will focus first on the basic policy and then turn to the reporting and inspection requirements of the directive.

The DoD directive that regulates these practices has withstood serious and positive criticism over time. The detailed list of prohibited practices established in the directive is as relevant today as it was 30 years ago when the directive was first published. These prohibitions go beyond mere policy objectives. If abuses by agents and their superiors were not so persistent, it would be reasonable to question the need for such specificity in a DoD directive. However, none of the information available indicates that the list of practices prohibited is either over-inclusive or under-inclusive. I found no deceptive or abusive practices that appeared to be unregulated by the directive. The problems I discovered related more to the absence of any reporting or inspection requirements within the directive.

The persistence of solicitation abuses in all services is well documented by the Inspector General and verified by my field visits. What is also abundantly clear is that there is no routine flow of information to officials with authority to improve implementation. Equally troubling is the fact that there is no routine dissemination of alerts or assistance to field units that may be confronted with sophisticated and disingenuous insurance agents. Problems that reach the higher levels of the DoD usually are the result of a report in the media or an irate letter to a Member of Congress. These problems should be addressed by establishing clear and simple reporting and inspection requirements in the DoD directive.

It is my assessment that the directive should also provide better guidance about minimum essential training in the field of personal commercial affairs. Commands that care find time and experts to conduct this training. The Inspector General singled out one Air Force installation where training was conducted in an exemplary manner. I observed training that is routinely given to every initial entry Marine officer. The training I observed was neither lengthy nor sophisticated, but it was excellent. Regrettably, it appears that those who need the training most—first term enlistees—are least likely to receive it. The DoD should establish some minimal training standards in this directive, and then enforce those standards.

3.4.3 Service Regulations

3.4.3.1 *Army*

As indicated above, the Army regulation contains a detailed reporting requirement that, if followed, would provide the basis for effective implementation of the basic DoD policy. (Every denial of solicitation privileges must be reported to Headquarters, Department of the Army.) In addition the Army requirement for a quarterly report from Headquarters to the field could adequately keep the field apprised of developments of interest concerning insurance regulation. While these reporting requirements would not help adjacent installations commanded by other services, the reports do provide a basis for an effective management system within each service.

3.5 Critique, Regulatory Practice

3.5.1 State Regulatory Practice

The practices of state regulatory authorities are included in the earlier critique in Section 3.4.1.

3.5.2 DoD Regulatory Practice

Although always involved in policy matters, the Office of the Secretary of Defense is infrequently involved in the practice of regulating the conduct of individual insurance companies. The December 1998 bar of Academy Life represented the first occasion on which the highest level of the DoD took action to bar an individual insurance company from soliciting on military installations.

When an individual company seeks to solicit on overseas bases, there is routine involvement with the Office of the Assistant Secretary of Defense (Force Management and Policy). Although most of these actions involve a minimum of coordination and the application of standards that are not particularly demanding, occasionally these actions cause inconsistent results within the DoD. In particular, granting Trans World Assurance and American Fidelity permission to continue soliciting overseas on August 5, 1999, confused both the federal judge considering the case brought against these companies by the Department of Justice and Coast Guard officials who previously barred these companies from an installation in Virginia. This incident highlights the problems involving information flow on this subject. The action taken by the senior DoD official in this case was clearly inconsistent with other positions taken by the DoD and the Department of Justice. Although this action appears to have been inadvertent, safeguards should be established to ensure that this type of action will not recur.

At present, the Office of the Secretary of Defense has no one devoted full time to the duties of regulating insurance sales to service members.

3.5.3 Army Regulatory Practice

Although the discussion above indicates that the Army regulation on this subject contains most of the elements essential to effective enforcement of DoD policy, it is clear from my inquiry that the Army regulation is not being enforced. The Army's practices do not match the standards established in the regulation. Although many commands make the required reports to Headquarters, Department of the Army, many of the problems related to me had not been reported to Headquarters, Department of the Army. Even more troublesome, the quarterly reports that were to be disseminated from Headquarters, Department of the Army to the field had not been issued in several years. Informal networks, legal assistance conferences, the Armed Forces Network broadcast of the CBS News Program 60 Minutes and the good offices of the Defense Criminal Investigative Service were the means by which responsible Army commanders

learned of insurance solicitation practices that were affecting morale and welfare in their commands.

Notwithstanding these deficiencies, individual commands in Korea and Europe and at Forts Lewis and Leonard Wood in the United States forwarded thorough investigations to higher headquarters in order to permit additional action. These efforts will permit actions of the type taken against Academy Life if the proper authorities choose to pursue the other companies that have been identified as violators of the DoD directive.

In the Army, as is the case with the Office of the Secretary of Defense, oversight and regulation of insurance sales is an additional duty for the responsible official.

3.5.4 Navy Regulatory Practice

In the Navy the instruction that prescribes a decentralized practice has led to results that are not uniform. This is not necessarily a bad result, as long as local standards protect the uneducated and the practice fits the needs of the local community.

The investigating officer in the superb NCOA/Academy Life inquiry at Jacksonville remains critical of superiors above his local level of command. While he lauds the DoD action in the Academy Life case, he believes that flag officer commanders in the Navy were not aggressive enough in using the results of his investigation.

During my inquiry I came to the conclusion that the real problem in the Navy, as well as the other services, was that the extent of the insurance solicitation problem was not being communicated to commanders with sufficient authority to have an impact on the problem. Staffs tend to focus on operational problems. No one is truly in charge of this issue. Frequently, judge advocates become involved because others do not step forward. I was impressed with the swift action taken by Navy officials in the Puget Sound area once the issue was raised. The Navy also moved swiftly to remove its endorsement of on base education by the United Armed Forces Association (UAFA) when this association was also implicated in questionable solicitation practices in the Jacksonville area. In contrast, the Army continues to endorse the United Armed Forces Association education program.

3.5.5 Air Force Regulatory Practice

As even a casual reader of the Air Force regulation would expect, the Air Force practice epitomizes decentralization. Invariably, adverse action against an insurance solicitor arises when an airman raises the issue with a legal assistance officer or a debt counselor. If the counselor or legal assistance officer has good access to the installation commander, prompt action against the insurance solicitor is likely to result. On large bases with very senior commanders, this result is less likely to occur. Moreover, the senior officials are likely to suggest that there is no problem on the base.

While it appears to me that the Air Force does a better job of personal commercial affairs education for its junior enlisted personnel than occurs in the other services, it is also my opinion that improper insurance solicitation is also present on Air Force bases. Until there are reporting and inspection requirements, no one will truly know the extent of this problem in the Air Force.

4.0 FIELD SURVEYS

4.1 DoD Inspector General Evaluation 99-106

4.1.1 Overview

On January 16, 1998, an official in the Office of the Assistant Secretary of Defense (Force Management Policy) formally asked the DoD Inspector General to determine whether the standards in DoD Directive 1344.7 were sufficient to protect service members and whether there was sufficient enforcement and oversight of those standards. After 13 months of study and coordination by nine experienced staff members, the Inspector General issued a detailed report answering these and several other questions.

Through the assistance of the Defense Finance and Accounting Service (DFAS), the Inspector General was able to ascertain that for the first 6 months of 1998 the military population had an average of 426,235 monthly insurance allotments totaling $28.6 million per month. Through field surveys the Inspector General was also able to identify individual insurance companies that could be involved in questionable insurance practices. Using this information, DFAS was able to quantify the total premium flow and average allotment payments to those companies. Total payments to these companies approximate $240 million annually. Many of the service members involved have more than $100 of after-tax income withheld each month from their pay for insurance. If this money is not being invested as service members intend, the potential for major adverse morale implications is obvious.

4.1.2 Methods

The Inspector General's team visited 14 installations and conducted detailed reviews at 11 of these installations. (The additional 3 visits were made at the recommendation of personnel at the original 11. The recommendations related to the additional 3 having "best practice" commercial solicitation programs.) The original 11 installations were carefully selected to get a good balance among the services and to obtain information where large numbers of junior enlisted personnel are assigned. The team visited 3 installations each from the Army, the Navy and the Air Force and 2 from the Marine Corps. The team did not visit either basic training installations or overseas installations.

Prior to visiting each of the original 11 installations, the team sent a detailed questionnaire survey concerning six types of commercial solicitation practices to the installations. In addition, the team used a consistent and deliberate approach to surveying the installations to ensure that survey results would not be skewed by inconsistent assessment techniques. The assessments were conducted at all levels of command on the installations and at the key staff levels where staffs would be involved in controlling insurance solicitation. The assessment teams also interviewed junior enlisted personnel at each of the original 11 installations. Again, the objective was to obtain comparable data from each installation visited.

4.1.3 Facts

As a result of this assessment, the Inspector General concluded that practices prohibited by DoD Directive 1344.7 were occurring on every installation the team visited. On almost every installation visited there were numerous violations of the directive identified. The Inspector General also observed that only one of the installations visited had developed a policy concerning the revocation of an agent's or a company's solicitation permit. The Inspector General concluded that agent registration, installation notification, disciplinary action against agents and companies and oversight of the general issue were inconsistent at the installation level.

PROHIBITED PRACTICES

	Installations										
Prohibited Practices	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Misleading sales presentation							X	X	X		X
Presentation by unauthorized personnel				X		X	X	X			
Presentation to captive audiences		X									
Solicitation during duty hours	X							X			X
Solicitation in the barracks		X	X	X	X				X		X
Solicitation in other unauthorized areas	X			X	X		X			X	
Solicitation using other inappropriate methods				X							

The Inspector General expressed particular concern about the absence of knowledge of insurance solicitation problems at 13 of the 14 installations visited. The 1 installation, the exception among the 14, maintained a tracking mechanism to deal with solicitation issues. The mechanism consisted of a database that identified an agent's registration status, whether any complaints had been filed against the agent, and information about whether the agent had been suspended or barred from the installation.

4.1.4 Findings

The principal findings of the Inspector General are quoted below:

The services allowed improper solicitations by life insurance agents to service members on military installations. The improper solicitations occurred because the services:

- Inconsistently implemented the commercial solicitation policy.
- Allowed quasi-military associations to use their "benevolent" mission to gain access to installations.
- Allowed associations involved in selling or promoting life insurance products to teach financial courses.
- Provided insufficient training to Service members on insurance.

As a result, service members were unnecessarily subjected to sales pressure and vulnerable to misleading sales presentations.

4.1.5 Recommendations

The Inspector General's recommendations follow:

- Ban life insurance agents from military installations, *or*
- Increase controls over the commercial solicitation process by improving the registration and authorization process and vigorously implementing the established prohibited practices and revocation policies.

The Inspector General also made detailed recommendations about training. After considering the responses of the services, these recommendations included requiring training about life insurance and solicitation policy early in the careers of all military personnel. In addition, if associations connected with insurance companies were to be permitted to give this training, then the DoD must develop approval and oversight procedures, which include, as a minimum:

- Approval of training materials.
- Approval of training for a designated period.
- Oversight of training materials and presentations by the installation representative responsible for financial education and counseling.
- Signed agreements with presenters that they will not pass out information request forms, obtain a participant list or verbally solicit business.
- Providing the names of all associations approved to give financial presentations and those associations whose approval has been rescinded to the Office of the Assistant Secretary of Defense (Force Management Policy).

4.1.6 Assessment

Shortly after I began the research for this report I became aware of three principal criticisms of the Inspector General's Report. The first criticism was that the report contained insufficient detailed facts about the misconduct involved in the violations of the DoD directive to permit the reader to conduct an accurate assessment of the findings and recommendations. The second criticism, which primarily came from the insurance industry, was that the Inspector General did not analyze practices on enough installations to permit the kind of generalized findings and recommendations that were made. Third, the Inspector General's Report did not explain why the DoD directive was not being followed.

Obviously, it is not my role to defend the Inspector General. However, because I relied heavily on the research conducted by the Inspector General, I was compelled to assess that research and the report. I have reviewed all the backup material that led to the brief volume, identified as IG Report 99-106. The Inspector General's team collected and catalogued file drawers full of interview notes and installation source documents. I found nothing in the source documents that was inconsistent with the problems portrayed in the formal report. Indeed, I found a consistent pattern of careful and correct use of specific facts to support general factual conclusions. Not only was the report consistent with the well-documented field research conducted by the Inspector General's team, the report was also consistent with the administrative and criminal investigative material disclosed to me by other sources. In short, I found the report to be well documented and invaluable to a proper understanding of the issues.

The second criticism has a factual basis. The absence of an overseas inquiry or an inquiry on a basic training installation would give any objective reviewer reason to pause before accepting the conclusions. In addition, it is fair to ask if the 11 installations assessed presented a fair picture. My own analysis is colored by the vision of Professor Louis Loss, William Nelson Cromwell Professor of the Harvard Law School for more than 30 years, who constantly reminded his students that it is better to "sink a few deep holes than drill a hundred that are shallow." The Inspector General's assessment relied on 11 deep holes. The approach was carefully planned, the execution was consistent and the team inquired at so many levels at each installation that I believe they got an accurate picture. I did go overseas, and I did visit a basic training installation with which I was very familiar. My assessment of the scope and character of the problem is consistent with the Inspector General's analysis.

As to the third issue, my visits to the field exposed the principal problems in the current regulatory scheme. Enforcing the directive is very resource intensive. In addition, the absence of information sharing and effective reporting makes enforcement even more difficult. While the Inspector General does not address these issues, this shortcoming does not invalidate the well-documented findings of the report.

One does not have to agree with the Inspector General with respect to where the fault lies for the shortcomings or how best to remedy those shortcomings—and I do not—to agree with their assessment of the problem. My inquiry, which is described in the following section, leads me to agree with, and even extrapolate upon, the Inspector General's conclusion: violations of DoD Directive 1344.7 can be found at every installation.

4.2 Consultant's Evaluation

4.2.1 Overview

As a consultant for SAIC I have evaluated the DoD policies that govern the solicitation of insurance sales on DoD installations. This section of that evaluation describes in detail the methodology that I used and the sources that I consulted. I have analyzed particular issues that I was asked to address in the next section of this report. The analysis of those issues and the findings and recommendations that follow are my own. This section of the report is devoted to describing my sources and expressing their views.

4.2.2 Initial Assessment

My review started with a careful assessment of all the background papers that led to the bar of Academy Life Insurance for a period 3 years commencing in November 1998. This bar was based on an Army Inspector General report that described events in Europe and a Navy litigation report that primarily described Academy Life activities in Jacksonville, Florida. However, the Navy report included evidence of misconduct on DoD installations throughout the world. It was clear from these documents that policies established to protect service members from coercive and misleading sales practices were being ignored throughout the DoD. Even clearer was the fact that high level command authorities were deciding not to impose sanctions against offending companies and their agents. What was not clear was the answer to the question, "Why won't commanders address these issues?"

As part of this initial assessment I interviewed all the action officers and principal decision-makers in the Office of the Secretary of Defense who were involved in the Academy Life case. It was clear to me that, at the level of the Office of the Secretary of Defense, all concerned clearly understood the issues relating to the violations of the directive. Even more importantly, they understood the morale implications among those service members who had lost large sums of money to the insurance companies. While the sums involved were not large in terms of the DoD budget, or even the DoD military pay accounts, they were real and substantial losses to the military families that were affected. I then met the "points of contact" established by each of the military departments to assist me in developing the facts necessary for this evaluation. None of the three, each was an active duty officer assigned to the Service Secretariat or the Service Staff, was aware that a problem existed. Thereafter, I conducted a detailed review and

analysis of the DoD Directive 1344.7 and the service regulations that implement the directive.

At this point I gained access to the supporting files prepared by the DoD Inspector General team that wrote Report 99-106. The individual team members and those files were a mine of ground-based truth. The team had done a careful job of documenting what I had begun to infer from talking with senior personnel officials at the service headquarters. At every installation the DoD Inspector General's team visited, senior leaders were unaware that DoD policy was not being enforced. These senior leaders also did not understand that their subordinates were buying junk insurance through deceptive and coercive practices that were being condoned on their installations.

At about the same time I read the affidavit submitted by Special Agent Henry Mungle of the Defense Criminal Investigative Service in the case known as *United States v. American Fidelity Life Insurance Company, Trans World Assurance Company, et al.* Mr. Mungle is a fraud investigator with more than 30 years of law enforcement experience. He has been working on this case for 3-1/2 years, and he knows more about the behavior of insurance companies and their agents who work on military installations than any DoD official I know. Of equal importance, he has a detailed knowledge of the military community, and he understands how things get done or are left undone on a military installation. Mr. Mungle also understands that he is not a judge, a jury or a senior DoD policy maker. He is a policeman and, in my assessment, a very good one. His role is to collect and report the facts, and he has done that carefully and accurately. Mr. Mungle's work made it clear that the deception and coercion that had been reported elsewhere by the Army and the Navy were occurring on military installations throughout the United States and in Korea. Regardless of the ultimate outcome of this civil litigation, it is clear from Mr. Mungle's work that agents of the defendant insurance companies were avoiding and evading the intent of DoD Directive 1344.7 at will.

Mr. Mungle also provided to me an exhaustive list of military and civilian officials who had knowledge of the insurance solicitation issue to me. Most of these officials I interviewed by telephone, and some of these officials I was able to interview in person. I will summarize the contents of those interviews in some of the discussion that follows.

From Mr. Mungle I also became aware of two Florida investigations involving American Fidelity and Trans World Assurance. The first was a market conduct investigation conducted by the Florida Insurance Commissioner's Office. The second was a parallel investigation conducted by the Florida Attorney General's Office. This investigation was a civil proceeding under Florida's Organized Crime Statute. While the Florida officials are pleased with the civil settlement reached in this case on February 17, 2000, the proceeding established to my satisfaction that these companies were involved in far more than deceptive sales practices. The companies have both agreed to disgorge allotment payments they accepted and withheld on policies they knew to be cancelled. If soldiers retain

pay they are not entitled to receive, they are routinely charged with theft. Insurance companies, at least these two, are more fortunate.

As I proceeded to schedule some interviews in the field, I contacted several private sector insurance company officials who were present in the Washington area. What follows is my impression of their concerns. Not everyone I spoke with agreed to an interview, but I was impressed with the candor of almost all who spoke with me. I first met with the Chief Operating Officers of the Army and Air Force Mutual Aid and Navy Mutual Aid Associations. Since both officials had given interviews to the DoD Inspector General, I expected that they would be very open and they were. I also spent a substantial part of a day with some senior officials, including their actuary, at Navy Mutual Aid. Although officials at neither organization were willing to speak ill of their competition, they did provide some excellent reference material to me. These organizations do not conduct sales at military installations, and they pay no commissions to the employees who process applications and respond to potential members and customers. These organizations gave me no reason to believe they are part of the problem.

I also interviewed [ ] of the Armed Forces Benefit Association (AFBA). This organization, like the mutual aid associations, had its origin in the DoD and actually operated from the Pentagon for many years. Originally, this organization sold only term insurance, and, as the Inspector General's report suggests, the sale of term insurance is not a consumer affairs problem. Today, AFBA is selling far more than term insurance and both the DoD Inspector General and I heard some complaints about the practices of some AFBA agents. I asked [ ] to address one of the complaints that had been presented to me. The facts involved an AFBA agent who had sold the "wealth builder" program of a Colorado insurance company to a soldier and his spouse. One week later [ ] informed me that his inquiry disclosed misconduct on the part of the agent and the agent had been dismissed from AFBA. While I was reassured by this prompt action, it was apparent to me that even in closely managed companies the potential for real harm was as near as the next dishonest insurance agent. And if the company's culture is comparable to that of Academy Life, as opposed to AFBA, there is little likelihood that the rogue agent will be educated or separated by his employer.

[ ] of AFBA also made several points to me that are relevant to this inquiry. First, [ ] noted that [ ] company and the other firms that sought military business could live with most restrictions, *including* no on base sales, as long as the restrictions applied equally to all the competition. In [ ] view, the inconsistent application of DoD regulations was a real problem for honest competitors. Second, if the DoD is inclined to ask an outside agency, perhaps a contractor with special expertise, to regulate the industry, then the DoD, not the industry, should provide the funds for regulation. Any industry funded regulatory effort, in [ ] assessment, would eventually be captured by the industry and turn into a tool of the regulated companies.

I also met, on two occasions, with [ ] of the UAFA. [ ] American Amicable Life Insurance Company and Pioneer American Insurance Company. [ ] has worked with these companies for many years, and [ ] insights were invaluable. [ ] position is that these companies are much like the Armed Forces in the way they operate. [ ] believes both institutions must reward the good performers, educate the poor performers and discharge the evil or incompetent performers. [ ] offered on several occasions to act on individual grievances brought to my attention, and [ ] did so when I accepted [ ] offer. I am also aware that [ ] has made his good offices generally available to military legal assistance officers who were resourceful enough to contact [ ] rather than the [ ]. Consistent with the concerns expressed by AFBA, [ ] was particularly outspoken about the inconsistent application of DoD Directive 1344.7. My sense is that [ ] understands the directive far better than most military officials who are responsible for enforcing the directive. I am aware of at least two occasions when [ ] has persuaded a DoD official to take actions favorable to UAFA or the two insurance companies when the actions [ ] sought were inconsistent with DoD Directive 1344.7. [ ] has also provided a detailed list of industry concerns that should be addressed in any revision of DoD Directive 1344.7. Most of these concerns would be legitimate to incorporate in a document regulating business transactions between competitive equals. But, as the former Academy Life agent on the CBS 60 Minutes program reminds us, selling insurance to a soldier is like "shooting fish in a barrel." Writing rules for a business transaction when one of the parties possesses a high powered weapon and the other is confined to a barrel is not exactly like regulating transactions between equals. This is not to suggest that [ ] is acting illegally or unethically. [ ] is a skilled practitioner of the rough and tumble school of free enterprise. DoD officials should maintain an official distance when dealing with [ ]. Failure to do so is the DoD's problem.

I also interviewed an U. S. Automobile Association (USAA) [ ] who is responsible for the USAA Educational Foundation. This foundation provides educational presentations on personal financial management to junior military audiences throughout the country. Last year more than 30,000 military personnel, about half enlisted and the other half officer and Reserve Officers' Training Corps (ROTC) cadets, were given this 1 hour presentation. It is my assessment that this presentation and the assurances given to me by the [ ] are sufficient to meet the standards proposed by the DoD Inspector General for a suitable educational program. I was offered an opportunity to observe this instruction at the Officer's Basic Course at Quantico Marine Base, and I accepted. The instruction lasted approximately 90 minutes, due to a large number of questions from students, and it was well suited to the audience. No specific products were marketed, or even mentioned. The brief discussion of life insurance advised that the $200,000 Servicemembers' Group Life Insurance was likely to be sufficient coverage for most members of the class. (The issue of on base solicitation is not an issue with USAA since all of its insurance is sold from its headquarters in San Antonio, Texas, by mail or by some electronic means.) There are other provisions in DoD Directive 1344.7 that do apply to USAA. During the course of my review, I received no complaints about USAA and its practices. The DoD Inspector General received a complaint from a Marine who stated that a USAA agent in a

military housing area at Cherry Point, North Carolina, approached him. Since USAA does not use sales agents, it is likely that the Marine was confused about the agent's sponsor.

As part of this initial assessment process I made contact with officials in all the military departments, at the Defense Criminal Investigative Service (DCIS) and at the DFAS. The details of these interviews are not illuminating except to say that these officials were generally unaware of any serious problem in the military community. At DCIS I was not given access to the details of ongoing investigations other than the investigation being conducted by Mr. Mungle. There are legitimate law enforcement reasons for such reluctance, and there are other reasons that are not as valid. I am not in a position to assess which was the basis for denying me access. At DFAS I also found a reluctance to assist in the discovery of new evidence, but this reluctance was clearly due to other high priority work. Indeed, throughout my headquarters inquiries, the officials I met became concerned once they understood the issues involved. Almost uniformly, however, these were officials who were dealing with workloads they did not control, and they would candidly admit they did not have time for their own agenda.

In summary, my review of the documentary evidence available and my discussions with senior officials led me to the conclusions that DoD policy concerning insurance sales on military installations was not working as intended. The basic policy with respect to on base insurance sales had been in place for 30 years. It was sound policy, and it was understandable. However, many insurance agents, and in some cases the companies that sponsored the agents, conducted business without regard to the established policy. While the policy was well understood within the Office of the Secretary of Defense staff, senior leaders in important DoD agencies and the military departmental staffs were unaware of serious problems relating to the policy. It also appeared that senior field commanders were unaware of the widespread violations of the DoD directive or of the morale implications to the service members who had been duped into buying poor investments. My discussions with senior insurance executives and my review of the Inspector General's field reports led me to believe that the problem had several solutions, but not all of the solutions could be implemented in a down-sized, reduced-staff military environment.

4.2.3 Field Survey

Unlike the DoD Inspector General's assessment, my field research focused on installations and areas where I knew or suspected there were insurance solicitation problems. My survey was not random, although I did make an effort to visit installations of all the services. My first field visit was in the Puget Sound, Washington, region. Thereafter, I visited installations in Missouri and in Europe. With an important exception relating to allotment process, my field research supported the conclusions I reached from the documents and interviews I discussed above.

4.2.4 Puget Sound

I spent 3 working days in the Puget Sound area. My field visits included Army, Navy and Air Force installations in the region. At Bangor Naval Base, I spent the majority of my time interviewing Marines who had been persuaded to buy the "Flexible Dollar Builder" policy from an agent of the Trans World Assurance Company. I also spent considerable time at Fort Lewis and a lesser period at McChord Air Force Base. My principal purpose in starting in the Puget Sound area was that I wanted to discuss the issue with Assistant U.S. Attorney David Reese Jennings, who is the principal Government attorney in the suit filed against American Fidelity and Trans World Assurance by the United States.

Mr. Jennings is a career Department of Justice attorney who reports directly to the U.S. Attorney for the Western District of Washington. He graciously devoted a morning to giving me a detailed briefing about the suit that he initiated in April 1998. He was not very complimentary about the support he had received from the DoD, although he was quick to declare that Mr. Mungle had done good work for him. Mr. Jennings' complaints related mostly to senior officials in DCIS and to the fact that the military services had not supplied any litigation support. [ ]. He explained that he believed the insurance companies were in violation of the settlement agreement and that he intended to return to court and demand an accounting under the settlement agreement. (He has since done that.) Without my asking, he encouraged me to seek a ban to all on base insurance solicitation. He also expressed the view that he perceived no value in letting insurance companies use the military allotment system. He offered any assistance that he or [ ], could give me in the course of my evaluation. [ ], an experienced insurance professional [ ], gave me some insights into the conduct of the state regulatory agencies and also provided some leads with respect to companies other that Trans World Assurance and American Fidelity.

My next stop was Bangor Naval Base on Bainbridge Island in Puget Sound. The base is a very secure facility, as it is the homeport of the Trident Missile Submarine Fleet that operates in the Pacific Ocean. A Marine Security Company that is commanded by a Lieutenant Colonel provides security for these submarines and their missiles. My primary reason for visiting the base was to meet and interview the young Marines who had purchased the Flexible Dollar Builder program during their initial orientation to Bangor Naval Base. After paying a brief courtesy visit to the new commander of this company, I met with a Chief Warrant Officer who was present at some of the orientations that led to the purchases. He related to me a tale that had occurred time and again at Bangor.

Newly enlisted Marines were assigned to Bangor after they had completed their basic training and subsequent specialized security training. During their first 2 months at Bangor, these Marines were placed in an orientation program that, on 2 afternoons a week, introduced them to the installation and the special needs of their initial assignment. The culmination of this program was a personal finance seminar taught by a retired Army non-commissioned officer who was the "unit financial counselor." The counselor was introduced by the commanding officer

and was promoted as someone who had valuable lessons to teach all the young Marines in the classroom. Shortly after the introduction, the Lieutenant Colonel left the classroom and returned to his duties. My Chief Warrant Officer host would remain in the classroom until he was satisfied that the class was properly under way, and then he would return to his duties. Subsequently he learned, to his chagrin, that as soon as he left the classroom, the instructor-counselor would slip into the Flexible Dollar Builder sales routine, and the young Marines were on their way to canceling their Servicemembers' Group Life Insurance and adding two nonexistent dependents to their income tax withholding. This would leave them with the same amount of take-home pay, at least until April 15 of the following year, and it would permit them to fund an $80-$100 per month "savings" program through Trans World Assurance.

By the time I arrived at Bangor, only 15 of the young Marines who had been misled by this captive sales routine remained at Bangor. (A total of 83 Marines were named in Mr. Jennings' complaint, but the actual number probably was much higher as this routine apparently had been conducted for several years.) The Marines I spoke with were nearing the end of their tour at the installation, and for many of them this was the conclusion of their military service. Even though they were nearing the end of their initial enlistments, they were still incredibly young, still eager to please and still willing to respond forthrightly to questions as long as I was willing to ask them. They were embarrassed for having lost their money under the circumstances I described, and they were truly disappointed with the Marine Corps for having led them into this financial disappointment. They did not understand how "we" could let this happen. They bought what the counselor sold them because the Marine Corps endorsed him. They were deeply disappointed with their military superiors, and several of them told me they were leaving the Corps because this occurred. Although I wore a military uniform with pride for more than 40 years I was incredibly embarrassed; I was nearly as embarrassed as my chief warrant officer guide who was more than willing to accept the blame but was not entirely at fault.

In fairness to the insurance industry, what occurred at Bangor was the worst example that I am able to document with absolute certainty. I know with equal certainty, however, that I have never worked with or for a senior military or civilian defense official who could look those Marines in the eye and knowingly permit what happened to them to recur.

Subsequent to my interview with the 15 Marines, I met with two junior Navy judge advocates who had assisted in dealing with this and similar problems. The offending agents were swiftly barred from local bases after the matter above surfaced through the suit filed by Mr. Jennings. Trans World Assurance was not barred from the base, apparently because installation officials concluded they could control the matter through control of the agents.

On the following day I interviewed several officials and legal assistance officers at Fort Lewis. I also reviewed the legal files of several actions taken against

individual agents and several insurance companies that had been barred from Fort Lewis.

[ ] was never able to convince [ ] military superiors of the need for such action. The installation commander would bar the offending agent or agents but would not bar the offending companies. [ ] is not entirely enthusiastic about the legal support [ ] has received for [ ] efforts and is convinced, even as I write this report, that Academy Life is operating surreptitiously at Fort Lewis. (This suspicion is consistent with the financial reports prepared by DFAS for the last 6 months of 1999.) [ ] pleaded with me, and I am certain that [ ] has pleaded with others, to recommend that all on base insurance solicitation be halted. [ ] informed me in mid-February that the Fort Lewis Staff Judge Advocate now supports [ ] view in this regard, but others on the installation staff remain opposed. It is [ ] view that unauthorized insurance solicitation probably would continue at Fort Lewis, even with a bar. As is the case with others who support a bar, [ ] is quick to add it would be far easier to discipline offenders if there were a universal bar.

Individual legal assistance officers at Fort Lewis brought several specific cases to my attention. Not all of these cases arose at Fort Lewis. Because soldiers at Fort Lewis had learned of the suit brought by Mr. Jennings, they brought to the legal assistance office the "investment plans" that they had entered at other installations as well as Fort Lewis. In these cases the legal assistance officers had routinely sought relief from the insurance companies. The responses received from the insurance companies were seldom favorable. Some of the clients had been able to join Mr. Jennings' litigation as named victims. These legal assistance attorneys were convinced that permitting on base insurance sales was, in effect, endorsement of the products sold. Official disclaimers were ineffective. Their clients presumed that the Army approved of the product.

[ ] at Fort Lewis indicated a continuing concern about the practices of the collection of agents who seemed to move from base to base in the Puget Sound area. In [ ] view, the procedures necessary to consider a bar at the installation level were too involved and too inflexible to be conducted in a routine manner. Experienced officers who were capable of conducting investigations were not available for such time consuming duties. Commanders had too many other military duties to perform. The demands this issue placed on [ ] were disproportionate to the benefits gained. It is fair to say that Fort Lewis has been a leader in attempting to deal with the issue, and the staff is presently suffering from insurance fatigue.

I also visited McChord Air Force Base, but I spoke only with [ ] who had been at the base for 2 years and had a good working relationship with [ ] Army counterpart at Fort Lewis. (The two installations share a common boundary.) [ ] expressed the view that there was no improper solicitation occurring at [ ] installation. When I suggested that many of the agents had traveled from base to base in the Puget Sound area, [ ] expressed concern but did not change [ ] opinion. [ ] also expressed opposition to a ban on insurance solicitation on

installations because it would reduce the ability of those who lived in family quarters to exercise the option of inviting an insurance agent into their quarters. [ ] was the only person I interviewed during my field visits who expressed such a concern.

4.2.5 Missouri

My visit to installations in Missouri began with a stop at the Marine Corps Finance Center—part of DFAS—in Kansas City. I received a short briefing on allotment operations and discussed with several experienced civilians and active duty Marines my concerns about the allotment issue. I presented to them the suggestion that several civilian insurance professionals had made to me. Specifically, why DoD does not just stop using the allotment system for the payment of insurance premiums. The quick answer was that it would be a real disservice to the serving Marine or his or her counterpart in the other Services. The experts went on to add that a new paperless allotment system that would permit each Marine with access to the Internet and his own personal identification number (PIN) was about to be established for all of DFAS. In addition, as a senior uniformed Marine explained to me, eliminating the allotment was too easy for the insurance agents to work around. It was simple enough to have the paycheck sent to a bank and then have the bank send an automatic payment to the insurance company. He had used this mechanism to get around allotment restrictions frequently, and he was certain that others did the same. He also added that, at least the way the system worked now, we knew who was receiving insurance allotments and how much they were receiving. Moreover, in his view, if the unit First Sergeant were doing his duty, the excessive allotments would be spotted quickly and ended. I was not pleased with the answer, but it clearly had the ring of truth.

I also visited the offices of the Missouri Insurance Commission in Jefferson City. There I spoke at some length with an investigator who had been actively involved in assisting Fort Leonard Wood deal with the issue of improper solicitation. I also had a lengthy discussion with officials in the Market Conduct section of the Commission. I was particularly interested in the actions of this office because Academy Life is a Missouri corporation and is principally subject to regulation by the Missouri Insurance Commission. Although this office expressed great interest in pursuing Academy Life both to me and to legal officials in the DoD, it is unlikely that the Commission will take any serious action against Academy Life. As one interested party put it to me:

> Academy is under new, reputable ownership. They have hired the former head of the Missouri Insurance Commission as their attorney. All the policyholders are scattered around the world, and the policyholders don't vote in Missouri. Who do you think is going to win?

The results of the Market Conduct Examination have not been released yet. The rhetorical question that I was asked does much to confirm what skeptical civilian insurance experts have repeatedly told me. The interests of state insurance regulatory agencies are not consistent with the objectives being pursued by the DoD. These agencies are effective at protecting the interests of the long-term policyholders that live within the borders of the state. Beyond that limited role, not much can be expected. DoD's reliance on these agencies is an indication that the DoD truly does not understand the authority and the effectiveness of these regulatory agencies.

At Fort Leonard Wood I interviewed several current and former legal assistance officers, an Air Force First Sergeant, a criminal investigative agent and several key installation staff members who were involved in the insurance regulatory process. In particular, these officials were involved in the investigation and disciplinary actions against American Fidelity agents, American Amicable agents and several private sector insurance officials.

In August 1997 the legal assistance office received a series of complaints from clients about American Fidelity policies sold to them by agents of an organization know as Monetary Management Systems. At approximately the same time the Air Force First Sergeant had a series of confrontations with an agent of American Fidelity in the Air Force barracks. Initially, the agent attempted to give gratuities to the First Sergeant. After the agent was rebuffed, he attempted to enter the barracks surreptitiously. The agent failed, and the military police escorted him from the barracks. The First Sergeant suspected that the agent had been able to operate in other barracks on the installation. These incidents led to a formal investigation conducted by the Lieutenant Colonel, now Colonel, who was assigned as the Installation Resource Manager. The subsequent Show Cause Hearing was conducted by a Major on the installation staff. The investigating officers concluded that they had been lied to repeatedly by the insurance company representatives and that the agents of the companies had violated Missouri law as well as DoD Directive 1344.7 and Army Regulation 210-7. The companies were suspended from soliciting at Fort Leonard Wood for 2 years. An additional company, Military Benefit Association, was suspended for 1 year.

American Amicable, which had previously negotiated a voluntary withdrawal of its sales agents, was not affected by these actions, although American Amicable has ceased operations at Fort Leonard Wood. By negotiating a tactical retreat, American Amicable avoided notoriety outside the Fort Leonard Wood area and could report, accurately, that it had not been suspended at Fort Leonard Wood. [ ] conceded that [ ] had been too easy on American Amicable because [ ] was trying to avoid a time consuming series of hearings.

At the time Fort Leonard Wood took these decisive actions it had a unique combination of personnel available and dedicated to the task:

- A senior officer trained in finance (the Resource Manager) who made time available to serve as the investigating officer.

- A military criminal investigative agent, who had been sold some bad insurance early in her career, who took a serious professional interest in the issue.
- A fraud investigator from the Missouri Insurance Commission who was also an Army Reservist.
- Some young legal assistance officers who could see beyond the immediate problems their clients brought to them.
- A First Sergeant who was more concerned about protecting his troops than avoiding the publicity that is attendant to reporting abuse.
- A supportive Staff Judge Advocate who organized and reviewed the product presented to the installation commander for decision.

All these officials contributed to ensuring that the proper results were achieved. Thereafter, the installation took decisive action 2 years ago. While the Missouri Insurance Commission is aware of all these matters, and perhaps more, it has yet to act in this case. I have been advised that state action will be forthcoming shortly.

As the foregoing discussion reflects, the regulation of on base insurance sales takes time, skill, resources and dedication in a substantial measure. The personnel I interviewed also believed that the problem had been festering for a substantial time before it reached their attention. Without exception, these soldiers, civilians and the airman proposed or supported a DoD ban of on base insurance solicitation as the best first step to eliminating the abuses they perceived. When asked to explain their position, they uniformly replied that they were just too busy to get involved with the insurance business. The First Sergeant went on to explain that education was the best answer. But until his subordinates had learned to deal with a steady income and the peculiarities of military life, they needed to be protected.

4.2.6 Germany

During the second week in December 1999, I visited Army and Air Force installations in the central part of Germany. Since the issues discussed in this report first surfaced publicly as the result of the U.S. Army Europe Inspector General's report, I sought to assess what had been done to implement the results of that investigation. I was also interested in seeing whether overseas forces perceived the issue differently. What I observed is described below.

At the Headquarters, U.S. Army Europe, in Heidelberg, I interviewed a member of the Inspector General's Office who was generally unwilling to share the product of that office's work. She related to me that she was just following the rules and the directions of her superiors. Fortunately, some of the action officers who had worked on the earlier investigative project were more forthcoming. Although the Commander of U.S. Army Forces had approved some harsh findings against NCOA and Academy Life and directed continued oversight by the Inspector General, these directions had not been followed. The November 1998 DoD bar on Academy Life solicitation had overcome some of these

shortcomings, but, as I was to learn elsewhere, the role of the Inspector General in these matters was nonexistent.

Conversely, other elements of this Headquarters had begun to review and impose serious sanctions against offending insurance companies and their agents based on a detailed field investigation that was a completely separate matter from the Academy Life problem. I interviewed two members of the personnel services staff at the large personnel command that supports all Army forces in Europe. At the time of our interview, they were preparing decisional documents for their commander to act on findings that American Amicable and Pioneer American as well as five of their agents had committed wholesale violations of Army and local regulations dealing with insurance solicitation. (I have since learned that the commander suspended the agents and the companies from on base solicitation for 2 years. She also forwarded her action to Headquarters, Department of the Army, for consideration of an Army-wide suspension.) This action, reviewed and supported by legal authorities in the Office of the Judge Advocate in Heidelberg, marks the first time the U.S. Army in Europe has taken such comprehensive action.

Thereafter, I interviewed two members of the staff at the Headquarters, U.S. Air Force Europe. The first was an experienced major who had been the chief of administrative law at that Headquarters for a period of 2 years. She understood the issues well and had dealt with the problem in other assignments. She had not, however, had an occasion to take action on an insurance solicitation case during her assignment at Ramstein Air Force Base. She put me in touch with [ ]. Once again, [ ], who obviously understood the issues well, expressed a belief that the problems I had observed elsewhere had not occurred in [ ] jurisdiction. [ ] believed [ ] knew who the problem agents were, and [ ] believed [ ] had not permitted them to have routine access to [ ] installations. [ ] did express concerns about an organization, known as USPA/IRA, which had attempted to operate in Europe as it had in the United States. Notwithstanding [ ] efforts to obtain command support for European theater-unique regulations, [ ] believed that USPA/IRA was using its connections with senior Air Force officers to obtain a competitive advantage over other organizations seeking to sell financial products to Air Force officers. This concern, which was also raised to me by a senior civilian in the Army, does raise a conflict of interest issue. However, the focus of these solicitations is outside the scope of this inquiry.

Next I visited the Bamberg military community, located in northern Bavaria. This is an isolated military community, with approximately 2,600 soldiers and their family members. Agents of American Amicable had been operating in the area, but an active legal assistance program had attracted the attention of their policyholders. [ ], American Amicable, had responded promptly to the letters of Bamberg legal assistance officers. [ ] had also traveled to Bamberg and arranged for the return of the premiums of the soldiers who had been misled.

My final interviews in Germany were conducted at the Headquarters of the 7th Army Training Center in Grafenwoehr. In an interview with Colonel [ ], the

Commander of [ ], I received a first hand exposition of the time and administrative burden placed on an installation commander and staff when confronted by a major insurance solicitation issue. It was [ ] command and [ ] staff that had done all the investigative work in the American Amicable and Pioneer American case that was being reviewed in the U.S. Army Europe headquarters. [ ]was quick to credit the help of outside legal resources; a judge advocate from another command had conducted the investigation. [ ] was convinced that [ ] command had given a full and fair hearing to the respondents. But the demands on [ ] time and the time of some of [ ] staff detracted from their ability to conduct their assigned military mission. [ ] added, in candor, [ ] just did not perceive any value was added to [ ] community by having commercial insurance agents present on the base.

In interviews with the local command Judge Advocate and the investigating officer I was again presented with the issue of the need for regulating insurance sales. "Wouldn't it be simpler for all concerned if this type of activity were removed from the base?" As they explained to me, conducting an adverse administrative hearing when the witnesses are scattered from Bavaria to Bosnia and the respondents are located throughout Germany and Texas is a difficult exercise. Certainly these difficulties can and will be overcome when a criminal trial is appropriate in the military community. But selling insurance on base is not a right that requires legal protection. In their view, selling insurance is like selling cars or furniture. They saw no need for insurance sales on their installations.

I also participated in a wide-ranging discussion of this issue with the attorneys and paralegal staff who performed legal assistance duties for the 1st Infantry Division. The problem was not new to them, and the enlisted members of the group—the paralegals—were major contributors to the discussion. They saw personal finance education as the principal means to reduce the problem, and they expressed the belief that there was more than adequate time to cover the essential issues in their initial entry training. They also saw personal finance training at the first duty station as essential. They pointed to the European program that explained the eccentricities of rent law, telephone fees and rental car charges. Equally important, as they saw it, was advice on how to deal with insurance agents. They did not neglect the on base solicitation issue. As one junior Sergeant explained the matter to the group:

> When I got to the 101st at Fort Campbell for my first assignment I got sold some of that Academy junk, and I lost $900 before I dropped the policy. I'm still trying to get my money back. Then I was sent to Korea, and they were selling the same junk over there even though my unit tried to stomp it out. Now I'm in legal assistance at Kitzingen, and when that 60 Minutes program on NCOA and Academy hit Armed Forces TV, the phone wouldn't stop ringing off the hook in our office. Maybe they don't know anything about this issue around the flagpole, but we sure know about it in our business. When are you going to get somebody to do something about this, General?

I responded that I could not have said it better and I would pass along his thoughts to the highest authorities.

In summary then, the issues surrounding commercial solicitation of insurance sales on military installations are as prevalent in Europe as they are in the United States. From the perspective of field soldiers in Germany, banning all on base insurance solicitation and teaching new soldiers how to manage their personal finances are the keys to reform. Both elements are essential to establishing a system that will defeat the deceptive and dishonest insurance sales practices that have become a part of military life.

4.2.7 Conclusion

The consensus at every level of military command considered in this evaluation is that the present system for controlling insurance sales on military installations is not working. While field commands are taking a more active role in this regard recently, few members of those commands support the present system of regulation.

The present system of regulation is viewed by most observers as too complicated. In the Army, in particular, the multiplicity of hearings required by regulation is perceived as too burdensome. Most commanders and their staffs indicate that other military priorities do not permit the devotion of time necessary to supervise properly the insurance sales process. They are consistent in their view that banning all on base insurance sales is far preferable to attempting to develop the expertise and the resources necessary to improve the current process.

There is also consensus among all groups that young enlisted service members need better personal finance training. As one retired Sergeant Major put it to me: "If they can teach it at West Point, if they can teach it in ROTC, if they can teach it in officer basic, why can't we find the time and money to teach enlisted trainees?"

There is also consensus in all the services that there must be a much better information network among those working to prevent and protect service members from fraudulent practices. A web site on the Internet that describes the misconduct and lists the offenders was offered as a possible solution. Within the Army the question arose frequently, "Where is the report that we are supposed to receive on a quarterly basis?"

Consensus also exists to eliminate the insurance allotment. But this consensus only exists among the insurance experts and a few well-intentioned amateurs with whom I spoke.

The finance community does not share this view, and it argues that the vast majority of service members who have not fallen prey to the insurance solicitors would object strenuously to such action.

Finally, the active duty service members who have been the targets of unscrupulous agents speak in one voice about eliminating the agents from their installations and their quarters. They expect decisive action, and they believe that banning all on base solicitation is the correct action.

5.0 MUTUAL AID ASSOCIATIONS

5.1 Army and Air Force Mutual Aid Association

This organization is a non-profit, tax-exempt organization formed in January 1879 in the wake of the Custer massacre at Little Big Horn. The primary purpose of the organization is to provide aid to families of deceased members. It expanded in 1984 to include Air Force personnel. The organization provides to members and their spouses personal affairs planning, insurance, pre-retirement, financial awareness counseling and representation when filing death and disability claims. The State of Virginia does not regulate the association as an insurance company, although the association has sold insurance to its members since its inception. Currently the association sells a broad range of life insurance products to its members. At the present time all officers and non-commissioned officers of the Army and the Air Force are eligible for membership. The membership of this organization will vote at the annual meeting in April 2000 to expand membership to all personnel of the Army and the Air Force. All insurance sales are handled by employees of the organization from their offices at Fort Myer, Virginia. Insurance sales are conducted through the mail or by telephone unless a member chooses to visit the Fort Myer office. No commissions are paid on insurance sales, and there is no in-person solicitation conducted on the remainder of the base at Fort Myer or at any other military installation. Association employees and officers provide financial and survivor benefit training to military personnel and their families throughout the DoD.

5.2 Navy Mutual Aid Association

This association was formed in July 1879 as a non-profit tax-exempt voluntary membership organization of sea service personnel and their families. The association is open to all ranks of service members in the Navy, Marine Corps, Coast Guard, Public Health Service and the National Oceanic and Atmospheric Administration. The Virginia State Insurance Commission treats this association as it does the Army-Air Force counterpart. Employees of the association handle all sales from its headquarters at Henderson Hall, Virginia. Sales occur through the mail or by some electronic means of communication, unless a member happens to visit Henderson Hall. The association pays no commissions on insurance sales, and there is no in-person solicitation conducted on the remainder of Henderson Hall or at any other naval or military installation. Historically, this association provided a wider range of insurance product than the Army-Air Force counterpart, but today there are few distinctions between the two in services provided or products offered. The association also provides education on military and naval installations, primarily in the area of Government survivor benefits.

5.3 Analysis

These two associations are truly unique. They were established in the 19th century when Congress declined to provide survivor benefits from public funds. They have their own special provision of the federal tax code. For many years their day-to-day leadership and management were conducted by active duty Army and Navy personnel from Government offices. Today retired officers serve as presidents and chief operating officers of both organizations. Both organizations are located on DoD installations in Arlington, Virginia.

The associations operate from buildings that appear to be part of the installation but are, in fact, built with the associations' funds. To my knowledge, there has never been a breath of scandal about either organization. Neither the Inspector General's teams nor I heard any complaints about these organizations during the conduct of our studies. Unless either of these organizations begins to solicit membership or sales on military installations (there is no indication either organization has plans to do so), these organizations should essentially be ignored in future regulatory efforts. If it is necessary to include these organizations in a revised regulatory structure, care must be taken to respect the historical tradition and service of these associations. They truly are part of the defense establishment.

6.0 ISSUES

6.1 Allotments

Two unique characteristics of the military community make service members unusually susceptible to the dishonest and deceptive practices that are the subject of this evaluation. The first characteristic is that the military environment builds trust and obedience that the unethical vendors of insurance misuse. The second characteristic is a pay system that permits allotments of pay to be sent from the Government directly to non-governmental recipients without passing through the service members' hands.

The allotment system was established at a time when most service members received their monthly pay in cash from their unit commanders. The allotment system was essential at that time because the pay system was decentralized and few service members were on a check-to-bank pay system. The allotment works as an above-the-line deduction, much like Social Security or income tax payments, which will continue until formally revoked. Accordingly, unless a formal written communication is sent to the proper finance office or the service member is discharged, the allotment will continue.

There is no question that some insurance agents abuse the allotment system. There is incontrovertible evidence that many agents possess allotment forms contrary to DoD policy. There is even some evidence that agents have forged signatures on forms that they have submitted to finance officials. Other violations of DoD and service policies relating to allotments are clearly documented in the reports I reviewed for this project.

Today, some finance professionals see the allotment system as an anachronism. Automatic electronic payments from a checking account could accomplish the same result. However most service members and their families continue to rely on this guaranteed payment program. They view allotments as a real service that makes essential payments in times of family separation and during permanent changes of station.

To those who seek to end the abuse of service members through the sales practices made notorious by Academy Life, one attractive solution is to eliminate insurance allotment payments. Without these allotment payments the individual service member would have to write a check each month or make some other arrangement for deducting the payment from a private bank account. This would make the payment much more visible and would require a volitional act on a recurring basis. Experienced insurance agents echo this thought. Those experienced agents who have left the business of deceptive solicitation are consistent in their view that eliminating the insurance allotment would seriously damage the effectiveness of the unethical insurance salesman. Insurance experts from state regulatory offices also raised this issue with me. For those who are not familiar with the fine points of military pay operations, ending insurance allotments is an ideal approach.

There is another side to this issue, however, that I came to understand when I discussed it with some senior professionals at the Marine Corps Finance Center in Kansas City, Missouri. First, the finance centers will soon implement a system that will let each service member revise pay and allotment choices via the Internet using a PIN. The paper

forms will disappear; only electronic impulses will remain. Substantial cost savings to the Government and improved service to the member are driving this change. The experts believe it may not be practicable to eliminate insurance allotments under such a system. These experts also suggest that the new system may provide some additional new opportunities to educate and deal with the problem we face. For example, it may be possible to use this new electronic system to monitor better the flow of payments to questionable recipients. In addition, it would be possible to warn the service member, via a pop-up screen, that they are about to send money to a firm that has recently been investigated for unethical or illegal practices. My professional instincts suggest that it is better to work with such a major change than to propose solutions that are inconsistent with the change.

There are also some current practical reasons for not eliminating the insurance allotment. First, a large number of career professionals do rely on this system. To reduce their finance options would require a major educational and sales effort that may not be well received. Second, and perhaps more telling, was the point made by a senior Marine Warrant Officer. It would be relatively easy for the insurance companies to work around the elimination of the allotment system. Most of these companies own their own banks, and they could simply establish a check-to-bank program for the insurance purchaser and then deduct the insurance payment electronically. If this were to occur, the DoD would lose its ability to track these transactions completely. At least under the current system, DFAS can provide a fair approximation of where the money is going.

It follows then that elimination of the insurance allotment is an illusory solution to the problem. My recommendation is to direct DFAS to provide additional soldier protections in its new electronic pay system. These protections would involve providing additional information to the service member and to key personnel officials responsible for consumer protection. These protections should be developed in coordination with personnel and legal officials within the Office of the Secretary of Defense.

6.2 Lost Premiums

In September 1998 the Florida Insurance Commission filed an Administrative Complaint against American Fidelity Insurance Company (AMFI) and Trans World Assurance Company (TWA). As auditors for the Insurance Commission evaluated the financial records of these companies pursuant to this complaint, they found an account, numbered 10101, for which there was no explanation. The account dated to 1977 and contained $4.65 million at the time it was discovered. As the investigation evolved it became apparent that this account consisted primarily of allotments that the companies had received after the service member policyholders had cancelled their insurance policies. In addition, some of this money came to the companies on allotments where no life insurance contract ever existed. In both cases, these premiums were clearly the property of the service member whose pay was allotted to AMFI and TWA.

According to Florida officials, it is clear from the record that this money belonged to service members and should have been returned to them. In a common law sense, this money was stolen from the service members. It is also possible that the Government was a victim in this transaction.

On February 17, 2000, AMFI and TWA agreed to pay fines amounting to $2.4 million to the State of Florida as part of the settlement for the transgressions described above. AMFI and TWA also agreed to return the $4.65 million plus 6% annual interest to the service members if they could be found. If the service members could not be found, the money would be given to Florida without interest.

First, it is my assessment that the DoD should get actively involved in the efforts to locate the service members or former service members whose money was stolen. The experience in litigation against these companies in Washington indicates that AMFI and TWA will not actively pursue their agreed upon obligations to return the money. In addition, Florida, as well as the insurance companies, has a substantial financial interest in not finding the victims. (Florida gets the money if the victims cannot be located.) Whether the DoD has a fiduciary obligation to the victims is not clear, but the DoD's moral obligation in this regard is beyond question. There is also a question of the U.S. Government's interest in taking criminal action against these two companies and their leaders. The U.S. Attorney in Pensacola, Florida, is expected to address this possibility in the weeks ahead, but the DoD should ensure that the Department of Justice has full cooperation from DCIS and DFAS in this regard. Moreover, until some accounting experts acting for DoD are certain there are no DoD funds involved in these accounts, the DoD should continue to pursue all evidence available surrounding these transactions.

Second, it is very likely that similar accounts exist in the other insurance companies involved in these unethical practices. To think that Academy Life or American Amicable is actively involved in tracing former policy holders and returning allotment payments that were made after policy cancellation is akin to belief in the tooth fairy. The DoD clearly has a moral obligation to pursue this probability, and it is possible that a fiduciary or legal obligation exists in this regard. As is the case with AMFI and TWA, the Department of Justice may also have an interest in pursuing these accounts from a civil and a criminal perspective.

In summary, it is clear that AMFI and TWA unlawfully retained $4.65 million from service members over a 20 year period. It is probable that other insurance companies were involved in similar practices. The DoD should take the necessary and proper steps to locate the victims of this criminal behavior and to ensure that any DoD funds that may have been involved are returned to the Government.

6.3 Coercive Environment, High Pressure Tactics

The U.S. Army Europe Inspector General investigation of NCOA and Academy Life clearly established coercion on the part of the senior non-commissioned officers who required subordinates to attend sales presentations and then used their official positions to encourage membership and insurance sales. The practices documented in the Navy Litigation Report describing insurance solicitation on the Jacksonville, Florida, area indicate that high pressure sales are a problem throughout the DoD. The practices exposed at Bangor Navy Base by the Department of Justice in *United States v. American Fidelity Life Insurance Company, Trans World Assurance Company, et al.* reflect that these problems continue today.

However, the sensing I received from my visits to the field and through extensive telephone conversations with officials at more than 20 installations I did not visit, indicates that this problem is less serious today than it was 5 years ago. On installations where agents have been barred there is a heightened sensitivity among staff and commanders about these pressures. The notoriety of the NCOA/Academy Life case itself has made commanders more alert to complaints from those who believe they have been pressured.

Today, complaints that raise this issue surface as a result of well-intentioned leaders who wish to ensure their subordinates receive the kind of personal financial training that will benefit their financial stability and success. Just this month I was advised of a mandatory financial planning seminar that recently was conducted at Fort Lewis. While such a seminar is not, *per se,* coercive, permitting agents of USPA/IRA to conduct the seminar clearly violates DoD Directive 1344.7. This is the type of activity that led to the NCOA/Academy Life problems. Officials at Fort Lewis are reviewing this occurrence, and the problem is under control at that installation. Nevertheless, this incident reflects the need for continued vigilance about creating a coercive environment by leaders at all levels.

Thus, it is my assessment that unethical insurance sales agents have moved from tactics that are physically or mentally coercive to tactics that are psychologically persuasive. In the latter half of the 20th century, law enforcement officials learned that psychological techniques are an effective replacement for the rubber hose or other physical means in the interrogation process. The unethical insurance agents who previously relied on captive audiences and chain of command pressure have moved on to the psychological frontier as well. Some of these tactics are legitimate and some are deceptive, as will be discussed in the next section of this discussion. This is not to suggest that the issue of coercive environment has disappeared; it remains present as a diminished threat.

6.4 Deceptive Practices

The deceptive practices described in the reports I reviewed and the interviews I conducted are too numerous to catalog in a summary of this issue, but in most cases the practices arise after the agent has established trust with the service member. The setting could be a military classroom or a barracks room; it could include the presence of a military superior. Persuasive sales documents could include a letter from the installation commander or a Deputy Assistant Secretary of Defense. All of the above contribute to the deception. Frequently, the sales presentation begins with a discussion of shared knowledge—we all must invest for a secure retirement, a future home purchase and sound education for our children. The agent then moves into a discussion of Government benefits that are available and that the agent helps the service member to understand. At that point the sales agents frequently move into investments, stressing the risks of most equity investments and stressing the low returns of savings with safety guarantees. At that point the "Flexible Dollar Builder," the "Security Builder" or the "Wealth Builder" is introduced as an absolutely safe way to gain 10% to 14% returns. Frequently, insurance is never mentioned. Frequently, the service member is not aware that he or she has signed an allotment. The hook is set, and the stream of payments begins.

What follows is a verbatim summary of the description of these events by 12 young service members at one installation. These same deceptions have been repeated time and again at installations throughout the Armed Forces for more than 30 years.

- PVT [ ] stated "[An agent] told me that going this program (sic) would benefit me by switching from SGLI and starting a new savings," and "every lower enlisted who lives in the barracks have been approached by this company."
- PVT [ ] stated "I asked for more information before I signed on with the insurance and savings plans. He told me that I had to sign on some documents to get more information. . . . When I got my LES I noticed $113.75 taken out. . . .I was very mad about the money being taken out since I don't remember signing any allotments. . . .After he showed us the info on the insurance company, he talked forever on a savings plan that was hidden in life insurance."
- PVT [ ] stated "He also showed me a certificate from the Department of the Army at the same time saying he was certified and has permission to be on post."
- PVT [ ] stated "He tried to sell me some kind of insurance and an investment plan and to get to where I don't have to pay my federal taxes. This past month they started my allotment and took out $100."
- PVT [ ] stated "They said that they were affiliated with the military."
- PFC [ ] stated "I was under the impression I was going to be investing in a lifetime retirement savings account. I understood that I would pay $100 monthly. I also understood that of the $100, only $75 would go to my savings account and $25 would go elsewhere. However, I thought that would only happen for two months. Thereafter the entire $100 would go to my savings account. I did not know that some of my money was going into an insurance plan along with a savings plan."
- Specialist [ ] stated "I told [an agent] to stop telling soldiers that he is working for the military. He said that I was right, and that he is working for us soldiers."
- Specialist [ ] stated "[An agent] also showed a Department of the Army endorsed memorandum showing that the company is an acceptable one. Seeing the endorsement made me feel it was a good deal."
- PFC [ ] stated "[An agent] told me I could add more dependents to pay less taxes, which I knew was wrong. . . . He told me for the amount of taxes I had already paid, I could claim my pet and my friends that I feed who reside in the barracks. . . He told me that all he needed was my signature to start the allotment, they were linked through databases where he was authorized to do this for me. . . MBA had authority through DA to process allotments."
- Specialist [ ] stated "He had me sign military allotment forms which he had on hand and said he had gotten them for the finance office at

Fort Leonard Wood. He also said he would drop them off to finance for me, which I found a little strange."

- PVT [ ] stated "Next he talked about a long term investment plan. . . The plan was an IRA and savings plan combined, soldiers would put in $100 monthly and $75 a month on the first month would go into the IRA account and $25 would go to a savings plan. The second month the process would interchange according to my understanding."
- Specialist [ ] stated "I was approached by a man claiming he was selling life insurance and a long term savings plan. I was contacted in my room and I signed a blank allotment form and $115 was taken from my earnings."

It is likely that the rate of return these young soldiers relied on was as false as the other commitments they received. However, the only way to prove the truth or falsity of those claims is to wait the 20 to 30 years prescribed under the terms of the policies.

These practices continue unabated today. Recent actions to bar AMFI and TWA agents at Goodfellow Air Force Base, Texas, and Keesler Air Force Base, Mississippi, are based on the same types of practices. It is clear that the community of insurance agents that operate on military bases has been unwilling or unable to police itself. Unless the DoD acts to eliminate the presence of these agents from military installations, it is virtually ensured these practices will continue.

6.5 Conflict of Interests

This issue has its origins in the scriptural adage that "no man can serve two masters." In the latter half of the 20th century both major political parties coalesced around principles that were enacted into positive law in the Ethics in Government Act and have been spelled out in detailed regulations that provide standards of conduct for the entire Executive Branch. In the DoD these standards are published in the Joint Ethics Regulation, DoD Directive 5500.7R.

The conduct of some of the senior active duty non-commissioned officers who were involved in the leadership of NCOA clearly breached some of the applicable conflict of interest standards. Chief among these breached standards was the use of public office for private gain. In addition, standards related to selling to subordinates were repeatedly ignored.

It is, however, important to note that the retirees involved in these practices were not technically involved in conflict of interest violations because, as retirees, the standards did not apply to them. Of course, general ethical notions of conflicting interests applied to these retirees. They were acting in the financial interests of Academy Life and not in the interests of the enlisted soldiers they claimed to represent. But here they were breaking a moral standard, not a legal one.

The technique of using an organization, such as NCOA, as a front for an insurance sales operation can be found in other parts of this industry. American Amicable and Pioneer American are involved with an organization known as UAFA, which was formed in

conjunction with these companies. The sales instruction manual for the two insurance companies even includes a discussion of how to use UAFA in the sales process. But it is difficult to discern a conflict of interest in this regard. The insurance companies control UAFA. The modest representational and educational efforts of UAFA are clearly part of the insurance companies' sales operations. There is not much conflict to be seen. To the extent UAFA claims to be an independent educational operation, an objective observer could express skepticism. The Navy understood this relationship when it withdrew UAFA's authorization to conduct educational programs on naval installations. The Air Force authorizes no educational programs of the UAFA variety. The Army, which presently endorses UAFA educational presentations, has not been as prescient.

The presence of senior active duty military officers on the boards of directors of some insurance companies selling products to active duty personnel does raise some conflict of interest issues. These issues presently are resolved by Standards of Conduct officials in the services under the standards of conduct provisions of the Joint Ethics Regulation, DoD Directive 5500.7R. While I did not have access to the files of these offices in this study, I am aware of continuous regulatory activity of appropriate officials in this regard.

In fairness to the insurance industry, the analyst must understand that conflicting interests are involved in almost any sales process. In the American economy, this process is regulated primarily by the open market. Puffing, or mild exaggeration, is expected as a part of this system of commerce. Fraud, on the part of either buyer or seller, is prohibited. In the current context, when the seller wears a uniform or purports to be acting solely in the interests of the buyer, the transaction approaches fraud. Conflict of interest analysis is unnecessary when fraud is present. Conflict of interest analysis tends to be helpful in analyzing those transactions where fraud is not apparent, but its odor lingers. Where full disclosure of the parties' interests is present, the threat posed by conflicting interests is minimized.

It is my assessment that, except for the NCOA/Academy Life problem and the UAFA issue mentioned above, the services deal properly with the conflict of interest issues. Field reports I have received indicate that NCOA remains effective at providing leads to its affiliated insurance companies, but the other organizations involved in this process have been marginally successful. In my discussions with Army and Air Force regulators in Europe I heard some undocumented concerns expressed about USPA/IRA, but these anecdotal reports have not been documented by investigations. This is an issue where a system of reporting and information exchange would be particularly helpful. As indicated in an earlier section of this report, the lack of cross service reporting leads to inconsistent actions in the field, and it also exposes some service members to additional risk of deceptive sales.

6.6 Training

The issue of training is sensitive primarily because the time available for teaching fundamental military skills is an extremely scarce resource in entry level training. At each level of training, thereafter, there is also serious competition for available training hours. There is a secondary concern with respect to personal finance training. The concern is that qualified and credible instructors are not readily available in the military

community. The discussion that follows will deal with both aspects of this problem and will propose some solutions to the training dilemma.

I discussed this dilemma at length with a retired Army Sergeant Major who had long been concerned about personal finance training for the enlisted community. At one point he declared:

> Let me see if I have this straight. At West Point they give the cadets 10 hours of training before graduation. In Marine Officer Basic they receive 90 minutes of personal finance and an hour of survivor benefits. In ROTC they give a minimum of 1 hour, but are likely to give more. Our enlisted kids get taught how to balance their checkbooks, but nothing else. Who do you think needs the training? I've watched this issue for 30 years, and I will tell you that personal finance training should be included at every enlisted school from Basic to the Sergeant Majors Academy. What you think is a dilemma is just officers' unwillingness to provide for enlisted soldiers the same educational opportunities they provide for themselves.

It is beyond dispute that the best defense to deceptive commercial practices is a well-educated consumer. No one argues that it is a good idea to have service members who are ignorant of the best means to provide for the financial well being of their families.

From an independent analyst's perspective, it is fascinating to me that both the Sergeant Major and the DoD Inspector General independently came to the same solution with respect to personal finance training for enlisted personnel. They both saw a need for personal finance training in basic and in enlisted leadership schools. After the services expressed their objections, the Inspector General retreated to a watered down standard that would permit the services to cover the issues in question at some point during the first 6 months of service. The Sergeant Major would not be so accommodating.

While I profess no special expertise as a trainer, I know that I was exposed to these issues at every level of my military professional education. While I do not subscribe to the Sergeant Major's theory of class warfare, my judgment leads me to the conclusion that his solution is correct. The training need not be lengthy. The program that I saw at the Marine Corps Officers' Basic Training could easily be tailored for enlisted personnel. The principles are identical. The examples might need to be revised to match a lower income level. Ironically enough, the instructor for the new officers at Quantico was a retired Chief Petty Officer of the Coast Guard.

The second part of the dilemma is finding qualified instructors. This issue can be partly solved by providing high quality training packages with modern multi-media materials to the field. But as the Air Force First Sergeant at Fort Leonard Wood explained it to me,

> I've got the Air Force videotapes. They're good, but my Airmen will sleep through them. I need someone who understands their problems and can answer their questions.

> I found a lady in Family Services—a Government employee who does debt counseling. She knows how my folks can get into trouble, and she teaches a good class. The tapes just don't have the same effect.

Not every installation has qualified instructors, and demand is greater than supply.

Traditionally, leaders trying to meet this demand have sought help in the private sector. The problem with seeking private sector help is that the readily available volunteers include large numbers of the junk insurance sales agents who are trying to develop leads and advertise their products. While DoD Directive 1344.7 deals with this issue and forbids the practice, the relevant provisions are seldom enforced in any of the Services.

The DoD Inspector General's Report devotes careful thought to this issue and establishes standards for using private sector trainers. My judgment is that the Inspector General's standards will work and responsible companies will actively compete for the opportunity to provide this service. Both the services and the Office of the Secretary of Defense will have to devote some effort to oversight in this arena, but the effort should be worth it. The risk free alternative is to provide Government funding to pay for improving the skills of those who are presently available to teach these skills. The history of this issue is that the latter approach is not effective.

There is an additional aspect of this expertise issue that is worth a brief note. The press and the electronic media provide the DoD an additional opportunity to have a dramatic impact with regard to education. This is an approach the DoD to date has neglected, perhaps through embarrassment. As I spoke with individuals and groups on my travels, recognition of the issue improved greatly when I mentioned the CBS 60 Minutes program. When I used the tape of the program as an introduction, I got undivided attention to my subject. Calling attention to past shortcomings may be painful, but they provide a unique opportunity for the DoD to help service members avoid repeating the mistakes of their predecessors.

In summary, the DoD should establish an aggressive training program that establishes personal finance training at every formal level of enlisted education. In addition, while operating under the strict guidelines proposed by the Inspector General, the DoD should permit private nonprofit educational associations, regardless of the origin of their funds, to contribute to military personal finance education. Thereafter, the DoD should establish an aggressive multi-media effort to inform service members of the steps being taken to assist their personal financial well being and the risks of being uneducated about these matters.

7.0 FINDINGS

7.1 DoD Policies Are Routinely Violated

While the long-established policies of the DoD with respect to solicitation of insurance are clear and understandable, these policies are routinely violated on installations throughout the world. The principal reason these policies are violated in a routine manner is that the insurance agents who violate them are unwilling or unable to comply with basic ethical precepts. The sanctions available under written DoD policies do not serve as an effective deterrent to deceptive and unethical practices. Neither the companies that employ these agents nor installation commanders in the field have been able to curb extensive corrupt practices. The violations that occur are not local or occasional. These violations are endemic to the DoD. In this regard, basic DoD and service policies are inadequate because they have neither reporting nor inspection requirements that are meaningful. Correspondingly, the present regulatory structure assumes too much skill and involvement at each level of command. Field commands are not properly staffed to enforce the DoD policies as written. The depth and breadth of the problem are not widely understood outside the Office of the Secretary of Defense.

7.2 DoD Allotment System Facilitates the Violation of Insurance Solicitation Policies

The pay allotment system ensures an uninterrupted stream of payments from the account of a service member to an insurance company without effective safeguards. The $30 million per month paid to insurance companies by DoD allotment is too attractive a target for the unethical insurance practitioner. The prescribed policies of DoD Directive 1344.7 establish safeguards for the service member. but insurance agents operating on DoD installations routinely avoid these protections.

7.3 Coercive Environment, High Pressure Sales Remains a Threat

The action taken against Academy Life Insurance Company in November 1998 reduced the opportunity for NCOA/Academy Life to apply pressure to junior enlisted personnel. No other organization or organizations have the same ability to create such a coercive environment, although the problem has arisen on some installations on a smaller scale. Other companies are involved in coercive practices, but they do not operate with the proficiency once exhibited by NCOA/Academy Life. The bar against Academy Life does not expire until November 2001. Thereafter, a significant threat is likely to return.

7.4 Deceptive Insurance Sales Practices Continue Unabated

Recent reports of documented deceptive practices from the Far East, Europe and installations within the United States indicate that deceptive practices are the norm among the agents of some companies. These deceptive practices are very effective among uneducated consumers who are led to believe that on base solicitors and their products have been approved by the DoD.

7.5 Deceptive and Coercive Solicitation Have a Clear and Present Adverse Effect on Morale and Discipline and Unit Integrity

Service members who have been coerced or deceived into buying insurance on a military installation blame not only the sales agents. The victims blame their military superiors for placing them in a position to be misled. The trust and respect that military leaders seek to instill in their subordinates are clearly reduced among those who have bought insurance that is of little or no value to them. This adversely affects the unit integrity. Victims spoke to me in terms of not trusting commanders and senior non-commissioned officers in the same manner that preceded the sales, and they expressed a reduced tendency to reenlist based on the same factor.

7.6 Current Personal Finance Education Programs Are Inadequate

Personal financial training for enlisted personnel is substantially less than that provided to junior officers. An appropriate standard for basic enlisted trainees is that they should receive training equivalent to the training received by junior officers in the Marine officer basic training program.

7.7 Insurance Companies Have Unlawfully Retained Allotment Payments

American Fidelity Insurance Company and Trans World Assurance Company recently agreed to disgorge $4.65 million in allotment payments that were unlawfully withheld from service members after they had cancelled their insurance policies. The unlawful withholding extended over a period of 20 years. There is a substantial probability that other insurance companies have been involved in similar practices.

7.8 State Insurance Regulation Programs Are Not Effective Protection for Military Consumers

DoD relies on state insurance regulation programs to provide effective review of insurance products and to license individual sales agents. While state regulators have taken an active interest in some military cases, their jurisdictional limits and the time delays inherent in large-scale insurance regulation proceedings diminish the effectiveness of these controls in the mobile military community. Even though the insurance companies operate on an international basis, these state authorities routinely decline to provide remedies to service members who are not citizens of the state or to regulate practices occurring outside the boundaries of the state. This latter limitation alone makes DoD's reliance unjustified.

7.9 No Value Added to War Fighting Capacity of Armed Forces by On Base Insurance Sales

When military personnel are asked: "What is the benefit to you or your unit from on base insurance sales?" they respond: "Absolutely nothing!" Experienced personnel are quick to point out the substantial number of companies that advertised their mail order sales in the Military Times newspapers and the companies that advertised Internet insurance sales in financial publications. Junior personnel routinely respond: "SGLI is all I need," and

most insurance experts agree with that assessment. Moreover, these junior personnel are far more likely to have the ability to make off base purchases than was the case in the Cold War era. However, an Air Force officer raised with me the possibility that some senior personnel might wish to invite a sales agent into their quarters but added that he had never done so. The officer also agreed that the possible benefit he described did not outweigh the risk posed by rogue agents in the barracks. This unlikely possibility of limited value to senior personnel only underscores the lack of value to junior personnel. Senior personnel are most likely to have the transportation and communication assets necessary to purchase insurance off the military installation. They are least in need of a personal visit.

8.0 RECOMMENDATIONS

As the findings reflect, the problems arising from unethical insurance solicitation involve long-standing commercial practices that have been interwoven within the fabric of the military community. Elimination of these problems will not be the result of a single act or policy change. The best comprehensive solution to these problems will combine a simple policy that is easy to understand and easy to implement, comprehensive consumer education and dedicated command supervision.

8.1 Eliminate On Base Insurance Solicitation

Although the Inspector General suggested that an improved regulatory system might be a viable alternative to this solution, it is clear from my evaluation that an effective regulatory system is not practicable in the DoD environment. Ultimately, state regulatory systems rely on state courts for enforcement. The DoD has no parallel court system for enforcement, that is one of the reasons the current system does not work. Moreover, to suggest that the DoD establish a system of regulation comparable to state regulatory activity is to suggest that several hundred personnel, skilled in legal, investigative, actuarial and insurance practices, should be added to the military service staffs. This fact alone renders the alternative to eliminating on base solicitation impractical. Even with today's ineffective regulatory process, the administrative regulatory burden on the DoD substantially outweighs the potential benefit to service members and their families.

There is no other realistic alternative to this solution. Life insurance sales will continue—outside the gates of military installations. No service member will be denied any essential service. Insurance is readily available through the Internet and from reputable companies that advertise on a weekly basis in the Military Times newspapers. Moreover, this solution treats all insurance companies equally. There can be no legitimate claim of favoritism. This approach need not disrupt the operations of the Mutual Aid Associations as long as they continue to conduct all their sales by mail or by electronic means.

8.2 Establish Meaningful Consumer Protections for the Allotment System

Because current insurance consumer protections established by the services are ineffective, either insurance allotments should be eliminated or new and effective protections must be created. Because allotments are valuable to service members who must travel frequently or are assigned in remote locations, the option of choice is improved consumer protections. Accordingly, as the DoD moves to a new electronic allotment system, DFAS, in conjunction with legal and personnel policy officials, must ensure that the new system has truly effective systems to prevent a continuation of the abuses that occur under today's paper allotment system. These protections should include electronic (pop-up) warnings or educational materials that would inform the service member of potential deceptive or coercive sales practices. In addition, these protections must provide routine data to personnel policy makers about cumulative allotment flow to insurance companies. Such data is essential to the assessment of potentially deceptive or coercive sales practices. This option would require little implementation effort in the field but would require an extensive staff effort at DoD

level. If these protections become too burdensome for pay system administration, then elimination of insurance allotments is the only appropriate alternative.

8.3 Direct a Detailed Inquiry into the Disposition of Unlawfully Withheld Allotment Payments

It is necessary and appropriate that an immediate inquiry into the disposition of unlawfully withheld allotment payments be conducted to ascertain that all appropriate measures have been taken to return these payments to the Government or to the proper owner from which they came. This inquiry should extend to all companies, including American Fidelity Life Insurance Company and Trans World Assurance Company, where DoD allotment data indicates a pattern similar to that disclosed in the Florida settlement with the two named companies. This inquiry should be conducted with deliberate speed either by contract or by Government personnel with the appropriate audit and investigative experience.

8.4 Require Improved Personal Finance Training in All Enlisted Schools

In essence, this is a proposal for DoD to provide for enlisted personnel what presently is done for officers. For example, providing personal finance training comparable to that instruction presently given to Marine officer basic students to all new enlisted personnel would be the appropriate first step. Programs matching the skills and incomes of more senior personnel should be incorporated into more advanced enlisted personnel education.

8.5 Establish Minimum Standards for All Personal Finance Training Conducted by Non-DoD Personnel

These standards, proposed by the DoD Inspector General and concurred in by the services, should be established immediately. The standards require the services to develop approval and oversight procedures for:

- Approval of training materials.
- Approval of training for a designated period.
- Oversight of training materials and presentations by the installation representative responsible for education and counseling.
- Signed agreements with presenters that they will not pass out information request forms, obtain a participant list or verbally solicit business.
- Providing the names of all entities approved to give financial presentations and those entities whose approval has been rescinded to the Office of the Assistant Secretary of Defense (Force Management Policy).

8.6 Establish a DoD Consumer Affairs Education and Communications System

The minimum elements of this system will be a web site on the Internet that includes:

- A current list of barred practices and practitioners.
- A current list of questionable practices.
- A current listing of installation and Service points of contact concerning consumer affairs.
- Basic educational materials—slides, lesson plans, references.
- A current listing of approved educational presenters.

8.7 Establish a DoD Reporting and Inspection System

This requirement would capture what is best in the current Army and Navy reporting systems and ensure the key elements of this information get passed to the Office of the Assistant Secretary of Defense (Force Management Policy). (Only those reports required by Army Regulation 210-7 would be sent outside the originating Services under this proposal.) This requirement differs from current practice in that the Services would need a single responsible point of contact and they would be required to report policy violations for further dissemination to the field. Essential adverse information would get added to the DoD web site described above.

The inspection requirement need not be detailed or onerous. Adding a requirement to check for insurance sales deceptions during routine Inspector General assessments would be an adequate means to ensure compliance in the field. In my experience the Inspector General routinely seeks additional matters of current interest to add to the morale and welfare checklist. This would be an appropriate addition to such a checklist.

APPENDIX A

ACADEMY LIFE INSURANCE COMPANY

The Academy Life Insurance Group has existed since 1967. The group has two wholly owned subsidiaries: Academy Life Insurance Company and Pension Life Insurance Company. The group was acquired by Providian Corporation, a large financial services organization, in 1993. In 1997 the group was sold to Aegon Corporation, another large financial services organization, that is listed on the New York Stock Exchange.

Academy Life Insurance Group has an exclusive endorsement from the Non-commissioned Officers Association (NCOA). The business of Academy Life is based primarily on this endorsement. NCOA is a Congressionally chartered private organization whose stated organizational purpose is to assist enlisted personnel of the Armed Forces by giving them a greater voice in the Government. In the past, NCOA has been an effective lobbying group. In addition the organization provides substantial services on military installations. These services tend to be grass roots efforts at organizing and operating social, athletic and fraternal functions that add to community life. The leadership of NCOA is made up of retired senior non-commissioned officers, several of whom have been the senior non-commissioned officer of their military Service. For the exclusive endorsement granted to the Academy Life Insurance Group, NCOA receives 1% of all insurance sales proceeds received by the Academy Life Insurance Group. This source of funding frequently is estimated to exceed $1 million per year.

As noted in the background section of this report, the relationship between Academy Life and NCOA has been open and notorious since 1974. The relationship between the two organizations gives the insurance company a real competitive advantage that other companies complain about frequently. Invariably the complaints center on the means by which NCOA maintains access to and control of potential purchasers of Academy Life Insurance. In particular, at many installations the NCOA had a "service center" operated by an NCOA counselor. This counselor was also a registered insurance agent who represented Academy Life. As a counselor the NCOA representative performed some useful functions in the military community. However, the sole source of compensation for these counselors was the generation of insurance sales. The investigations described below established that NCOA and Academy Life had replicated the practices they invented in the 1970s.

During the late 1990s complaints from Academy Life's competitors led to two serious and detailed investigations. The first investigation occurred in Europe and was conducted by the Army Inspector General at various installations throughout the command. The second investigation was a Navy litigation investigation that occurred in the Jacksonville, Florida, area. The first investigation was particularly effective at exposing the scope of the problem. The second investigation was able to get inside information about the sales techniques of Academy Life and detailed how the insurance agents were able to involve senior leadership in practices that were clear violations of Government ethics regulations. In 1998 the Office of the Secretary of Defense

considered these two investigations and decided to bar Academy Life from soliciting insurance sales on all military installations for a period of 3 years.

The discussion that follows is taken from the investigations described above. The facts are not in controversy. The practices detailed below were replicated time and again and are documented in hundreds of pages of testimony taken by military investigators.

A majority of the witnesses interviewed in the European investigation testified that they had been approached or briefed by NCOA counselors on a military installation. Locations ranged from NCO clubs to unit classrooms, to movie theaters and even to motor pools. NCOA counselors paid retired non-commissioned officers to brief on NCOA at mandatory professional development programs. One retired First Sergeant who conducted such a briefing handed out lead cards that the students filled out. The cards were then given to the NCOA counselor so that he could make insurance appointments with the students. The Vice President for NCOA European Operations testified that he briefed on the benefits of NCOA at the Primary Leadership Development Courses taught at Grafenwoehr and Baumholder. These courses are mandatory for all junior enlisted personnel who seek to get promoted in the Army.

Soldiers repeatedly testified that they received pressure from their First Sergeants and their Battalion Command Sergeants Major to join NCOA during mandatory instruction on their posts. One unit Command Sergeant Major was even requiring his unit to achieve 100% NCOA membership. Of the witnesses interviewed about mandatory formations to solicit membership 65% agreed with the allegations. Moreover, the President of Academy Life testified to the truthfulness of the allegations of group sales to soldiers.

The U.S. Army Europe Inspector General also concluded that NCOA/Academy Life used deceptive solicitation practices within the command. One soldier, who testified that he purchased a policy based on the recommendation of his Battalion Command Sergeant Major, also testified the NCOA counselor/Academy Life agent told him that the cash value of the policy would be worth $100,000 to $200,000 after 10 years. Although the soldier repeatedly requested a copy of the policy, he received only a certificate of insurance from Academy Life. After 5 years he cancelled the policy and received only $1,033 of the $9,555 he had withheld from his pay. Another soldier related the same story, but related that he dropped the policy after paying premiums of $1,266. He received only $63 on his "investment." Other soldiers believed they were deceived by the way they were attracted to the professional development course they attended voluntarily. They indicated they thought they were going to obtain information about personal financial management, but all they received was an insurance sales presentation. When they indicated they had no interest in purchasing insurance, the soldiers were ignored by the instructor.

The investigation in Jacksonville, Florida, arose because an insurance agent from New York Life Insurance Company filed a written complaint against an NCOA counselor. The agent alleged that the NCOA counselor had persuaded a sailor who previously held a New York Life policy to cancel that policy in order to buy an Academy Life policy. This practice, known as "churning" in the insurance industry, has long been recognized as unethical and is illegal in most states, including Florida. (The reason "churning" is illegal

is that it subjects the buyer to a double burden of administrative costs and commissions.) The investigation, conducted by Lieutenant Wayne Hildreth, established that NCOA was involved in much more than just "churning."

Several witnesses came forward and disclosed that NCOA agents were able to help the promotion records of some of their clients when the clients referred additional customers to the agents. Many sailors became involved with NCOA and bought Academy Life insurance as a result of contacts made in the command indoctrination program of the Jacksonville Naval Hospital. Sailors also complained of being approached in their workplace by NCOA/Academy Life agents. These solicitations occurred on duty, in Government facilities and without an invitation to the sales agent.

Because of Lieutenant Hildreth's unique background (he served 18 years in enlisted status before he was commissioned), he was able to obtain statements from several of the counselors who might not have talked with someone else. One counselor explained how his immediate supervisor was able to obtain allotment forms and provide them to the counselors. Notwithstanding complaints by the agents to the contrary, insurance agents may not possess these forms. Another revelation from an agent explained how formal letters of commendation for insurance lead providers were obtained from a Navy Admiral. These letters assisted the promotion opportunities of the recipients, and their use would be a clear violation of the Ethics in Government Act. The investigation also related uncorroborated evidence that NCOA counselors were selling insurance policies on board ships at sea through the use of active duty sailors who acted as surrogate agents.

The evidence of record in these investigations also established that Academy Life policies were a bad bargain for the policyholders. The USAREUR Inspector General estimated that surrender costs for an Academy Life policy ran as high as 70%-80%, while the industry average was approximately 25%. Data provided in Best's Insurance Guide for 1996 reflect that Academy Life was among the most expensive policies available in the American market. And an independent insurance expert retained by CBS News disclosed that it was his opinion that Academy Life was the worst policy available in the U.S. market. When Lieutenant Hildreth requested evidence from Academy Life about the quality of its policies, no evidence was forthcoming from Academy Life.

In summary, when the DoD barred Academy Life from soliciting insurance sales on military installations, the deciding official had clear and convincing evidence that the NCOA/Academy Life agents had repeatedly violated DoD and service regulations controlling the solicitation of insurance sales. The financial effect of this bar remains open to question since revenues to Academy Life from the insurance allotment system have dropped only 1.5% in the year since the bar was initiated. There has, however, been a major reduction in the number of complaints about Academy Life agents on military bases.

ACADEMY LIFE ALLOTMENTS

Month/Yr.	Number of Allotments	Total Value of Allotments	Average Allotment
JAN 98	29,044	$2,325,256	$80.06
FEB 98	26,117	$2,098,622	$80.35
MAR 98	28,550	$2,287,138	$80.11
APR 98	28,370	$2,273,931	$80.15
MAY 98	28,373	$2,270,029	$80.01
JUN 98	28,188	$2,257,144	$80.07
AVERAGE	28,107	$2,252,020	$80.13

SEPTEMBER 11, 1998, ACADEMY LIFE BARRED

Month/Yr.	Number of Allotments	Total Value of Allotments	Average Allotment
JUL 99	28,237	$2,263,045	$80.14
AUG 99	26,117	$2,235,124	$85.58
SEP 99	27,722	$2,222,777	$80.18
OCT 99	27,548	$2,209,940	$80.22
NOV 99	27,478	$2,200,658	$80.09
DEC 99	27,110	$2,174,557	$80.21
AVERAGE	27,369	$2,217,684	$81.07

AVERAGE DECREASE IN MONTHLY REVENUE	1.5%
AVERAGE DECREASE IN NUMBER OF ALLOTMENTS	2.5%
AVERAGE INCREASE IN MONTHLY PREMIUM	1.5%

APPENDIX B

AMERICAN FIDELITY LIFE INSURANCE COMPANY/TRANS WORLD ASSURANCE COMPANY

American Fidelity Life Insurance Company (AMFI) has been involved in the business of selling insurance to military personnel since the 1960s. Charles P.Woodbury founded the company in Florida in 1958. Mr. Woodbury founded Trans World Assurance Company (TWA) in California in 1963. The companies remain related in their business practices. For the past 5 years, and probably longer, these companies have received premiums in excess of $30 million per year through the military allotment system. AMFI's role in questionable insurance solicitation practices was documented in Military Times articles published in 1974.

AMFI has repeatedly demonstrated a detailed knowledge of the procedures and protections established by the DoD for the purposes of regulating insurance sales to military personnel on military installations. AMFI is one of the private insurance underwriters for the Servicemembers' Group Life Insurance Company program, established by Congress, to provide basic term insurance for every member of the Armed Forces.

The insurance policy sold by AMFI/TWA that leads to complaints of fraud and misleading sales is described as the Flexible Dollar Builder in the sales materials of both companies. The policy is basically a whole life insurance policy, and the sales technique involved focuses on the so-called investment characteristics of the policy. At Bangor Naval Base this policy was sold in a series of mass solicitations of newly assigned Marine security guards. The agent was a retired Army Sergeant Major who had been introduced to the Marines by their commander, a Lieutenant Colonel. After the Lieutenant Colonel and another senior assistant left the room, the young Marines were sold insurance that had no reasonable relationship to their personal financial situations. Upon learning what they actually had purchased, all the Marines concerned claimed the refund that became available as a result of the U.S. Attorney's intervention on their behalf.

This Flexible Dollar Builder policy and the sales practices of AMFI and the related company (TWA) have been under scrutiny by the appropriate state insurance regulatory for several years. During this month, AMFI has agreed to a substantial settlement with authorities in the State of Florida. This settlement guarantees that premium refunds in excess of $2 million to identifiable policyholders and escheats to the State of Florida more than $2.5 million where policyholders cannot be identified. Presently, the State of California is conducting an investigation of TWA's practices. The State of Missouri has also inquired into the conduct of AMFI based on complaints arising from Fort Leonard Wood and is about to reach a settlement with AMFI that relates to those complainants. Substantial relief will be provided to policyholders who have complained. Similar inquiries have been conducted in the States of Kentucky, Ohio and Alaska. There is also a substantial issue concerning whether monies belonging to DoD were improperly

retained by AMFI/TWA. The monies in question were allotments received by AMFI/TWA after the service members had cancelled their insurance policies.

The record of AMFI/TWA's improper solicitation practices has been well documented by DCIS Special Agent Henry Mungle during the period from 1996 through 1998. (See Affidavit of Henry Mungle filed in U.S. District Court of the Western District of Washington, April 30, 1998.) While this detailed documentation has not led to substantial federal court intervention to this date, there is no question that Mr. Mungle has documented repeated failures by agents of AMFI and TWA to follow prescribed DoD procedures at installations of the Army, Navy, Marine Corps and Air Force throughout the world. This is a crucial distinction. The absence of federal court intervention is no indication that the practices of AMFI/TWA meet DoD standards.

Continuing violations of DoD insurance solicitation regulations within the Western District of Washington are documented by investigations conducted by command authorities at Fort Lewis, Washington, and by actions taken at Bangor Naval Base at Bangor, Washington. Both companies, AMFI and TWA, were barred from solicitation at Fort Lewis, Washington, during 1996. Neither company is permitted to solicit insurance sales at Fort Lewis at the present time.

During 1997 AMFI and two of its agents were barred from soliciting insurance sales on military installations in Area 1 of the U.S. Forces in Korea. On November 23, 1998, Major General Carl Freeman, Commander, 19th Theater Army Area Command, forwarded to Headquarters, Department of the Army, the investigation supporting the 1997 bar action and a request to bar AMFI from soliciting insurance sales throughout the Department of the Army. As of this date, General Freeman's request has not been acted upon.

On April 10, 1998, Fort Leonard Wood, Missouri, suspended all insurance solicitation privileges for both AMFI and TWA for a period of 2 years. These actions followed two investigations and repeated violations of the insurance solicitation regulations by agents of AMFI and TWA at Fort Leonard Wood. Legal Assistance attorneys documented more than a dozen cases of misleading sales practices, and the principal military investigating officer asserted that the officers of the insurance companies who testified before the hearing had lied repeatedly.

On November 8, 1998, Fort Hood, Texas, the Army's largest installation, denied AMFI permission to solicit insurance sales. This action was based on the activities of AMFI at Fort Lewis, Washington, and Fort Leonard Wood, Missouri, and the related actions of regulatory authorities in Florida and the District Court in the Western District of Washington. In December 1999, Fort Hood relented and restored solicitation privileges to AMFI based upon its repeated requests for solicitation privileges.

During the period from 1996 through 1998, airmen at Beale AFB, California, Wright Patterson AFB, Ohio, and Offutt AFB, Nebraska, alleged under oath that they were misled by agents of AMFI/TWA and further alleged conduct that violated specific provisions of the DoD Directive on Insurance Solicitation.

In 1999, at Goodfellow AFB, Texas, action was taken against agents of AMFI. On February 9, 2000, AMFI and its agents were barred from Goodfellow AFB for a period of 2 years for repeatedly violating DoD Directive 1344.7. Specific violations cited in the bar letter included soliciting at a duty site, conducting a raffle without proper authority and using raffle applications to solicit service members without an invitation.

The flow of premiums to AMFI/TWA continues substantially unabated by the foregoing actions. When Special Agent Mungle filed his affidavit, he reported that AMFI/TWA received an average of $29.6 million per year from 1993 through 1997 and that in 1996 alone these companies received $36.7 million in allotment premiums. In 1998 the DoD Inspector General obtained a report that reflects an annual premium income of $34.1 million per year. The most recent figures from 1999 reflect that the flow of premiums from military allotments to these companies is $33.5 per year. The average premium paid by service members to these companies is $75 per month. (The cost of Servicemembers' Group Life Insurance is $16 per month for $200,000 term insurance.)

The Securities and Exchange Commission (SEC) of the Federal Government has also inquired into the practices of these companies. Because of the limitations of federal law, which make the regulation of insurance companies the exclusive province of the states, the SEC is unlikely to take formal action against these companies.

AMERICAN FIDELITY ALLOTMENTS

Month/Yr.	Number of Allotments	Total Value of Allotments	Average Allotment
JAN 98	19,102	$1,400,121	$73.30
FEB 98	16,412	$1,203,628	$73.34
MAR 98	19,094	$1,392,247	$72.92
APR 98	19,111	$1,392,025	$72.84
MAY 98	19,017	$1,381,519	$72.65
JUN 98	18,778	$1,363,312	$72.60
AVERAGE	18,586	$1,355,475	$72.94

Month/Yr.	Number of Allotments	Total Value of Allotments	Average Allotment
JUL 99	18,254	$1,345,234	$73.70
AUG 99	16,412	$1,336,629	$81.44
SEP 99	18,214	$1,335,718	$73.33
OCT 99	18,141	$1,327,268	$73.16
NOV 99	17,906	$1,308,410	$73.07
DEC 99	17,760	$1,297,705	$73.07
AVERAGE	17,781	$1,325,160	$74.63

TRANS WORLD ASSURANCE ALLOTMENTS

Month/Yr.	Number of Allotments	Total Value of Allotments	Average Allotment
JAN 98	20,902	$1,539,730	$73.66
FEB 98	19,429	$1,417,094	$72.94
MAR 98	20,468	$1,513,841	$73.96
APR 98	20,305	$1,507,031	$74.22
MAY 98	20,018	$1,488,253	$74.25
JUN 98	19,747	$1,469,819	$74.43
AVERAGE	20,145	$1,488,961	$73.91

Month/Yr.	Number of Allotments	Total Value of Allotments	Average Allotment
JUL 99	20,404	$1,498,144	$73.42
AUG 99	19,429	$1,477,580	$76.05
SEP 99	19,928	$1,469,240	$73.73
OCT 99	19,751	$1,461,365	$73.39
NOV 99	19,487	$1,442,850	$74.04
DEC 99	19,224	$1,427,143	$74.24
AVERAGE	19,704	$1,462,720	$74.25

APPENDIX C

AMERICAN AMICABLE LIFE INSURANCE COMPANY

Although promotional literature for American Amicable routinely traces the history of this company from 1910, the company that operates today on many military installations is the American Amicable Life Insurance Company of Texas. This company was formed in 1981 and began active operations in 1986 when it assumed a $6 billion block of insurance. At its origins, American Amicable Life Insurance Company of Texas was wholly owned by the American General Corporation. Today, the American Amicable Life Insurance Company of Texas, along with two other companies with which it operates, Pioneer American Life Insurance Company and Pioneer Security Life Insurance Company, are under the common ownership of Penn Corp Financial of Pennsylvania and are directed by Mr. Lanny Peavy of Waco, Texas. All three companies are listed on the sales materials for the Wealth Builder and similar products sold to military personnel.

Mr. Shelby Peavy, and two other gentlemen from Waco, Texas, also founded the United Armed Forces Association (UAFA) in Texas in 1986. The UAFA, which operates in conjunction with the insurance companies, was formed for the purposes of providing educational programs and advocating legislation for the betterment of its membership. Notwithstanding the denials of its counsel, Mr. Ronald Stading, who is also counsel for American Amicable, a legally trained investigator in Europe concluded that "UAFA serves as a sham for the insurance companies and their agents." The training materials for American Amicable agents include materials on UAFA, and a suggested training technique is to conduct large-scale personal finance briefings in order to generate sales leads. UAFA has sought approval from all the Services to conduct these briefings and at one time had approval from both the Army and the Navy. The Navy withdrew its approval after an investigation in the Jacksonville area led to adverse action against UAFA agents. The Army currently is reviewing the letter, signed in 1997 by the Acting Adjutant General, which authorized UAFA educational presentations.

During the summer of 1999 a field command of U.S. Army Europe conducted an informal investigation, a formal Show Cause Hearing concerning the activities of American Amicable (AA), Pioneer American (PA) and five agents of these companies. The activities of UAFA and related organizations were also investigated in the course of these proceedings. Thereafter, officials acting on behalf of U.S. Army Europe (USAREUR) granted an additional meeting with representatives of these organizations and considered a formal appeal from them.

This process disclosed that five agents of AA/PA, representing 15% of their USAREUR-registered agents, committed numerous and serious violations of DoD Directive 1344.7, Army Regulation 210-7 and USAREUR Regulation 210-70. These violations include:

- Soliciting without appointment.
- Soliciting in barracks.

- Possessing and processing allotment forms.
- Failing to prepare DA Form 2056 (used to notify the unit commander and provide counseling guidance on insurance policies for PV1-PFC).
- Soliciting during duty hours/on-duty status.
- One instance of processing a forged allotment form.
- Misleading advertising.

In addition to the specific violations found above, the deciding official for U.S. Army Europe considered several matters relating to the prior record of these companies. Specifically, the commander was advised of several prior sanctions and warnings imposed upon the respondents. Contrary to the assertions of AA/PA suggesting "no" other prior issues, warnings or suspensions in USAREUR for AA/PA agents, a review of available records indicated a record of repeated conflicts with military authority.

Examples include:

a. June 1985 DA memorandum announces USAREUR-wide suspension of Mr. Walter French, AA, for 1 year; and a permanent bar from Fort Lee, Virginia, for Mr. John Choyce, Pioneer American Life.

b. April 1986 1st PERSCOM memorandum announces USAREUR-wide suspension of Mr. William Collins, AA, for 2 years.

c. Agents, Mr. Saxton, Mr. Carter, Mr. Huff, and Mr. Ferebee are accused of serious violations. Subsequent criminal investigative reports and Show Cause Hearing resulted in USAREUR-wide, 6-month suspensions for all four agents, effective June 6, 1988.

(i) The Ferebee finding is particularly noteworthy because he was found to be in violation of controlling regulations again in 1999. In his earlier violations the criminal investigative report notes Mr. Ferebee:

> Acting in concert with an unidentified service member illegally submitted 66 Army allotment forms to finance to initiate payments for insurance policies for American Amicable... Ferebee admitted to knowingly submitting the illegal allotment forms... (and that) Ferebee was also in violation of USAREUR regulations regarding the sale of insurance to military personnel.

(ii) The earlier Show Cause Hearing for Mr. Ferebee also discloses that the offenses are similar to the recent case as well: conducting business without appointments, soliciting during restricted times and locations, failure to use DA Form 2056, possession and processing of allotment forms and violation of 7-day cooling off period between sale of insurance and allotment initiation for grades E-1 to E-3.

d.1st PERSCOM memorandum, November 24, 1987, warns the AA General Agent of potential USAREUR-wide suspension for agent Mr. James Veasey. This followed a local bar, based on Mr. Veasey's solicitation violations. Mr. Veasey later was cited in a 1994 Show Cause Hearing, see item (g) below.

e.1st PERSCOM warns AA in April 1989 concerning the alteration of a solicitation permit by Mr. William Gipson.

f. 1st PERSCOM memoranda dated October 31, 1991, January 16, 1992, and April 7, 1992, announce 6-month suspensions for Mr. Ronald Thurman, PA, and Mr. Donald Kendall, Pioneer Security (PS) Life Insurance Company (related to AA and PA).

g. 1st PERSCOM memorandum, May 27, 1994, concurs with 1-year, USAREUR-wide suspension of Mr. James Early and Mr. W. James Veasey, AA, for violations including processing allotment forms, groups sales, using financial planning presentations to solicit, misleading soldiers about the product, soliciting in the barracks, door-to-door and soliciting without appointment.

h. 1st PERSCOM memorandum, dated January 12, 1998, warns of soliciting violations on the part of a PA agent, Mr. Nelson, his wife and a soldier, SGT Thomas. Violations include soliciting without a permit and using a member of the Armed Forces to solicit.

i. 1st PERSCOM memorandum, dated March 25, 1998, warns PA General Counsel (Mr. Collins, also the AA General Counsel) that Mr. Emery altered his solicitation pass in violation of regulations. It also refused PA's attempt to terminate Mr. Emery "without prejudice," which implies PA's positive characterization of Mr. Emery's service.

j. Sworn affidavit, dated April 27, 1999, by [ ], Hanau, Germany, expresses concern over failure to promptly execute a refund and also shows the unique connection between UAFA and PA. The affidavit cites concerns over a PA policy involving a $202 allotment, which a "UAFA agent" explained had a breakdown of $125 to Wealth Builder Fund, $75 insurance and $2 UAFA membership. Note that AA/PA General Agent, Mr. Collins, terminated the seller, Mr. John Lucas, on March 31, 1999, because he owed PA money.

k. In December 1999, 1st PERSCOM received new allegations from soldiers in CONUS, concerning AA/PA activities in Hanau, Schweinfurt and Hohenfels from March 1997 to August 1998. Allegations involve soliciting without appointment, soliciting in the prohibited areas, processing allotment forms, potential sale of a security by a named PA agent not registered to sell securities and UAFA activity.

The deciding official in USAREUR also considered that the violations cited above were not isolated or unique to USAREUR. Indeed, a repetitive pattern of violations, from the mid-1980s to the present, from USAREUR to the United States was noted. An informal inquiry of other installations revealed problems at Aberdeen Proving Grounds,

Fort Rucker, Fort Knox, Fort Campbell, Fort Hood, Fort Leonard Wood and recently at Naval Support Activity, Naples, Italy. A brief summary of each follows:

a. *Aberdeen Proving Grounds, July 1997 hearing.* AA agent (and UAFA agent according to [ ]) suspended for 2 years. The violations included: soliciting without appointment; AA used UAFA to sell insurance; failure to use DA Form 2056; violation of cooling off period; and processing allotment forms. These violations involved soliciting initial entry training soldiers.

b. *Fort Rucker, March 1999 investigation.* Investigating officer recommends barring UAFA, AA and the AA agent from Fort Rucker and DoD installations. Violations include failure to coordinate with Army Community Service prior to giving financial briefings; providing insurance and Wealth Builder Fund information while acting as a UAFA agent; mass soliciting; soliciting during duty hours and in prohibited areas; processing allotment forms; failure to complete DA Form 2056 and recommending change to W-2 and W-4 (financial advice), which also involved two other UAFA/AA agents. Finally, as with other locations, there was confusion concerning the Wealth Builder Fund as an insurance policy with an annuity and agents' qualifications to sell the product.

c. *Fort Knox, Jul 99 memorandum.* AA suspended from post for 3 months and from 1st Training Brigade area for 6 months, effective July 18, 1999, one AA agent suspended for 1 year and four AA agents suspended for 2 months. Note that AA lawyer, Mr. Stading, provided input on the suspensions, based on AA's desire to complete extensive training to ensure compliance with the controlling regulation. The violations included mass solicitation, solicitation in restricted areas; deceptive solicitation, processing allotments and providing gifts to chain of command as inducements for solicitation opportunities.

d. *Fort Campbell, November 1999 investigation.* The investigation found evidence of solicitation violations by [ ], AA, and a Show Cause Hearing is pending. According to [ ], there is another 15-6 investigation underway against a second AA agent. The investigation cites violations such as soliciting without appointment and in the barracks; offering false, unfair, improper or deceptive inducements to purchase or trade; using manipulative and deceptive schemes, including false advertising, specifically, using a UAFA-sponsored "contest," which entailed using a drop-box at the PX without Army and Air Force Exchange Service (AAFES) installation approval, to connect AA with contest applicants; and unethical solicitation. The hearing officer recommended a formal hearing to determine an appropriate suspension period and commented on the need for further investigation into the relationship between UAFA and AA.

e. *Fort Hood-January 1997.* Fort Hood suspended solicitation permits for three UAFA "Benefits Coordinators," who were also AA agents, for a period of 1 year. Mr. Benjamin, Mr. Lynch and Mr. Noriega committed the following violations: wrongfully using the association's (UAFA's) non-profit status to gain access to the 21st Replacement Center, soliciting without appointment, soliciting transient soldiers, conducting orientation briefings as licensed insurance agents, failing to

comply with restrictions regarding solicitation of soldiers in grades E-1 through E-3, possessing and assisting in the administrative processing of allotment forms and implying Army endorsement of UAFA products and services by using pictures of LTG (R) Funk and CSM (R) Ross.

f. *Fort Leonard Wood-January 1994.* Per a conversation with [ ] called [ ] on January 19, 1994 to work a deal to clear the company name. [ ] agreed that AA would withdraw its agents. [ ], who was new [ ] at the time, believes the decision [ ] made was a mistake, as there was no official suspension and many of the agents relocated to other posts. The investigator found one AA agent in violation for wrongful solicitation; two others were cleared because the agents were not specifically named and informants were unidentified. Violations involved "unscrupulous solicitation practices," such as offering false, improper or deceptive inducements; offering rebates; use of manipulative, deceptive or fraudulent device, scheme or artifice, including misleading advertising and sales literature; suggesting Department of the Army (DA) sponsorship or endorsement; offering financial advice on modifying W-4 to increase take-home pay; offering complimentary gifts for opportunity to solicit; mass solicitations arranged by cadre; lack of counseling for grades E-1 to E-3 (failure to process DA Form 2056).

g. *U.S. Naval Support Activity, Naples, Italy, December 1999.* A bar order, dated December 16, 1999, from the Commanding Officer, suspends Mr. Peter Washburne, an agent with AA and Fidelity Investment, from NSA Naples and was sent to U.S. installations throughout Italy. The memorandum cites violations including loitering and soliciting in the Bachelor Enlisted Quarters, soliciting military members during duty hours, using a picture of himself with the Command Master Chief while soliciting, trying to imply military endorsement of the product, loitering and soliciting in a prohibited area, discouraging military members from reporting allegations to legal officials and attempting to arrange mass solicitation through the training petty officer. Mr. Washburne received the bar on December 16, 1999.

After the proceedings received a detailed legal review the Commander, 1st PERSCOM, decided to bar AA and PA as well as the five agents from soliciting within U.S. Army Europe for 2 years. She then forwarded the record to Headquarters, Department of the Army, with a recommendation to consider extending the bar throughout the remainder of the Army. The record presently is pending review in the Office of the Army Judge Advocate General.

AMERICAN AMICABLE ALLOTMENTS

Month/Yr.	Number of Allotments	Total Value of Allotments	Average Allotment
JAN 98	16,313	$1,095,719	$67.17
FEB 98	15,082	$1,016,020	$67.37
MAR 98	16,283	$1,098,593	$67.47
APR 98	16,410	$1,111,440	$67.73
MAY 98	16,411	$1,116,743	$68.05
JUN 98	16,240	$1,107,271	$68.18
AVERAGE	16,123	$1,090,964	$67.66

Month/Yr.	Number of Allotments	Total Value of Allotments	Average Allotment
JUL 99	15,864	$1,066,992	$67.26
AUG 99	15,082	$1,060,740	$70.33
SEP 99	15,820	$1,069,818	$67.62
OCT 99	15,941	$1,082,210	$67.89
NOV 99	15,939	$1,086,993	$68.20
DEC 99	15,780	$1,078,140	$68.32
AVERAGE	15,738	$1,074,149	$68.27

PIONEER AMERICAN ALLOTMENTS

Month/Yr.	Number of Allotments	Total Value of Allotments	Average Allotment
JAN 98	4,747	$354,978	$74.78
FEB 98	4,405	$327,556	$74.36
MAR 98	4,750	$356,790	$75.11
APR 98	4,823	$381,822	$79.17
MAY 98	4,880	$367,030	$75.21
JUN 98	4,929	$369,301	$74.92
AVERAGE	4,756	$359,580	$75.59

Month/Yr.	Number of Allotments	Total Value of Allotments	Average Allotment
JUL 99	4,600	$342,483	$74.45
AUG 99	4,405	$338,321	$76.80
SEP 99	4,610	$345,135	$74.87
OCT 99	4,698	$371,456	$79.07
NOV 99	4,757	$356,713	$74.99
DEC 99	4,817	$359,937	$74.72
AVERAGE	4,648	$352,341	$75.82

PIONEER SECURITY ALLOTMENTS

Month/Yr.	Number of Allotments	Total Value of Allotments	Average Allotment
JAN 98	1,191	$87,536	$73.50
FEB 98	1,159	$85,204	$73.52
MAR 98	1,159	$85,152	$73.47
APR 98	1,161	$85,474	$73.62
MAY 98	1,146	$84,590	$73.81
JUN 98	1,174	$86,950	$74.06
AVERAGE	1,165	$85,818	$73.66

Month/Yr.	Number of Allotments	Total Value of Allotments	Average Allotment
JUL 99	1,197	$88,223	$73.70
AUG 99	1,159	$85,839	$74.06
SEP 99	1,164	$85,787	$73.70
OCT 99	1,166	$86,109	$73.85
NOV 99	1,151	$85,225	$74.04
DEC 99	1,179	$87,585	$74.29
AVERAGE	1,169	$86,461	$73.94

APPENDIX D

CONTROLLING DOD AND SERVICE REGULATIONS

Department of Defense

DIRECTIVE

February 13, 1986
NUMBER 1344.7

ASD(FM&P)

SUBJECT: Personal Commercial Solicitation on DoD Installations

References: (a) DoD Directive 1344.7, "Personal Commercial Affairs," July 1, 1969 (hereby canceled)
(b) DoD Directive 1344.1, "Solicitation and Sale of Insurance on Department of Defense Installations," August 31, 1977 (hereby canceled)
(c) DoD Directive 5400.7, "Freedom of Information Act Program," March 24, 1980
(d) DoD Directive 5500.7, "Standards of Conduct," January 15, 1977
(e) through (m), see enclosure 1

A. REISSUANCE AND PURPOSE

This Directive:

1. Consolidates into a single document references (a) and (b) and updates DoD policies and procedures governing personal commercial solicitation and insurance sales on DoD installations.

2. Continues the established annual DoD accreditation requirements for life insurance companies operating in overseas areas where neither Federal nor state consumer protection regulations apply.

B. APPLICABILITY AND SCOPE

1. This Directive applies to the Office of the Secretary of Defense (OSD), the Military Departments, the Organization of the Joint Chiefs of Staff (OJCS), and the Unified Commands and the Defense Agencies (hereafter referred to collectively as "DoD Components"). The term "Military Services," as used herein, refers to the Army, Navy, Air Force, Marine Corps, and Coast Guard.

2. The provisions of this Directive do not apply to services furnished by commercial companies, such as deliveries of milk, laundry, and related residence services when such services are authorized by the DoD installation commander.

3. Nothing in this Directive should be construed to preclude private, non-profit, tax-exempt organizations composed of active and retired members of the Military Services from holding membership meetings which do not involve commercial solicitation on DoD installations. Attendance at these meetings shall be voluntary and the time and place of such meetings are subject to the discretion of the installation commander or his or her designee.

C. DEFINITIONS

Terms used in this Directive are defined in enclosure 2.

D. POLICY

It is the policy of the Department of Defense to safeguard and promote the welfare of DoD personnel as consumers by setting forth a uniform approach to the conduct of all personal commercial solicitation and sales to them by dealers and their agents.

E. RESPONSIBILITIES

1. The Assistant Secretary of Defense (Force Management and Personnel) (ASD(FM&P)) shall be responsible for developing policies and procedures governing personal commercial solicitation activities conducted on DoD installations.

2. The Heads of DoD Components, or their designees, shall assure implementation of this Directive and compliance with its provisions.

F. PROCEDURES

1. General

a. No person has authority to enter upon a DoD installation and transact personal commercial solicitation as a matter of right. Personal commercial solicitation will be permitted only if the following requirements are met:

(1) The solicitor is duly licensed under applicable Federal, state, or municipal laws and has complied with installation regulations in accordance with subsection F.3., below.

(2) Personal commercial solicitation is permitted by the local installation commander.

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(3) A specific appointment has been made with the individual concerned and conducted in family quarters or in other areas designated by the installation commander.

b. Those seeking to transact personal commercial solicitation on overseas installations shall be required to observe, in addition to the above, the applicable laws of the host country and, upon demand, present documentary evidence to the installation commander, or designee, that the company they represent, and its agents, meet the licensing requirements of the host country.

c. Organizations involved in sales are permitted to display literature on DoD installations in locations selected by the commander.

2. Life Insurance Products and Securities

a. Life insurance products and securities offered and sold to DoD personnel must meet the prerequisites described in enclosure 3.

b. Insurers and their agents are authorized to solicit on DoD installations provided they are licensed under the insurance laws of the state in which the installation is located. In overseas areas, DoD Components shall limit this authorization to those insurers accredited under the provisions of enclosure 4.

c. The conduct of all insurance business on DoD installations shall be by specific appointment. When establishing the appointment, insurance agents must identify themselves to the prospective purchaser as an agent for a specific company.

d. Installation commanders shall designate areas where interviews by appointment may be conducted. Invitations to conduct interviews shall be extended to all agents on an equitable basis. Where space and other considerations limit the number of agents using the interviewing area, the installation commander may develop and publish local policy consistent with this concept.

e. Installation commanders shall make disinterested third-party counseling available to DoD personnel desiring counseling.

f. In addition to the solicitation prohibitions contained in subsection F.4., below, DoD Components shall prohibit:

(1) DoD personnel from representing any insurer, or dealing directly or indirectly with any insurer or any recognized representative of any insurer on the installation, as an agent or in any official or business capacity with or without compensation.

(2) The use of an agent as a participant in any Military Services-sponsored insurance education or orientation program.

(3) The designation of any agent or the use by any agent of titles such as "Battalion Insurance Counselor," "Unit Insurance Advisor," "Servicemen's Group Life Insurance Conversion Consultant," etc.

(4) The assignment of desk space for interviews for other than a specific prearranged appointment. During such appointment, the agent shall not be permitted to display desk or other signs announcing his or her name or company affiliation.

(5) The use of the "Daily Bulletin" or any other notice, official or unofficial, announcing the presence of an agent and his or her availability.

3. Supervision of On-Base Commercial Activities

a. All pertinent installation regulations shall be posted in a place easily accessible to those conducting personal commercial solicitation activities on the installation.

b. When practicable, as determined by the installation commander, a copy of the applicable installation regulations shall be given to those conducting on-base commercial activities with the warning that any infractions of the regulations will result in the withdrawal of solicitation privileges.

4. Prohibited Practices

The following commercial solicitation practices shall be prohibited on all DoD installations:

a. Solicitation of recruits, trainees, and transient personnel in a "mass" or "captive" audience.

b. Making appointments with or soliciting military personnel who are in an "on-duty" status.

c. Soliciting without appointment in areas utilized for the housing or processing of transient personnel, in barracks areas used as quarters, in unit areas, in family quarters areas, and in areas provided by installation commanders for interviews by appointment.

d. Use of official identification cards by retired or reserve members of the Military Services to gain access to DoD installations for the purpose of soliciting.

e. Procuring, or attempting to procure, or supplying roster listings of DoD personnel for purposes of commercial solicitation, except for releases anted in accordance with DoD Directive 5400.7 (reference (c)).

f. Offering unfair, improper, and deceptive inducements to purchase or trade.

g. Using rebates to facilitate transactions or to eliminate competition.

h. Using manipulative, deceptive, or fraudulent devices, schemes, or artifices, including misleading advertising and sales literature.

i. Using oral or written representations to suggest or give the appearance that the Department of Defense sponsors or endorses any particular company, its agents, or the goods, services, and commodities it sells.

j. Full-time DoD personnel making personal commercial solicitations or sales to DoD personnel who are junior in rank or grade as provided in DoD Directive 5500.7 (reference (d)).

k. Entering into any unauthorized or restricted area.

l. Using any portion of installation facilities, including quarters, as a showroom or store for the sale of goods or services, except as specifically authorized by DoD Directives 1330.9 and 1330.17 and DoD Instructions 1330.18 and 1000.15 (references (e), (f), (g), and (h)). This is not intended to preclude normal home enterprises, providing applicable state and local laws are complied with.

m. Soliciting door to door.

n. Advertising addresses or telephone numbers of commercial sales activities conducted on the installation, EXCEPT FOR AUTHORIZED ACTIVITIES

5. Denial and Revocation of On-Base Solicitation

a. The installation commander shall deny or revoke permission to a company and its agents to conduct commercial activities on the base if such action is in the best interests of the command. The grounds for taking this action shall include, but not be limited to, the following:

(1) Failure to meet the licensing and other regulatory requirements prescribed in subsections F.1. and 2., above.

(2) Commission of any of the practices prohibited in paragraph F.2.f. and subsection F.4., above.

(3) Substantiated complaints or adverse reports regarding quality of goods, services, and commodities and the manner in which they are offered for sale.

(4) Knowing and willful violations of Pub. L. 90-321 (reference (i)).

(5) Personal misconduct by a company's agent or representative while on the installation.

(6) The possession of or any attempt to obtain supplies of allotment forms used by the Military Departments, or possession or use of facsimiles thereof.

(7) Failure to incorporate and abide by the Standards of Fairness policies contained in DoD Directive 1344.9 (reference (j)).

b. In withdrawing solicitation privileges, the commander shall determine whether to limit it to the agent alone or extend it to the company the agent represents. This decision shall be communicated to the agent and to the company the agent represents and shall be based on the circumstances of the particular case, including, among others, the nature of the violations, frequency of violations, the extent to which other agents of the company have engaged in such practices, and any other matters tending to show the company's culpability.

(1) Upon withdrawing solicitation privileges, the commander shall promptly inform the agent and the company the agent represents orally or in writing.

(2) If the grounds for the action involve the eligibility of the agent or company to hold a state license or to meet other regulatory requirements, the appropriate authorities will be notified.

(3) The commander shall afford the individual or company an opportunity to show cause why the action should not be taken. To "show cause" means an opportunity must be given for the grieved party to present facts on his or her behalf on an informal basis for the consideration of the installation commander.

(4) If warranted, the commander shall recommend to the Military Department concerned that the action taken be extended to other DoD installations. If so approved, and when appropriate, the Assistant Secretary of Defense (Force Management and Personnel) (ASD(FM&P)), following consultation with the Military Department concerned, shall order the action extended to other Military Departments.

(5) All denials or withdrawals of privileges will be for a set period of time, at the end of which the individual may reapply for permission to solicit through the Military Department originally imposing the restriction. Denial or withdrawal of soliciting privileges may or may not be continued, as warranted.

(6) When such denials or withdrawals are lifted, the Office of the ASD(FM&P) shall be notified for parallel action if the same denial or withdrawal has been extended to other Military Departments.

(7) The commanding officer may, if circumstances dictate, make immediate suspensions of solicitation privileges for a period of 30 days while an investigation is conducted. Exceptions to this amount of time must be approved by the Military Department concerned.

c. Upon receipt of the information outlined above, the Secretaries of the Military Departments may direct the Armed Forces Disciplinary Control Boards (reference (k)) in all geographical areas in which the grounds for action have occurred to consider the charges and take appropriate action.

6. Advertising Policies

a. The Department of Defense expects voluntary observance of the highest business ethics both by commercial enterprises soliciting DoD personnel through advertisements in unofficial military publications, and by the publishers of those publications in describing goods, services, and commodities, and the terms of the sale (including guarantees, warranties, and the like).

b. The advertising of credit terms shall conform to the provisions of Pub. L. 90-321 (reference (i)) as implemented by Regulation Z (reference (l)).

7. Educational Programs

a. The Military Departments shall develop and disseminate information and education programs for members of the Military Services on how to conduct their personal commercial affairs, including such subjects as the Truth-in-Lending Act, insurance, Government benefits, savings, and budgeting. The services of representatives of credit unions, banks, and those nonprofit military associations (provided such associations are not underwritten by a commercial insurance company) approved by the Military Departments may be used for this purpose. Under no circumstances shall commercial agents, including representatives of loan, finance, insurance or investment companies, be used for this purpose. Educational materials prepared or presented by outside organizations expert in this field may, with appropriate disclaimers and permission, be adapted or used if approved by the Military Department concerned. Presentations by approved organizations shall only be conducted at the express request of the installation commander.

b. The Military Departments shall also make qualified personnel and facilities available for individual counseling on loans and consumer credit transactions in order to encourage thrift and financial responsibility and promote a better understanding of the wise use of credit, as prescribed in DoD Directive 1344.9 (reference (j)).

c. Military members shall be encouraged to seek advice from a legal assistance officer or their own lawyer before making a substantial loan or credit commitment.

d. Each Military Department shall provide advice and guidance to military personnel who have a complaint under Pub. L. 90-321 (reference (i)) or who allege a criminal violation of its provisions, including referral to the appropriate regulatory agency for processing of the complaint.

G. EFFECTIVE DATE AND IMPLEMENTATION

This Directive is effective immediately. Forward one copy of the implementing documents to the Assistant Secretary of Defense (Force Management and Personnel) within 120 days.

William H. Taft, IV
Deputy Secretary of Defense

Enclosures - 4
1. References
2. Definitions
3. Life Insurance Products and Securities
4. The Overseas Life Insurance Accreditation Program

REFERENCES, (Continued)

(e) DoD Directive 1330.9, "Armed Services Exchange Regulations," May 12, 1982
(f) DoD Directive 1330.17, "Armed Services Commissary Store Regulations," May 4, 1978
(g) DoD Instruction 1330.18, "Resale Activities Conducted with the Use of Non-appropriated Funds, Other Than by Military Exchanges," August 28, 1974
(h) DoD Instruction 1000.15, "Private Organizations on DoD Installations," September 22, 1978
(i) Public Law 90-321, "Truth in Lending Act," May 29, 1968 (15 U.S.C. 1601)
(j) DoD Directive 1344.9, "Indebtedness of Military Personnel," May 7, 1979
(k) Joint Regulation AR 15-3, AFR 125-11, MCO 1620.1, COMDTINST 1620.1, "Armed Forces Disciplinary Control Boards," March 12, 1965
(l) Federal Reserve Board Regulation Z, "Truth in Lending," July 1, 1969 (Title 12, Code of Federal Regulations, Section 226)
(m) DoD Directive 7330.1, "Voluntary Military Pay Allotments," January 16, 1981

DEFINITIONS

1. Agent. An individual who receives remuneration as a salesperson or whose remuneration is dependent on volume of sales of a product or products.

2. Association. Any organization, whether or not the word "Association" appears in its title, composed of and serving exclusively members of the Military Services on active duty, in a Reserve status, in a retired status, and their dependents, which offers its members life insurance coverage, either as part of the membership dues, or as a separately purchased plan made available through an insurance carrier or the association as a self-insurer, or a combination of both.

3. DoD Installation. Any Federally owned, leased, or operated base, reservation, post, camp, building, or other facility to which DoD personnel are assigned for duty, including barracks, transient housing, and family quarters.

4. DoD Personnel. All active duty officers (commissioned and warrant) and enlisted members of the Military Services and all civilian employees, including nonappropriated fund employees and special Government employees of all offices, agencies, and departments carrying on functions on a Defense installation.

5. General Agent. A person who has a legal contract to represent a company solely and exclusively.

6. Insurance Carrier. An insurance company issuing insurance through an association or reinsuring or coinsuring such insurance.

7. Insurance Product. A policy, annuity, or certificate of insurance issued by an insurer or evidence of insurance coverage issued by a self-insured association.

8. Insurer. Any company or association engaged in the business of selling insurance policies to DoD personnel.

9. Normal Home Enterprises. Sales or services which are customarily conducted in a domestic setting and do not compete with an installation's officially sanctioned commerce.

10. Securities. Mutual funds, stocks, bonds, or any product registered with the Securities and Exchange Commission except for any insurance or annuity product issued by a corporation subject to supervision by state insurance authorities.

11. Solicitation. The conduct of any private business, including the offering and sale of insurance on a military installation. Solicitation on installations is a privilege as distinguished from a right, and its control is a responsibility vested in the DoD installation commander.

LIFE INSURANCE PRODUCTS AND SECURITIES

A. LIFE INSURANCE PRODUCT CONTENT PREREQUISITES

1. Insurance products, other than certificates or other evidence of insurance issued by a self-insured association, offered and sold worldwide to personnel on DoD installations, must:

a. Comply with the insurance laws of the state or country in which the installation is located and the procedural requirements of this Directive.

b. Contain no restrictions by reason of military service or military occupational specialty of the insured, unless such restrictions are clearly indicated on the face of the contract.

c. Plainly indicate any extra premium charges imposed by reason of military service or military occupational specialty.

d. Contain no variation in the amount of death benefit or premium based upon the length of time the contract has been in force, unless all such variations are clearly described therein.

2. To comply with paragraphs A.1.b., c., and d., above, an appropriate reference stamped on the face of the contract shall draw the attention of the policyholder to any extra premium charges and any variations in the amount of death benefit or premium based upon the length of time the contract has been in force.

3. Variable life insurance products may be offered provided they meet the criteria of the appropriate insurance regulatory agency and the Securities and Exchange Commission.

4. Premiums shall reflect only the actual premiums payable for the life insurance product.

B. SALE OF SECURITIES

1. All securities must be registered with the Securities and Exchange Commission.

2. All sales of securities must comply with existing and appropriate Securities and Exchange Commission regulations.

3. All securities representatives must apply directly to the commander of the installation on which they desire to solicit the sale of securities.

4. Where the accredited insurer's policy permits, an overseas accredited life insurance agent--if duly qualified to engage in security activities either as a registered representative of the National Association of Securities Dealers or as an associate of a broker or dealer registered with the Securities and Exchange Commission--may offer life insurance and securities for sale simultaneously. In cases of commingled sales, the allotment of pay for the purchase of securities cannot be made to the insurer.

C. USE OF THE ALLOTMENT OF PAY SYSTEM

1. Allotments of military pay for life insurance products shall be made in accordance with DoD Directive 7330.1 (reference (m)).

2. For personnel in pay grades E-1, E-2, and E-3, at least seven days shall elapse for counseling between the signing of a life insurance application and the certification of an allotment. The purchaser's commanding officer may grant a waiver of this requirement for good cause, such as the purchaser's imminent permanent change of station.

D. ASSOCIATIONS - GENERAL

The recent growth and general acceptability of quasimilitary associations offering various insurance plans to military personnel are acknowledged. Some associations are not organized within the supervision of insurance laws of either a state or the Federal Government. While some are organized for profit, others function as nonprofit associations under Internal Revenue Service regulations. Regardless of the manner in which insurance plans are offered to members, the management of the association is responsible for complying fully with the instructions contained herein and the spirit of this Directive.

THE OVERSEAS LIFE INSURANCE ACCREDITATION PROGRAM

A. ACCREDITATION CRITERIA

1. Initial Accreditation

a. Insurers must demonstrate continuous successful operation in the life insurance business for a period of not less than five years on December 31 of the year preceding the date of filing the application.

b. Insurers must be listed in Best's Life-Health Insurance Reports and be assigned a rating of B+ (Very Good) or better for the business year preceding the Government's fiscal year for which accreditation is sought.

2. Reaccreditation

a. Insurers must demonstrate continuous successful operation in the life insurance business, as described in subsection A.1., above.

b. Insurers must retain a Best's rating of B+ or better, as described in paragraph A.1.b., above.

c. Insurers must establish an agency sales force in one of the overseas commands within two years of initial accreditation.

3. Waiver Provisions

Waivers of the initial accreditation and reaccreditation provisions will be considered for those insurers demonstrating substantial compliance with the aforementioned criteria.

B. APPLICATION INSTRUCTIONS

1. Applications Filed Annually. During the months of May and June of each year insurers may apply for solicitation privileges for personnel assigned to U.S. military installations in foreign areas for the fiscal year beginning the following October 1.

2. Application Prerequisites. A letter of application, signed by the president, vice president, or designated official of the insurance company shall be forwarded to the Assistant Secretary of Defense (Force Management and Personnel), Attention: Personnel ~~Administration~~ and Services Directorate, ODASD(MS&PP), The Pentagon, Washington, D.C. 20301-4000. The letter shall contain the information set forth below, submitted in the order listed. Where not applicable, so state.

a. The overseas commands (e.g., European, Pacific, Atlantic, Southern) where the company is presently soliciting, or planning to solicit on U.S. military installations.

b. A statement that the company has complied with, or will comply with, the applicable laws of the country or countries wherein it proposes to solicit. "Laws of the country" means all national, provincial, city, or county

c. A statement that the products to be offered for sale conform to the standards prescribed in enclosure 3 and contain only the standard provisions such as those prescribed by the laws of the state where the company's headquarters are located.

d. A statement that the company shall assume full responsibility for the acts of its agents with respect to solicitation. Sales personnel will be limited in numbers to one general agent and no more than 50 sales personnel for each overseas area. If warranted, the number of agents may be further limited by the overseas command concerned.

e. A statement that the company will not utilize agents who have not been accredited by the appropriate overseas command to sell to DoD personnel on or off its DoD installations.

f. Any explanatory or supplemental comments that will assist in evaluating the application.

g. If the Department of Defense requires facts or statistics beyond those normally involved in accreditation, the company shall make separate arrangements to provide them.

h. A statement that the company's general agent and other accredited agents are appointed in accordance with the prerequisites established in section C., below.

3. If a company is a life insurance company subsidiary, it must be accredited separately on its own merits.

C. AGENT REQUIREMENTS

Unified commanders shall apply the following principles:

1. An agent must possess a current state license. The overseas commander may waive this requirement for an accredited agent continuously residing and successfully selling life insurance in foreign areas, who, through no fault of his or her own, due to state law (or regulation) governing domicile requirements, or requiring that the agent's company be licensed to do business in that state, forfeits eligibility for a state license. The request for a waiver shall contain the name of the state or jurisdiction which would not renew the agent's license.

2. General agents and agents shall represent only one accredited commercial insurance company. This requirement may be waived by the overseas commander if multiple representation can be proven to be in the best interest of DoD personnel.

3. An agent must have at least one year of successful life insurance underwriting in the United States or its territories, generally within the five years preceding the date of application, in order to be designated as accredited and employed for overseas solicitation.

4. Appropriate overseas commanders shall exercise further agent control procedures as deemed necessary.

5. An agent, once accredited in an overseas area, may not change affiliation from the staff of one general agent to another and retain accreditation, unless the previous employer certifies in writing that the release is without justifiable prejudice. Unified commanders will have final authority to determine justifiable prejudice. Indebtedness of an agent to a previous employer is an example of justifiable prejudice.

D. ANNOUNCEMENT OF FINDINGS

1. Accreditation by the Department of Defense upon annual applications of insurers shall be announced as soon as practicable by a notice to each applicant and by a listing released annually in September to the appropriate overseas commander. This approval does not constitute DoD endorsement of the insurer. Any advertising by insurers which suggests such endorsement is prohibited.

2. In the event accreditation is denied, specific reasons for such findings shall be submitted to the applicant.

a. Upon receipt of notification of an unfavorable finding, the insurer shall have 30 days from the receipt of such notification (forwarded certified mail, return receipt requested) in which to request reconsideration of the original decision. This request must be accompanied by substantiating data or information in rebuttal of the specific reasons upon which the adverse findings are based.

b. Action by the Assistant Secretary of Defense (Force Management and Personnel) on appeal is final.

c. If the applicant is presently accredited as an insurer, up to 90 days from final action on an unfavorable finding shall be granted in which to close out operations.

3. Upon receiving the annual letter of accreditation, each company shall send to the applicable unified commander a verified list of agents currently accredited for overseas solicitation. Where applicable, the company shall also include the names of new agents for whom original accreditation and permission to solicit on base is requested. Insurers initially accredited will be furnished instructions by the Department of Defense for agent accreditation procedures in overseas areas.

4. Material changes affecting the corporate status and financial conditions of the company which may occur during the fiscal year of accreditation must be reported as they occur.

a. The Department of Defense reserves the right to terminate accreditation if such material changes appear to substantially affect the financial and operational criteria described in section A., above, on which accreditation was based.

b. Failure to report such material changes can result in termination of accreditation regardless of how it affects the criteria.

5. If an analysis of information furnished by the company indicates that unfavorable trends are developing which may possibly adversely affect its future operations, the Department of Defense may, at its option, bring such matters to the attention of the company and request a statement as to what action, if any, is contemplated to deal with such unfavorable trends.

DEPARTMENT OF DEFENSE
DIRECTIVES SYSTEM TRANSMITTAL

NUMBER	DATE	DISTRIBUTION
1344.7, Change 2	May 2, 1991	1000 series

ATTACHMENTS

None

INSTRUCTIONS FOR RECIPIENTS

The following pen changes to DoD Directive 1344.7, "Personal Commercial Solicitation on DoD Installations," February13, 1986, are authorized:

PEN CHANGES

Page 4-1, subsection B.2.
Line 4. Change "Administration" to "Support Policy"
Line 5. Change "(MM&PP)" to "(PSF&E)"

EFFECTIVE DATE

The above changes are effective immediately.

James L. Elmer

JAMES L. ELMER
Director
Correspondence and Directives

DEPARTMENT OF DEFENSE
DIRECTIVES SYSTEM TRANSMITTAL

NUMBER	DATE	DISTRIBUTION
1344.7, Ch 1	April 21, 1987	1300 series

ATTACHMENTS

None

INSTRUCTIONS FOR RECIPIENTS

The following changes to DoD Directive 1344.7, "Personal Commercial Solicitation on DoD Installations," February 13, 1986, are authorized:

PEN CHANGES

Page 1, subsection B.1., line 3. Change "and the Unified Commands" to "the Unified Commands, and the Defense Agencies".

Page 4, paragraph F.4.n. Supersede as follows:

n. Advertising addresses or telephone numbers of commercial sales activities conducted on the installation, except for authorized activities conducted by members of military families residing in family housing.

EFFECTIVE DATE AND IMPLEMENTATION

The above changes are effective immediately. Forward one copy of revised implementing documents to the Assistant Secretary of Defense (Force Management and Personnel) within 120 days.

James L Elmer

JAMES L. ELMER, Director
Correspondence and Directives

WHEN PRESCRIBED ACTION HAS BEEN TAKEN, THIS TRANSMITTAL SHOULD BE FILED WITH THE BASIC DOCUMENT

1. The importance of the Air Force's mission and inherent responsibility to the Nation requires its members to adhere higher standards than normally found in civilian life. This directive establishes Air Force policy for appropriate standards of conduct.

★2. All military personnel serving on, or ordered to, active duty will be present for duty unless their absence is authorized.

★3. All Air Force members will refrain from relationships between Air Force members that violate the customary bounds of acceptable behavior, to include fraternization and other unprofessional relationships, due to the impact on good order, discipline, respect for authority, maintenance of unit cohesion, and mission accomplishment.

★4. All Air Force members will meet their financial obligations in a proper and timely manner.

★5. All Air Force members with family members will use all available military and civilian resources to make sure their family members receive adequate care, support, and supervision, compatible with the members' military responsibilities to be worldwide deployable.

★6. When wearing the uniform, all Air Force members will adhere to standards of neatness, cleanliness, safety, and military image to provide the appearance of a disciplined Service member. This paragraph applies to Air Force retirees.

7. Air Force members will adhere to standards for physical fitness, weight, and body fat prescribed in AFPD 40-5, *Fitness and Weight Management,* and its subordinate Air Force instructions.

★8. Commanders will maintain an unfavorable information file (UIF) to officially document substantiated adverse information about an Air Force member.

★9. DoD Directive 1344.7, *Personal Commercial Solicitation on DoD Installations*, is hereby incorporated by reference and applies to all Air Force personnel. Installation commanders will ensure that all commercial soliciting and selling of all kinds of insurance, securities, and other goods, services, and commodities on their installations are monitored and controlled in accordance with the directive. This paragraph applies to all Air Force installations.

★10. The Air Force will have procedures to determine whether certain diseases, injuries, or deaths are suffered by military members while in a Line of Duty status.

★11. Active duty, Air National Guard, members of the Air Force Ready Reserve and retirees may neither be employed by a foreign government, directly or indirectly, nor accept any present, emolument, office, or title from a foreign government. Other AFRES members are eligible but are encouraged not to enter such a relationship with a foreign government.

12. Any active duty Air Force general officer contemplating travel to the Washington DC area will notify HQ USAF/CVAP which will, in turn, inform the offices of the Secretary of the Air Force and the Chief of Staff of such visits. See AFI 36-2901, *General Officers Visiting the Washington DC Area* , for procedures to be followed.

13. The following responsibilities and authorities are established:
13.1. The Assistant Secretary of the Air Force for Manpower, Reserve Affairs, Installations and Environment (SAF/MI) is responsible for military standards policy matters as described in Air Force Policy Directive 90-1, *Strategic Planning and Policy Formulation,* paragraph 1.5.2. SAF/MI approval is required before this document is changed, reissued, or rescinded.
13.2. The Deputy Chief of Staff, Personnel (HQ USAF/DP) develops, coordinates, and executes personnel policy and essential procedural guidance for the management of military standards.
13.3. Commanders are responsible for ensuring compliance with these policy statements.

14. See attachment 1 for measures used to comply with this policy.

BY ORDER OF THE SECRETARY OF THE AIR FORCE

AIR FORCE POLICY DIRECTIVE 36-29
1 JUNE 1996
Personnel

MILITARY STANDARDS

SUMMARY OF REVISIONS

This revision requires commanders to maintain unfavorable information files (**paragraph 8**); adds DoD reference for commercial solicitation (**paragraph 9**); deletes metric on IG Complaints for Financial Irresponsibility (**Attachment 1**); and updates related documents and interfacing publications (**Attachment 2**). Broad policy statements are applicable to all Air Force personnel regardless of component, and redundant statements found in paragraphs 1.2,1.3,1.4,1.5,1.6,1.8,1.9,1.10,1.11 are deleted. A ★ indicates revisions from the previous edition.

Supersedes: AFPD 36-29, 1 March 1994.
OPR: HQ USAF/DPXE Lt Col Steven E. Clay
Certified by: HQ USAF/DPX Col John F. Regni
Distribution: F
Number of Pages: 5

15. See attachment 2 for related documents and interfacing publications.

HAEL D. McGINTY, Lt General, USAF
Personnel

Attachment 1

★MEASURING COMPLIANCE WITH POLICY

A1.1. Compliance with military standards policies will be assessed by measuring two areas: (1) UIF trends and (2) quality control indicator (misconduct separations).

A1.1.1. The number of individuals with a UIF will be measured annualty (**figure A1.1**). The UIF metric will present UIF trends over time broken out by officer and enlistedmembers. HQ USAF/DPXE will extract necessary data from the Personnel Data System.

A1.1.2. The second metric (**figure A1.2**) will continue to assess how members of the Air Force adhere to high standards of professional conduct by measuring a quality control indicator (misconduct separations). This metric will depict, per 1,000, the number of separations broken out by officer and enlisted members. HQ USAF/DPXE will extract the data from the Personnel Data System.

Figure A1.1. Sample Metric of UIF Trends Over Time.

Figure A1.2. Sample Metric of Quality Control Indicator.

Attachment 2

RELATED DOCUMENTS AND INTERFACING PUBLICATIONS

DoD Directive 1308.1, *DoD Physical Fitness and Body Fat Program*, July 20, 1995

DoD Instruction 1308.3, *DoD Physical Fitness and Body Fat Programs Procedures*, August 30, 1995

DoD Directive 1325.2, *Desertion and Unauthorized Absence*, August 20, 1979, With Changes 1 through 3

DoD Directive 1334.1, *Wearing of the Uniform*, August 11, 1969

DoD Instruction 1342.19, *Family Care Plans*, July 13, 1992

DoD Directive 1344.3, *Paternity Claims and Adoption Proceedings Involving Members and Former Members of the Armed Forces*, February 1, 1978

DoD Directive 1344.7, *Personal Commercial Solicitation on DoD Installations*, February 13, 1986, With Changes 1 and 2

DoD Directive 1344.9, *Indebtedness of Military Personnel*, October 27, 1994

DoD Instruction 1344.12, *Indebtedness Processing Procedures for Military Personnel*, November 18, 1994

DoD Instruction 1348.33, *Military Awards Program*, August 26, 1985

AFI 36-2901, *General Officers Visiting the Washington DC Area*

AFI 36-2903, *Dress and Personal Appearance of Air Force Personnel*

AFI 36-2906, *Personal Financial Responsibility*

AFI 36-2907, *Unfavorable Information File (UIF) Program*

AFI 36-2908, *Family Care Plans*

AFI 36-2909, *Professional and Unprofessional Relationships*

AFI 36-2910, *Line of Duty (Misconduct) Determination*

AFI 36-2911, *Desertion and Unauthorized Absence*

AFI 36-2913, *Request for Approval of Foreign Government Employment of Air Force Members*

AFI 36-2914, *Uniform Clothing Item*

AFI 36-2923, *Aeronautical, Duty, and Occupational Badges*

AFPAM 36-2922, *Line of Duty and Misconduct Determination*

AFPAM 36-2924, *Desertion and Unauthorized Absence*

AFPD 40-1, *Health Promotion*

AFPD 40-5, *Fitness and Weight Management*

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20350

SECNAVINST 1740.2D
NMPC-12C

SECNAV INSTRUCTION 1740.2D

From: Secretary of the Navy
To: All Ships and Stations

Subj: SOLICITATION AND THE CONDUCT OF PERSONAL COMMERCIAL AFFAIRS ON DEPARTMENT OF THE NAVY INSTALLATIONS

Ref: (a) DOD Directive 1344.7 of 13 Feb 86, Personal Commercial Solicitation on DOD Installations (NOTAL) (R
(b) DOD Directive 1330.9 of 12 May 82, Armed Services Exchange Regulations (NOTAL) (R
(c) SECNAVINST 5381.3F, Credit Unions Serving Department of the Navy Personnel (NOTAL) (R
(d) Truth-in-Lending Act (P.L. 90-321), 82 Stat. 146; 15 USC 1601
(e) DOD Directive 7330.1 of 14 Jan 86, Voluntary Military Pay Allotments (NOTAL) (R
(f) MILPERSMAN article 6210140, Indebtedness and Financial Responsibility of Members

Encl: (1) Definitions (R
(2) Private Commercial Solicitation on Department of the Navy Installations (R
(3) Life Insurance Products and Securities (R
(4) The Overseas Life Insurance Accreditation Program (R

1. Purpose. To update policies and procedures governing personal commercial solicitation and insurance sales on Department of the Navy (DON) installations and to implement reference (a).

2. Cancellation. SECNAV Instruction 1740.2C.

3. Applicability and Scope

a. The policies and regulations of this instruction are designed to provide a uniform approach to the conduct of all personal commercial solicitation throughout DON and to provide certain consumer protection standards where neither state nor Federal laws or regulations exist. (R

b. This instruction applies to all naval installations (installation hereafter refers to DON vessels and vehicles of all types and sizes; DON aircraft; any area owned, controlled or occupied by DON personel; and commercial facilities authorized (R

by the Navy/Marine Corps exchanges), to credit unions subject to requirements imposed by references (b) and (c), and to all persons desiring to undertake personal commercial solicitation on an installation, including all insurance transactions.

R) c. This instruction does not apply to services furnished by commercial companies such as milk deliveries, laundry, and related residence services when such services are authorized by the installation commander.

4. Policy

R) a. No person has authority to enter an installation and transact personal commercial solicitation as a matter of right.

R) b. Personal commercial solicitation is permitted only after the following requirements are met:

(1) Authorized by the installation commander.

(2) The solicitor is duly licensed under applicable Federal, state, or municipal laws and has complied with installation regulations regarding registration and pass control procedures.

(3) A specific appointment has been made with the individual concerned and conducted in family quarters or in other areas designated by the installation commander.

c. Persons seeking to undertake personal commercial solicitation on an installation must comply with the provisions of reference (a) as outlined in enclosure (2) to this instruction. Insurance agents must comply with the provisions of reference (a) as outlined in enclosure (3) of this instruction.

R) d. On overseas installations persons seeking to undertake personal commercial solicitation are required to observe, in addition to the above requirement, the laws of the host country and upon demand, present documentary evidence to the installation commander or his or her designee that the individual (or company, its agents or representatives) meets the licensing requirements of the host country. Enclosure (4) outlines the overseas life insurance accreditation program.

R) e. All personal commercial solicitation on an installation will be made the subject of appropriate local regulations. A copy of the regulation(s) must be provided to all persons conducting commercial activities aboard installations. Also, the solicitor must be advised that any violation of the regulations will result in withdrawal of solicitation privileges.

f. When space or other considerations dictate a limitation on the number of solicitors, the commander will develop and publish policies which effect such limitation but do not selectively benefit, or appear to selectively benefit or favor any particular solicitor. Any endorsement or appearance of endorsement of any solicitor by the command, DON or Department of Defense (DOD) must be avoided. (R

g. In overseas areas, the area commander may impose additional regulations where necessitated by local conditions.

5. Responsibilities

a. Any individual with information that may constitute grounds for suspension of solicitation privileges shall report the information to his or her commanding officer. (R

b. The commanding officer of a ship or tenant activity will take appropriate action under Article 0715, U.S. Navy Regulations, and this instruction, reporting all pertinent information to the local installation commander for further investigation. (R

c. The installation commander will investigate the matter and take appropriate action. Denials and revocations of permission to conduct personal commercial solicitation will be reported following guidelines provided in this instruction. (R

d. The Commander, Naval Military Personnel Command (COMNAVMILPERSCOM), under the Chief of Naval Operations, and the Commandant of the Marine Corps (CMC) will monitor and administer policies established by this instruction.

e. The Secretary of the Navy (SECNAV) is the action authority on all recommendations for Navy-wide denials, revocations and reinstatements of personal commercial solicitation privileges. Secretarial action denying, revoking, or reinstating such privileges will be issued periodically by Notice.

6. Denial and Withdrawal of On-Base Solicitation Privileges

a. The commander of an installation will deny or withdraw permission to conduct commercial activities on board the installation if such action is in the best interest of the command. Grounds for taking this action shall include, but are not limited to: (R

(1) SECNAV action extending denial or withdrawal of permission throughout DON (see subparagraph 6b below).

(2) Failure to meet the licensing and other regulatory requirements prescribed in subparagraphs 4b, c and d above.

(3) Commission of any of the practices prohibited in this instruction or its enclosures.

R) (4) Substantiated complaints or adverse reports regarding quality of goods, services, or commodities, or the manner in which they are offered for sale.

(5) Knowing and willful violations of the prohibitions contained in the Truth-in-Lending Act (reference (d)).

R) (6) Personal misconduct by a company's agent or representative while on an installation.

R) (7) The possession of or any attempt to obtain supplies of allotment forms used by any military department or possession or use of facsimiles as outlined in reference (e).

(8) Failure to abide by the Standards of Fairness policies as required by reference (f).

b. Denial or withdrawal of permission to solicit throughout DON.

R) (1) The Assistant Secretary of Defense (Force Management and Personnel) (ASD(FM&P)) exercises the authority to extend denials or withdrawals of permission to conduct solicitation to all DOD installations. Such action is applicable to all naval installations. SECNAV exercises parallel authority within DON. A list of persons whose privileges have been withdrawn or who have been denied such privileges throughout DON will be published when appropriate.

(2) Persons listed as having been denied permission to solicit, or as having had his or her permission to solicit withdrawn, may not engage in personal commercial solicitation on any installation. If a person who has permission appears on the list, his or her permission will be withdrawn until DOD or DON prohibition is terminated.

R) (3) When an applicant is denied permission to solicit, the commander must notify the applicant in writing, delivered personally or forwarded by registered or certified mail (return receipt requested) of the basis of the denial of permission to solicit and that no reapplication will be considered until DOD or DON (as appropriate) terminates the existing prohibition.

D)

c. When withdrawing solicitation privileges, the commander must determine whether to limit it to the agent alone or extend it to the company the agent represents based on the circumstances of the particular case, including nature of violations, frequency of violations, extent to which other agents of the company have engaged in such practices, and any other matters tending to show the company's culpability. (R

(1) Before final withdrawal or denial of solicitation privileges, the commander must investigate the allegations upon which action is predicated. Incident to the inquiry, each person or entity affected by the proposed actions must be (1) notified of the proposed action and the allegations upon which it is based, (2) afforded a reasonable opportunity to become familiar with all matters to be considered by the commander in disposing of the allegations and (3) afforded a reasonable opportunity to submit a statement for the commander's consideration.

(2) If the grounds for the action involve the eligibility of the agent or company to hold a state license or to meet other regulatory requirements, notify the appropriate authorities. (A

(3) The commander will afford the individual or company an opportunity to show cause why the action should not be taken. To "show cause" means an opportunity must be given for the grieved party to present facts on his or her behalf on an informal basis for consideration by the installation commander. (A

(4) If warranted, the commander will recommend to DON that the action taken be extended to other DOD installations. If so approved, and when appropriate, ASD(FM&P), following consultation with SECNAV, will order the action extended to other Military Departments. (A

(5) When such denials or withdrawals are lifted, the Office of the ASD(FM&P) will be notified for parallel action if the same denial or withdrawal has been extended to other Military Departments. (A

(6) The commanding officer may, if circumstances dictate, make immediate suspensions of solicitation privileges for a period of 30 days while an investigation is conducted. Exceptions to this amount of time must be approved by COMNAVMILPERSCOM, or CMC as appropriate. (R

d. The authority to withdraw or deny solicitation privileges is vested in the local installation commander. The following guidance is provided to assist in achieving a uniform policy:

(1) Solicitation privileges will be denied or withdrawn if such activity would not further the best interest of the command.

(2) Grounds for taking this action will include, but are not limited to those listed in subparagraph 6a above.

R) (3) All denials or withdrawals of solicitation privileges will be for a set period of time (normally not to exceed 2 years), at the end of which the individual may reapply for permission to solicit through the commands originally imposing the restriction. Denial or withdrawal of soliciting privileges may or may not be continued, as warranted.

(4) If circumstances warrant, the installation commander may make a recommendation to SECNAV, copy to COMNAVMILPERSCOM (NMPC-12C) and CMC, that the action be extended throughout DON.

(5) SECNAV will review all recommendations for Navy-wide denial or withdrawal of solicitation privileges and take action as appropriate. Extension of the denial or withdrawal of privileges throughout DON, as well as any subsequent reinstatement of privileges, will be issued periodically by Notice. When required, field offices may learn of the latest action taken on denial or withdrawal of privileges of an individual or company by calling COMNAVMILPERSCOM, NMPC-12C, on autovon 224-3248 or commerical (202) 694-3248.

e. Upon receipt of the information outlined above, SECNAV may direct the Armed Forces Disciplinary Control Board in the geographical area(s) in which the grounds for action have occurred to consider the charges and take appropriate action.

7. Advertising Policies

a. DON expects voluntary observance of the highest business ethics both by commercial enterprises soliciting DOD personnel through advertisements in unofficial military publications, and by the publishers of those publications in describing goods, services, and commodities, and the terms of the sale (including guarantees, warranties, and the like).

b. The advertising of credit terms will include full compliance with all terms of the sale (including guarantees, warranties, etc.) and conform to the provisions of the Truth-in-Lending Act (see chapter 3 of reference (d)), as implemented by Regulation Z(12 CFR 226).

8. Educational Programs

a. Commanders are encouraged to make qualified personnel and facilities available for counseling for military members on loans, consumer credit transactions, and insurance matters in order to encourage thrift, financial responsibility, and sound financial planning. Subject to approval by COMNAVMILPERSCOM or CMC as applicable, the services of representatives of credit unions, banks, and those nonprofit military associations (provided such associations are not underwritten by a commercial insurance company) may be used. Under no circumstances will the services of commercial agents, including loan, finance, insurance, or investment companies, be used for these purposes. Educational materials prepared or presented by outside organizations expert in this field may be adapted or used provided such material is approved by COMNAVMILPERSCOM or CMC, as applicable. Presentations by those approved organizations will only be conducted at the express request of the installation commander concerned.

b. The provisions of this instruction should not be interpreted to preclude representatives of the Navy Mutual Aid Association (a nonprofit, independent, self-insured military association, which is not commercially underwritten or affiliated and is recognized as a tax-exempt association under section 501(c)(23) of the Internal Revenue Code), from offering services and benefits to members and survivors. Association meetings for such purposes with members and survivors may include non-members who indicate in some manner, such as at separate subparagraph 8a information or education meetings (for which the Association is hereby designated as an approved counselor), an interest in obtaining more specific information regarding the Association's services and benefits, or procedures required to acquire membership.

c. COMNAVMILPERSCOM and CMC will provide guidance to military personnel in their respective departments concerning the Truth-in-Lending Act, as well as encouraging consultation with a legal assistance officer or lawyer on matters pertaining to substantial loans or credit commitments.

9. Meetings. Nothing in this instruction should be construed to preclude private, nonprofit, tax-exempt organizations composed of active and retired members of the Uniformed Services from holding meetings for their membership on military installations.

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Attendance at these meetings will be voluntary. The time and place of such meetings are subject to the discretion of the installation commander or his designated representative.

Distribution:
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DEFINITIONS

1. Agent. An individual who receives remuneration as a salesperson or whose remuneration is dependent on volume of sales of a product or products. (R

2. Association. Any organization, whether or not the word "Association" appears in its title, composed of and serving exclusively members of the Military Services on active duty, in a Reserve status, in a retired status, and their dependents, which offers its members life insurance coverage, either as part of the membership dues, or as a separately purchased plan made available through an insurance carrier or the association as a self-insurer, or a combination of both. (A

3. DOD Installation. Any Federally owned, leased, or operated base, reservation, post, camp, building, or other facility to which DoD personnel are assigned for duty, including barracks, transient housing, and family quarters. (A

4. DOD Personnel. All active duty officers (commissioned and warrant) and enlisted members of the Army, Navy, Air Force and Marine Corps and all civilian employees, including nonappropriated fund employees and special Government employees of all offices, agencies, and departments carrying on functions on a Defense installation.

5. General Agent. A person who has a legal contract to represent a company solely and exclusively. (A

6. Insurance Carrier. An insurance company issuing insurance through an association or reinsuring or coinsuring such insurance. (R

7. Insurance Product. A policy, annuity, or certificate of insurance issued by an insurer or evidence of insurance coverage issued by a self-insured association. (R

8. Insurer. Any company or association engaged in the business of selling insurance policies to DOD personnel.

9. Normal Home Enterprises. Sales or services which are customarily conducted in a domestic setting and do not compete with an installation's officially sanctioned commerce. (A

10. Personal Commerical Solicitation. The conduct of any private business, including the offering and sale of insurance on a military installation. Solicitation on installations is a privilege as distinguished from a right, and its control is a responsibility vested in the DOD installation commander. (R

11. Securities. Mutual funds, stocks, bonds, or any product registered with the Securities and Exchange Commission except for any insurance or annuity product issued by a corporation subject to supervision by state insurance authorities. (A

Enclosure (1)

REPRODUCED AT GOVERNMENT EXPENSE

PRIVATE COMMERCIAL SOLICITATION ON DEPARTMENT OF THE NAVY INSTALLATIONS (R

1. Solicitation of DOD personnel and their dependents is permitted only when: (R

a. The commander or commanding officer of an installation authorizes solicitation. Solicitation will be conducted on an individual basis by specific prior appointment in family quarters or in such other locations and hours as the military commander may designate. When establishing the appointment, agents must identify themselves to the prospective purchaser as an agent for a specific company. Where feasible, disinterested third-party counseling will be provided if desired.

b. The agent has complied with local base registration procedures, the provisions of this instruction and is licensed in the jurisdiction where the naval installation is located. (R

2. Prohibited Solicitation Practices

a. Solicitation of recruits, trainees, and other personnel while in a "mass" or "captive" audience onboard an installation.

b. Making appointments with or soliciting military personnel who are in an "on-duty" status.

c. Soliciting without appointment in areas utilized for the housing or processing of transient personnel, in barracks areas used as quarters, in unit areas, in family quarters areas, and in areas provided by installation commanders for interviews by appointment. (R

d. Use of official identification cards, vehicle stickers or passes by retired or reserve members of the armed forces to gain access to installations for the purpose of soliciting.

e. Procuring or supplying, or attempting to procure or supply roster listings of DON personnel for the purpose of commercial solicitation, except pursuant to procedures implementing the Freedom of Information Act.

f. The offering of unfair, improper or deceptive inducements to purchase or trade.

g. Practices involving rebates to facilitate transactions or to eliminate competition. (Credit union interest refunds to borrowers are not considered a prohibited rebate.)

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h. The use of any manipulative, deceptive or fraudulent device, scheme or artifice, including misleading advertising and sales literature.

R) i. Using oral or written representations to suggest or give the appearance that DOD or DON sponsors or endorses any particular company, its agents, or the goods, services and commodities it sells.

j. The entry into any unauthorized or restricted area.

k. Solicitation by a military member of another military member who is junior in rank or grade, whether on or off duty, in or out of uniform, on or off a military installation at any time, except as permitted in subparagraph 6e of SECNAVINST 5370.2H, Standards of Conduct and Government Ethics.

R) l. Using any portion of installation facilities, including quarters, as a showroom or store for the sale of goods or services, except as specifically authorized by regulations governing the operation of exchanges, commissaries, non-appropriated fund instrumentalities, and private organizations. This is not intended to preclude normal home enterprises (such as cookware sales), providing applicable state and local laws are met.

m. Soliciting door to door.

n. Advertising addresses or telephone numbers of commercial sales activities conducted on the installation, except for
A) authorized activities conducted by members of military families residing in family housing.

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LIFE INSURANCE PRODUCTS AND SECURITIES (R

1. Prohibited Practices. Except as authorized or prohibited by subparagraphs 8a and 8b of this instruction, the practices in paragraph 2 of enclosure (2) of this instruction and the following practices are prohibited with specific reference to the sale of insurance:

a. DOD personnel representing an insurance company, or (R
dealing directly or indirectly with any insurance company or any recognized representative of an insurance company as an agent, or in any official or business capacity, for the solicitation of insurance to personnel on a military installation.

(D

b. Agents assuming or using titles such as "Battalion Insurance Counselor," "Unit Insurance Advisor," "SGLI Conversion Consultant," etc.

c. The assignment or use of office or desk space for an interview for other than a specified, prearranged appointment. During prearranged appointments, the agent will not display desk or other signs announcing name or company affiliation.

d. The use of base bulletins, the plan of the day, or any other notice, official or unofficial announcing the presence of an agent and his or her availability.

e. The distribution, or availability for distribution, of literature or advertisement materials other than to the person being interviewed.

2. Life Insurance Policy Content Prerequisites

a. Insurance products, other than certificates or other (R
evidence of insurance issued by a self-insured association, offered and sold worldwide to personnel on military installations must:

(1) Comply with the insurance laws of the state of country in which the installation is located and the procedural requirements of this instruction.

(2) Contain no restriction by reason of military service or military occupational specialty of the insured, unless such restrictions are clearly indicated on the face of the contract.

(3) Plainly indicate any extra premium charges imposed by reason of military service or military occupational specialty.

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R) (4) Contain no variation in the amount of death benefit or premium based upon the length of time the contract has been in force, unless all such variations are clearly described therein.

R) b. For the purposes of (2), (3) and (4) above, an appropriate reference stamped on the face of the contract shall draw the attention of the policyholder to any extra premium charges and any variations in the amount of death benefit or premium based upon the length of time the contract has been in force.

R) c. Premiums must reflect only the actual premiums payable for the life insurance product.

R) d. Variable life insurance products may be offered provided they meet the criteria of the appropriate insurance regulatory agency and the Securities and Exchange Commission.

A) 3. Sale of Securities

A) a. All securities must be registered with the Securities and Exchange Commission.

A) b. All sales of securities must comply with existing and appropriate Securities and Exchange Commission regulations.

A) c. All securities representatives must apply directly to the commander of the installation on which they desire to solicit the sale of securities.

A) d. Where the accredited insurer's policy permits, an overseas accredited life insurance agent--if duly qualified to engage in security activities either as a registered representative of the National Association of Securities Dealers or as an associate of a broker or dealer registered with the Securities and Exchange Commission--may offer life insurance and securities for sale simultaneously. In cases of commingled sales, the allotment of pay for the purchase of securities cannot be made to the insurer.

4. Use of the Allotment of Pay System

R) a. Allotments of military pay for life insurance will be made using guidelines in reference (e). Allotments are not authorized to be made to an insurer for the purchase of health, accident, or hospitalization insurance or other contracts which, as a secondary or incidental feature, include insurance on the life of the allotter. Allotments for insurance on the lives of an allotter's spouse or children are not authorized, except under a family group contract which primarily provides insurance on the life of an allotter and, as a subordinate feature, includes insurance on the lives of the spouse and children.

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b. For personnel in pay grades E-1, E-2 and E-3 at least seven days must elapse for counseling between the signing of a life insurance application and the certification of an allotment. This is to be considered as a "cooling off" period in which to permit reconsideration of the insurance purchase. The purchaser's commanding officer may grant a waiver of this requirement for good cause, such as the purchaser's imminent permanent change of station.

5. Associations - General. The recent growth and general acceptability of quasi-military associations offering various insurance plans to military personnel are acknowledged. Some associations are not organized within the supervision of insurance laws of either the Federal or State Governments. While some are organized for profit, others function as nonprofit associations under Internal Revenue Service regulations. Regardless of the manner in which insurance plans are offered to members, the management of the association is responsible for complying fully with the instructions contained in this instruction and the spirit of reference (a). (R

REPRODUCED AT GOV'T EXPENSE

THE OVERSEAS LIFE INSURANCE ACCREDITATION PROGRAM

1. ACCREDITATION CRITERIA (R

a. Initial Accreditation

(1) Insurers must demonstrate continuous successful operation in the life insurance business for a period of not less than five years on 31 December of the year preceding the date of filing the application.

(2) Insurers must be listed in Best's Life-Health Insurance Reports and be assigned a rating of B+ (Very Good) or better for the business year preceding the Government's fiscal year for which accreditation is sought.

b. Reaccreditation (A

(1) Insurers must demonstrate continuous successful operation in the life insurance business, as described in subsection 1a(1) above.

(2) Insurers must retain a Best's rating of B+ or better, as described in paragraph 1a(2), above.

(3) Insurers must establish an agency sales force in one of the overseas commands within two years of initial accreditation.

c. Waiver Provisions. Waivers of the initial accreditation and reaccreditation provisions will be considered for those insurers demonstrating substantial compliance with the aforementioned criteria.

2. APPLICATION INSTRUCTIONS

a. Applications Filed Annually. During the months of May and June of each year, insurers may apply for solicitation privileges for personnel assigned to United States military installations in foreign areas for the fiscal year beginning the following 1 October.

b. Application Prerequisites. A letter of application, signed by the president, vice president, or designated official of the insurance company shall be forwarded to the Assistant Secretary of Defense (Force Management and Personnel), Attention: Personnel Administration and Services Directorate, ODASD(MM&PP), The Pentagon, Washington, D.C. 20301-4000. The letter must contain the information set forth below, submitted in the order listed. Where not applicable, so state. (R

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R) (1) The overseas commands (e.g., European, Pacific, Atlantic, Southern) where the company is presently soliciting, or planning to solicit on United States military installations.

R) (2) A statement that the company has complied with, or will comply with, the applicable laws of the country or countries wherein it proposes to solicit. "Laws of the country" means all national, provincial, city, or county laws or ordinances of any country, as applicable.

D)
R) (3) A statement that the products to be offered for sale conform to the standards prescribed in enclosure (3) and contain only the standard provisions such as those prescribed by the laws of the state where the company's headquarters are located.

R) (4) A statement that the company will assume full responsibility for the acts of its agents with respect to solicitation. Sales personnel will be limited in numbers to one general agent and no more than 50 sales personnel for each overseas area. If warranted, the number of agents may be further limited by the overseas command concerned.

(5) A statement that the company will not utilize agents who have not been accredited by the appropriate overseas command to sell to DOD personnel on or off its DOD installations.

R) (6) Any explanatory or supplemental comments that will assist in evaluating the application.

R) (7) If DOD requires facts or statistics beyond those normally involved in accreditation, the company shall make separate arrangements to provide them.

R) (8) A statement that the company's general agent and other accredited agents are appointed following the prerequisites established in section c, below.

A) c. If a company is a life insurance company subsidiary, it must be accredited separately on its own merits.

R) 3. <u>AGENT REQUIREMENT</u>. Unified commanders will apply the following principles:

R) a. An agent must possess a current state license. The overseas commander may waive this requirement for an accredited agent continuously residing and successfully selling life insurance in foreign areas, who, through no fault of his or her own, due to state law (or regulation) governing domicile requirements, or requiring that the agent's company be licensed to do business in that state, forfeits eligibility for a state license.

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The request for a waiver will contain the name of the state or jurisdiction which would not renew the agent's license.

b. General agents and agents will represent only one accredited commercial insurance company. This requirement may be waived by the overseas commander if multiple representation can be proven to be in the best interest of DOD personnel.

c. An agent must have at least one year of successful life insurance underwriting in the United States or its territories, generally within the five years preceding the date of application, in order to be designated as accredited and employed for overseas solicitation. (R

d. Appropriate overseas commanders will exercise further agent control procedures as deemed necessary.

e. An agent, once accredited in an overseas area, may not change affiliation from the staff of one general agent to another and retain accreditation, unless the previous employer certifies in writing that the release is without justifiable prejudice. Unified commanders will have final authority to determine justifiable prejudice. Indebtedness of an agent to a previous employer is an example of justifiable prejudice. (R

(D

4. <u>ANNOUNCEMENT OF FINDINGS</u>

a. Accreditation by DOD upon annual applications of insurers will be announced as soon as practicable by a Notice to each applicant and by a listing released annually in September to the appropriate overseas commander. This approval does not constitute DOD endorsement of the insurer. Any advertising by insurers which suggests such endorsement is prohibited.

b. In the event accreditation is denied, specific reasons for the denial will be provided to the applicant.

(1) Upon receipt of notification of an unfavorable finding, the insurer has 30 days from receipt (forwarded certified mail, return receipt requested) in which to request reconsideration of the original decision. This request must be accompanied by substantiating data or information in rebuttal of the specific reasons upon which the adverse findings are based.

(2) Action by the Assistant Secretary of Defense (Force Management and Personnel) on appeal is final. (R

(3) If the applicant is presently accredited as an insurer, up to 90 days from final action on an unfavorable finding will be granted in which to close out operations.

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R) c. Upon receiving the annual letter of accreditation, each company must send a verified list of agents currently accredited for overseas solicitation to the applicable unified commander. Where applicable, the company shall also include the names of new agents for whom original accreditation and permission to solicit on base is requested. Insurers initially accredited will be furnished instructions by DOD for agent accreditation procedures in overseas areas.

R) d. Material changes affecting the corporate status and financial conditions of the company which may occur during the fiscal year of accreditation must be reported as they occur.

(1) DOD reserves the right to terminate accreditation if such material changes appear to substantially affect the financial and operational criteria described in section a, above, on which accreditation was based.

(2) Failure to report such material changes can result in termination of accreditation regardless of how it affects the criteria.

R) e. If an analysis of information furnished by the company indicates that unfavorable trends are developing which may possibly adversely affect its future operations, DOD may, at its option, bring such matters to the attention of the company and request a statement as to what action, if any, is comtemplated to deal with such unfavorable trends.

REPRODUCED AT GOVERNMENT EXPENSE

Army Regulation 210–7

Installations

Commercial Solicitation on Army Installations

This is a reprint of AR 210–7, 15 December 1978 including Changes 1 and 2.

Headquarters
Department of the Army
Washington, DC
22 April 1986

SUMMARY of CHANGE

AR 210-7
Commercial Solicitation on
Army Installations

This is a transitional reprint of this publication which places it in the UPDATE format. All previously published permanent numbered changes have been incorporated into the text.

Headquarters
Department of the Army
Washington, DC
15 December 1978

Effective 15 January 1979

Installations

Commercial Solicitation on Army Installations

The original form of this regulation was published on 15 December 1978. Since that time, Changes 1 and 2 have been issued to amend the original, and these changes remain in effect. This UPDATE issue is a reprint of the original regulation with the changes incorporated directly into the text.

By Order of the Secretary of the Army:

BERNARD W. ROGERS
General, United States Army
Chief of Staff

Official:

J. C. PENNINGTON
Brigadier General, United States Army
The Adjutant General

Summary. This revision includes the provisions of the revisions of DOD Directive 1344.1 and DOD Directive 1344.7. It also prescribes procedures for controlling solicitation on Army installations. As used throughout this regulation, the words "he," and "him," and "his" include both the masculine and feminine genders unless otherwise specifically stated.

Applicability. See paragraph 1-2.

Supplementation. Local supplementation of this regulation is permitted, but is not required. If supplements are issued, Army Staff agencies and major Army commands will furnish one copy of each to HQDA (DAAG-PSI) Alexandria, VA 22331; other commands will furnish one copy of each to the next higher headquarters.

Interim changes. Users of this regulation will not implement interim changes unless the change document has been authenticated by The Adjutant General. (Interim changes expire 1 year after publication date.) If a formal printed change is not received by the time the interim change expires, users will destroy the interim change.

Suggested improvements. The proponent agency of this regulation is The Adjutant General Center. Users are invited to send comments and suggested improvements on DA Form 2028 (Recommended Changes to Publications and Blank Forms) direct to HQDA (DAAG-PSI) WASH DC 20314.

Distribution. To be distributed in accordance with DA Form 12-9AR requirements for AR, Installations. Active Army, C; ARNG, D; USAR, D.

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Appendix Standards of Fairness

*This regulation supersedes AR 210-7, 4 January 1977 and DA message 151130Z, May 1978 subject: Interim Change to AR 210-7.

Chapter 1
General

1-1. Purpose

This regulation—

a. Prescribes general policy on the solici- and sale of all goods, services, and commodities, including all types of insurance, on military installations. These are sold or solicited by dealers, tradesmen, and their agents.

b. Prescribes procedures for suspension of solicitation privileges.

c. Provides for counseling assistance on consumer credit transactions.

d. Prescribes policies and procedures for investigative and enforcement actions.

e. Permits representatives of credit unions, banks, and approved non-profit associations to conduct national educational programs on—

(1) Insurance, estate planning, savings, and budgeting, and

(2) The protection and remedies afforded consumers under the Truth-in-Lending Act.

1-2. Applicability

a. This regulation applies to—

(1) All Department of the Army military and civilian personnel, including Army National Guard and Army Reserve personnel on active duty or annual training.

(2) Individuals seeking to conduct commercial solicitation on military installations, including controlled housing areas. They to be governed by regulations and of the local commander and, in overseas areas, by regulations of the unified or specified commander. They must also observe applicable laws, regulations, and agreements of the host country.

b. The provisions of this regulation do not apply to—

(1) Commercial companies that furnish services to military installations (such as deliveries of milk, bread, and laundry) when they are authorized by the installation commander.

(2) An individual who sells his own personal property or privately owned dwelling.

1-3. Related laws and regulations

a. Truth-in-Lending Act (15 USC 1601).

b. AR 210-24 (Credit Unions).

c. AR 60-10 (Exchange Service—General Policies).

d. AR 340-17 (Release of Information and Records from Army files).

e. AR 340-21 (The Army Privacy Program).

f. AR 600-50 (Standards of Conduct for Department of the Army personnel).

g. AR 608-1 (Army Community Service Program).

h. AR 15-6 (Procedure for Investigating and Boards of Officers Conducting ions).

i. AR 190-24 (Armed Forces Disciplinary Control Boards and off Installation Military Enforcement).

j. AR 37-104-3 (Military Pay and Allowance Procedures: Joint Uniform Military Pay System).

k. 12 CFR 226 (Federal Reserve Regulation Z).

l. 16 CFR (Door-to-Door Sales).

1-4. Explanation of terms

a. *Agent.* Anyone who solicits the ordering or purchasing of goods, services, or commodities in exchange for money. "Agent" includes an individual who receives remuneration as a salesman for an insurer or whose remuneration is dependent on volume of sales or the making of sales.

b. *Association.* Any organization which has been established, whether or not the word "association" appears in the title, and which—

(1) Is composed of and exclusively serves members of the Armed Forces of the United States (on active duty, in a Reserve status, in a retired status, or individuals who entered into these associations while on active duty) and their dependents.

(2) Offers its members life insurance coverage, either as part of the membership dues, or as a separately purchased plan made available through an insurance carrier or the association as a self-insurer, or both.

c. *Solicitation.* The conduct of any private business, including the offering and sale of insurance on a military installation, whether initiated by the seller or the buyer. (Solicitation on installations is a privilege as distinguished from a right, and its control is a responsibility vested in the installation commander, subject to compliance with applicable regulations.)

d. *Door-to-door solicitation.* A sales method whereby an agent proceeds randomly or selectively from household to household without specific prior appointments or invitations. Door-to-door solicitation is not permitted on Army installations.

e. *Specific appointment.* A prearranged appointment that has been agreed upon by both parties and is definite as to place and time.

f. *Insurer.* Any company or association engaged in the business of selling insurance policies to Department of Defense (DOD) personnel.

g. *Insurance carrier.* An insurance company issuing insurance through an association or reinsuring or coinsuring such insurance.

h. *Insurance policy.* A policy or certificate of insurance issued by an insurer or evidence of insurance coverage issued by a self-insured association.

i. *DOD personnel.* Unless stated otherwise, such personnel means all active duty officer and enlisted members, and civilian employees of the Armed Forces. This includes Government employees of all the offices, agencies, and departments carrying on functions on a Defense installation, including non-appropriated fund instrumentalities.

Chapter 2
Basic Policy

2-1. Regulatory requirements

Commanders may issue regulations governing solicitation within their commands and on their installations. These regulations will avoid discriminatory requirements which could eliminate or restrict competition. When there is a clear need to prescribe more restrictive requirements for solicitation than those in this regulation or the regulations of the major commander, these additional requirements or restrictions must first be reviewed and confirmed by The Adjutant General Center (DAAG-PSI), or by the oversea commander.

2-2. Solicitation

The installation commanders may permit solicitation and transaction of commercial business on military installations. These solicitations and transactions must conform to installation regulations (CONUS and overseas) and must not interfere with military activities. No person may enter an installation and transact commercial business as a matter of right.

2-3. Restrictions

To maintain discipline; protect property; and safeguard the health, morale, and welfare of his personnel, the installation commander may impose reasonable restrictions on the character and conduct of commercial activities. Members of the Armed Forces must not be subjected to fraudulent, usurious, or unethical business practices. Reasonable and consistent standards must be applied to each company and its agents in their conduct of commercial transactions on the installation.

2-4. Licensing requirements

To transact personal commercial business on military installations in the United States, its territories, and the Commonwealth of Puerto Rico, individuals must present, on demand, to the installation commander, or his designee, documentary evidence that the company and its agents meet the licensing requirements of the state in which the installation is located. They must also meet any other applicable regulatory requirements imposed by civil authorities (Federal, State, county, or municipality). For ease of administration, the installation commander will issue a temporary permit to agents who meet these requirements.

2-5. Authorization to solicit

a. Solicitation must be authorized by the installation commander. A specific appointment must be made with the individual and must be conducted in family quarters or in other areas designated by the installation commander. Before issuing a permit to solicit, the commander will require and review a statement of past employment. The commander will also determine, if practicable, whether the agent is employed by a reputable firm.

b. Certain companies seeking solicitation privileges on military installations may arrange personal demonstrations of their products at social gatherings and advise potential customers on their use. If these add- services are provided, even though the ..erchandise sold by these companies is similar to that stocked by the post exchange, the installation commander may authorize solicitation privileges. Requests for this type of solicitation privilege will be coordinated with the local Army and Air Force Exchange Service representative. See paragraph 3–2, AR 60–10.

2–6. Other transactions

Commercial transactions with other than individuals (such as non-appropriated fund activities) are restricted to the office of the custodian of the specific activity. Business will be conducted during normal duty hours.

2–7. Granting solicitation privileges

a. Authorizations (permits) to solicit on Army installations will be in writing and will be valid for periods of 1 year or less.

b. Particular caution must be taken when granting solicitation permission. The impression that permission is official indorsement or that the Department of the Army favors, sponsors, or recommends the companies, agents, or the policies offered for sale must not be conveyed. As continuing policy, the Department of the Army does ..t indorse any seller or product.

2–8. Supervision of on-post commercial activities

a. General.

(1) Installation commanders will ensure that all agents are given equal opportunity for interviews, by appointment, at the designated areas.

(2) DOD personnel will not act in any official or business capacity, either directly or indirectly, as liaison with agents to arrange appointments.

(3) Home address of members of the command or unit will not be given to commercial enterprises or individuals engaged in commercial solicitation, except when required by AR 340–17 and AR 340–21. The written consent of the individual must be obtained first.

b. Hours and location for solicitation.

(1) Military personnel and their dependents will be solicited individually, by specific appointment, and at hours designated by the installation commander or his designee. Appointments will not interfere with any military duty. Door-to-door solicitation without a prior appointment, including solicitation by personnel whose ultimate purpose is to obtain sales (e.g., soliciting future appointments), is prohibited. Solicitors may ..ntact prospective clients initially by meth..s such as advertising, direct mail, and telephone.

(2) Commanders will provide one or more appropriate locations on the installation where agents may interview prospective purchasers. If space and other factors dictate limiting the number of agents who may use designated interviewing areas, the installation commander may publish policy covering this matter.

c. Regulations to be read by solicitors. A conspicuous notice of installation regulations will be posted in a form and a place easily accessible to all those conducting on-post commercial activities. Each agent authorized to solicit must read this notice and appropriate installation regulations. Copies will be made available on installations. When practicable, as determined by the installation commander, persons conducting on-base commercial activities will be furnished a copy of the applicable regulations. Each agent seeking a permit must acknowledge, in writing, that he has read the regulations, understands them, and further understands that any violation or noncompliance may result in suspension of the solicitation privilege for himself, his employer, or both.

d. Items available to service members. Books and other items which can be obtained through the post exchange, the post library, or are available free, and which are also offered for sale by agents, should be made known to service members. Service members should know that they may borrow or obtain these items, possibly at lower cost.

e. Third-party counseling. Each member who wishes to know more about any product, service, insurance, or other item which may be offered to him by an agent will be provided disinterested, third-party counseling of a general nature when possible.

f. Forbidden solicitation practices. Installation commanders will prohibit the following:

(1) Solicitation during enlistment or induction processing or during basic combat training, and within the first half of the one station unit training cycle.

(2) Solicitation of "mass," group, or "captive" audiences.

(3) Making appointments with or soliciting of military personnel who are in an "on-duty" status.

(4) Soliciting without an appointment in areas used for housing or processing transient personnel, or soliciting in barracks areas used as quarters.

(5) Use of official identification cards by retired or Reserve members of the Armed Forces to gain access to military installations to solicit.

(6) Offering of false, unfair, improper, or deceptive inducements to purchase or trade.

(7) Offering rebates to promote transaction or to eliminate competition. (Credit union interest refunds to borrowers are not considered a prohibited rebate.)

(8) Use of any manipulative, deceptive, or fraudulent device, scheme, or artifice, including misleading advertising and sales literature.

(9) Any oral or written representations which suggest or appear that the Department of the Army sponsors or indorses the company or its agents, or the goods, services, and commodities offered for sale.

(10) Commercial solicitation by an active duty member of the Armed Forces of another member who is junior in rank or grade, at any time, on or off the military installation (AR 600–50).

(11) Entry into any unauthorized or restricted area.

(12) Assignment of desk space for interviews, except for specific, prearranged appointments. During appointments, the agent must not display desk or other signs announcing the name of the company or product affiliation.

(13) Use of the "Daily Bulletin" or any other notice, official or unofficial, announcing the presence of an agent and his availability.

(14) Distribution of literature other than to the person being interviewed.

(15) Wearing of name tags that include the name of the company or product that the agent represents.

(16) Offering of financial benefit or other valuable or desirable favors to military or civilian personnel to help or encourage sales transactions. This does not include advertising material for prospective purchasers (such as pens, pencils, wallets, and notebooks, normally with a value of $1 or less).

(17) Use of any portion of installation facilities, to include quarters, as a showroom or store for the sale of goods or services, except as specifically authorized by regulations governing the operations of exchanges, commissaries, nonappropriated fund instrumentalities, and private organizations. This is not intended to preclude normal home enterprises, providing State and local laws are complied with.

(18) Advertisements citing addresses or telephone numbers of commercial sales activities conducted on the installation.

g. Business reply system. Agents who desire to use a business reply card system will include the information on the card which a military member can complete to indicate where and when the member can meet the agent to discuss the subject. The meeting place should be that established in accordance with *b*(2), above, if the meeting is to be on the installation. This procedure should assist in removing any impression that the agent or his company is approved by the Department of the Army. It should further prevent an undesirable situation (e.g., military personnel paged on a public address system or called by a unit runner to report to the orderly room).

2–9. Products and services offered in solicitation

Products and services, including life insurance, offered and sold on Army installations must comply with the laws of the States (and other civil jurisdictions) in which the installations are located. If a dispute or complaint arises, the applicable State will make the determination (para 2–4).

counselor. Agents must complete DA Form 2056 (Commercial Insurance Solicitation Record). Blank DA Forms 2056 (not allotment forms) will be available to insurance agents on request. In the "Remarks" section of DA Form 2056, agents will include all pertinent information and a clear statement that dividends are not guaranteed if the presentation refers to dividends.

3–4. Life insurance policy content

Insurance policies offered and sold on Army installations must—

a. Comply with the insurance laws of the States or country in which the installations are located. The applicable State insurance commissioner will determine such compliance if there is a dispute or complaint.

b. Contain no restrictions because of military service or military occupational specialty of the insured, unless restrictions are clearly indicated on the face of the policy.

c. Plainly indicate any extra premium charges imposed because of military service or military occupational specialty.

d. Not vary in the amount of death benefit or premium based on the length of time the policy has been in force, unless it is clearly described therein.

e. For purposes of *b* through *d* above, be stamped with an appropriate reference on the face of the policy to focus attention on any extra premium charges imposed and on any variations in the amount of death benefit or premium based on the length of time the policy has been in force.

f. Variable life insurance policies may be offered provided they meet the criteria of the appropriate insurance regulatory agency and the Securities and Exchange Commission.

g. Show only the actual premiums payable for life insurance coverage.

3–5. Minimum requirements for agents

a. In the United States, its territories, and the Commonwealth of Puerto Rico. Agents may be authorized to solicit on an installation provided—

(1) Both the company and its agents are licensed in the State in which the installation is located. "State" as it pertains to political jurisdictions includes the 50 states, territories, and the Commonwealth of Puerto Rico.

(2) The application to solicit is made by an accredited company (para 3–6).

b. On Army military installation in foreign areas.

(1) An agent may solicit business on US military installations in foreign areas if—

(a) The company he represents has been accredited by DOD.

(b) His name is on the official list of accredited agents maintained by the applicable major command.

(c) His employer, the company, has obtained clearance for him from the appropriate oversea commanders; and

(d) The commanding officer of the military installation on which he desires to solicit has granted him permission.

(2) To be employed for oversea solicitation and designated as an accredited agent, agents must have at least 1 year of successful life insurance underwriting in the United States or its territories. Generally, this is within the 5 years preceding the date of application.

(3) General agents and agents will represent only one accredited commercial insurance company. The oversea commander may waive this requirement if multiple representation can be proven to be in the best interest of DOD personnel.

(4) An agent must possess a current State license. The oversea commander may waive this requirement on behalf of an accredited agent who has been continuously residing and successfully selling life insurance in foreign areas and forfeits his eligibility for a State license, through no fault of his own, due to the operation of State law or regulation governing domicile requirements, or requiring that the agent's company be licensed to do business in that State. The request for a waiver will contain the name of the State and jurisdiction which would not renew the agent's license.

(5) An agent, once accredited in an overseas area, may not change his affiliation from the staff of one general agent to another, unless the losing company certifies, in writing, that the release is without justifiable prejudice. Unified commanders will have final authority to determine justifiable prejudice.

(6) Where the accredited insurer's policy permits, an oversea accredited life insurance agent, if duly qualified to engage in security activities either as a registered representative of a member of the National Association of Securities Dealers or an associated person of a broker/dealer registered with the Securities and Exchange Commission only, may offer life insurance and securities for sale simultaneously. In cases of commingled sales, the allotment of pay for the purchase of securities cannot be made to the insurer.

(7) Oversea commanders will exercise further agent control procedures as necessary.

3–6. Application by companies to solicit on military installations in the United States, its territories, or the Commonwealth of Puerto Rico

Before a company may be accredited to solicit on a military installation, the commander must receive a letter of application, signed by the company's president or vice president. It must be understood that a knowing and willful false statement is punishable by fine or imprisonment (18 USC 1001). The letter of application will—

a. Report the States in which the company is qualified and licensed to sell insurance.

b. Give the name, complete address, and telephone number of each agent who will solicit on the installation if approval is granted; the State in which licensed; the date of licensing and the expiration date; and a statement of agreement to report all future additions and separations of agents employed for solicitation on the installation.

c. List all policies and their form numbers that are to be offered for purchase on the installation. (Commanders will not require companies to furnish sample insurance policies since this is an unnecessary expenditure of time and money, both to the installation and to the insurance company, and serves no practical purpose.)

d. Assure that only the policies listed on the application will be offered for purchase and that these policies meet the requirements of paragraph 3–4.

e. Attest that—

(1) The privilege of soliciting the purchase of life insurance is not currently suspended or withdrawn from the company by any of the military departments.

(2) The privilege of soliciting the purchase of life insurance is not currently suspended or withdrawn by any Armed Forces installations from any of the agents named.

(3) The company and the agents named have proper and currently validated licenses as required by paragraph 3–5.

(4) The company assumes full responsibility for its agents complying with this regulation and with any regulations published by the installation commander.

3–7. Applications by companies to solicit on installations in foreign countries

a. Each May and June only, DOD accepts applications from commercial life insurance companies for accreditation to solicit the purchase of commercial life insurance on installations in foreign countries for the fiscal year beginning the following October.

b. Information about permission to solicit on installations outside the United States (exclusive of its territories and the Commonwealth of Puerto Rico) is contained in instructions issued by DOD. Applications and any correspondence relating thereto should be addressed to Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics), ATTN: Directorate, Personnel Services, ODASD(MPP), WASH DC 20301.

c. Advice of action taken by DOD is announced annually by letters sent to oversea commanders as soon as practicable after 15 September. The list of companies and agents may vary from year to year.

3–8. Associations—general

The recent growth of quasi-military associations offering various insurance plans to military personnel is recognized. Some associations are not organized within the supervision of insurance laws of either the Federal or State Government. While some are organized for profit, others function as nonprofit associations under Internal Revenue Service regulations. Regardless of how

insurance plans are offered to members, the management of the association is responsible for assuring that all aspects of its insurance programs comply fully with the instructions of this regulation.

3–9. Use of the allotment of pay system

a. Allotments of military pay will be made in accordance with AR 37–104–3. Allotments will not be made to an insurer for the purchase of a commingled sale (e.g., retirement plans, securities).

b. Under no circumstances will agents have allotment forms in their possession or attempt to assist or coordinate the administrative processing of such forms.

c. For personnel in grades E–1, E–2, and E–3, at least 7 days should elapse between the signing of a life insurance application or contract and the certification of an allotment. The purchaser's commanding officer may grant a waiver of this requirement for good cause, such as the purchaser's imminent permanent change of station.

3–10. Counseling

a. Commanders are responsible for the counseling of personnel under their command. An important aspect of counseling is to make certain that soldiers in grades E–1, E–2, and E–3 fully understand the business transaction into which they are entering. Preferably, an officer will do the counseling. However, personnel designated to counsel are not expected to be technical experts in the field of life insurance. Counseling should be made available for all personnel.

b. Commanders of all echelons, down to and including separate battalions, and organizations or activities of comparable size and responsibility will designate individuals to serve as unit personal commercial affairs officers. One of the primary functions of these officers is to counsel (*c.* below).

c. The following are minimum requirements for counseling:

(1) Make certain that the member fully understands that he is entering a business transactions normally intended to cover a long time and usually involving a considerable amount of money.

(2) Obtain a copy of DA Form 2056 (para 3–3*b*) and make certain that the member understands that, while his life will be insured after his policy becomes effective, if he allows the policy to lapse, he will not recover more than the cash value at the time the policy lapsed. Be certain the member understands the cash value available to him at the stated intervals, if any. Particularly emphasize the relation between the cash values and the premiums paid during the early policy years.

(3) Impress on the member that the Army does not favor or recommend any particular agent or company, but that the privilege of solicitation is extended to agents in good standing.

(4) Impress on the member that—

(a) The allotment system is a convenience.

(b) Its use is permitted only to provide him with a ready means of guaranteeing that the insurance protection provided for his family will continue under adverse circumstances because of military service.

(c) It does not mean the Army recommends the insurance policy, the agent, or the company.

(d) Their purchase of insurance is purely a personal transaction between the member and the insurance company.

(5) Be sure that the member is fully aware of any restrictions or limitations in the policy, such as those described in paragraph 3–4*b* through *d*.

(6) Use DA Form 2056 in counseling personnel in grades E–1, E–2, and E–3 who purchase insurance on or off post and who desire to make premium payments by allotment. The dependency situation indicated in section II, DA Form 2056 should be reviewed, and the benefits which are available to the survivors of military personnel should be explained (DA Pam 608–2).

d. After the counseling (*c* above), the member will be instructed to see the counselor again at least 7 days from the date that he submits DA Form 2056. If the member returns and still desires the insurance, the counselor will sign and file DA Form 2056 in the battalion/separate company level file under file number 7–02. DA Form 1341 (JUMPS–Army Allotment Authorization) will be prepared and sent to the disbursing officer. If a soldier in grades E–1, E–2, or E–3 requests an allotment for life insurance purchased and in force for 6 months or more, or purchased before entering on active duty, the 7–day waiting period will not apply. For personnel in grades E–4 and above, there is no mandatory waiting period.

Section II
Automobile Insurance

3–11. Motor vehicle liability insurance counseling

a. All commanders are responsible for counseling personnel under their command on the purchase of motor vehicle liability insurance. Periodically they will publish information on driver responsibility under State and local laws. It should be thoroughly explained that—

(1) To satisfy judgments against an individual growing out of an automobile accident could possibly require the major portion of personal earnings for many years.

(2) Failure to provide means to settle damage claims for which found to be legally responsible reflects discredit on the Department of the Army.

b. The counselor will—

(1) Stress the importance of a safe driving record.

(2) Inform members that some insurers, and the assigned risk plans of many of the states, offer coverage with a substantial savings in premiums to individuals who have removed themselves from extra risk classifications requiring premium surcharges, by—

(a) Successfully completing driver training courses (para 3–13).

(b) Maintaining accident-free records which can be authenticated.

3–12. Cooperation with State and local authorities

a. Installation commanders will cooperate with State and local officials responsible for administering State and local laws and regulations on the insurance and operation of motor vehicles by requiring that—

(1) Personnel assigned to process motor vehicle liability insurance matters receive training and instruction in the requirements of this regulation;

(2) All correspondence and applications for accreditation and permission to solicit are promptly and courteously acted on; and

(3) The State Insurance Commissioner be advised of the names or office and telephone number and address of the element of each installation staff member responsible for insurance matters.

b. Cooperation will be extended to school officials, automobile associations, Armed Forces-State Traffic Safety Workshop Program, commercial private driver training course operators, and civic groups concerned with public highway safety.

c. Assistance in obtaining assigned risk insurance will be given to personnel, particularly young motor vehicle operators, who are otherwise unable to obtain automobile insurance coverage. Installation commanders will ensure the maintenance of good relations and liaison with State officials responsible for administering "assigned risk plans" and financial responsibility laws.

3–13. Driver training programs

Installation commanders are responsible for administering an effective driver training program to the extent of personnel and budgeting limitations. All commanders will make defensive driver, driver improvement, and remedial driver training available. The installation commander will make attendance at the program mandatory for problem drivers. (See AR 190–5).

3–14. Minimum requirements for automobile insurance policies

Policies sold on installations by both accepted and accredited insurers will meet all statutory and regulatory requirements of the State or host nation in which the installation is located. Policies will not be issued in amounts lower than the minimum limits prescribed by these authorities. In addition, policies will—

a. Clearly identify the name of the insurer and the full address.

(1) Applications without the name and address of the insurer underwriting the insurance may not be used; the names of sales or underwriting agents alone is not sufficient.

(2) Post office box addresses are not an acceptable address.

b. Provide bodily injury and property mage liability coverage for all drivers au-orized by the named insured to operate e vehicle. Military indorsements, exclud-g persons other than the named insured, ether in the military or not, are not

ontain unusual limitations or re-ictions, including, but not limited to, the llowing:

(1) Limitations specifying that coverage afforded only when the insured vehicle is erated in the designated geographic areas the United States (e.g., coverage applica-e only on a military reservation). If the in-allation is located within the United ates, the standard provision limiting cov-age to the United States and Canada is ceptable.

(2) Coverage limited to exclude liability r bodily injury to passengers and guests if ch a liability exists as a matter of law.

hapter 4
uspension or Denial of olicitation Privileges

-1. Grounds for denial or suspension l privileges

he installation commander will deny or re-ke permission of a company and its ents to conduct commercial activities on e installation if it is in the best interests of command. The grounds for taking these l include, but will not be limited owing:

a. Failure of a company to meet the li-nsing and other regulatory requirements escribed in paragraph 2–4.

b. An agent or representative engaged in y of the solicitation practices prohibited this regulation.

c. Substantiated adverse complaints or ports about the quality of the goods, rvices, or commodities and the manner in hich they are offered for sale.

d. Personal misconduct by agents or rep-sentatives while on the military stallation.

e. The possession of or any attempt to tain allotment forms, or to assist or coor-nate the administrative processing of such rms.

f. Knowing and willful violation of the ruth-in-Lending Act or Federal Reserve egulation Z.

g. Failure to incorporate and abide by e Standards of Fairness policies (See the p.)

h. A history of two or more suspensions f an agent and/or company.

i. Continued solicitation when already nder suspension.

False information furnished on an

s of denial, a letter will be for-arded to the applicant explaining the rea-n for such action and a copy of the letter rwarded to HQDA (DAAG–PSI).

4–2. Factors in suspending solicitation privileges

In suspending privileges for cause, the installation commander will determine whether to limit suspension to the agent alone or to extend it to the company he represents. This decision will be based on the circumstances of the particular case. Included are—

a. The nature of the violations and their frequencies;

b. The extent to which other agents of the company have engaged in these practices;

c. Previous warnings or suspensions; and

d. Other matters that show the company's guilt or failure to take reasonable corrective or remedial action.

4–3. Preliminary investigation

When unauthorized solicitation practices have apparently occurred, an investigating officer will be appointed (AR 15–6). The investigating officer will gather sworn statements from all interested parties who have any knowledge of the alleged violations.

4–4. Suspension approval

The installation commander will personally approve all cases in which solicitation privileges are denied or suspended for cause and will make the final determination. This includes agents, companies, or other commercial enterprises. Authority to temporarily suspend solicitation privileges for 30 days or less while an investigation is conducted may be delegated by the commander to the installation solicitation officer or other designee. Exception to this time frame must be approved by The Adjutant General (DAAG–PSI) or by the oversea commander.

4–5. "Show-Cause" hearing

During the temporary suspension period, or prior to the installation commander's final determination when temporary suspension is not employed, a hearing will be conducted to provide an opportunity for the agent and/or company to show cause why the suspension should not be made final for a definite period of time. "Show cause" is an opportunity for the agent, company, or both to present facts informally on their behalf. The company and agent will be notified, by letter, in advance of the pending hearing. If unable to notify them directly or indirectly, the hearing may proceed.

4–6. Suspension action

a. When suspended for cause, immediately notify the company and the agent, in writing, of the reason. When the installation commander determines that suspension should be extended throughout the Department of the Army (whether for the agent or his company), send the case to HQDA (DAAG–PSI), Alexandria, VA 22331. Provide all factors on which the commander based his decision concerning the agent or company (exempt report, para 7–2o, AR 335–15). This notification should include—

(1) Copies of the "show cause" hearing record or summary,

(2) The installation regulations or extract,

(3) The investigation report with sworn statements by all personnel affected by or having knowledge of the violations,

(4) The statement signed by the agent as required in paragraph 2–8c.

(5) Notification letters sent to the company and the agent advising of suspension of installation solicitation privileges, and

(6) If the agent failed to respond to notification of the hearing, a copy of the letters sent to him and the company offering them the opportunity to be heard.

b. If the grounds for suspension bear significantly on the eligibility of the agent or company to hold a State license or to meet other regulatory requirements, notify the appropriate State or local civil authorities.

4–7. Suspension period

All solicitation privileges suspended by installation commanders will be for a specific time. Normally, it will not exceed 2 years. Requests for suspension periods in excess of 2 years will be sent with the complete case to HQDA (DAAG–PSI), Alexandria, VA 22331, for approval. Lesser suspension may be imposed pending decision. When the final suspension period expires, the agent may reapply for permission to solicit at the installation authorizing the denial or suspension. If suspension was extended Army-wide by HQDA, applications of agents and companies for permission to again solicit on any Army installation must be made to HQDA prior to applying for such privileges at an individual installation.

4–8. Agents or companies with suspended solicitation privileges

Quarterly, HQDA will publish the names of agents and companies whose solicitation privileges have been suspended throughout the Department of the Army. If no change has occurred in the latest quarter, no list will be published. Periodically, HQDA will publish the names of agents and companies whose solicitation privileges have been suspended on each installation, for information purposes for commanders. Installation commanders will furnish to HQDA the names of agents and companies when solicitation privileges are suspended, at the time of the suspension.

4–9. Exercise of "off limits" authority

a. In appropriate cases, installation commanders may have the Armed Forces Disciplinary Control Board investigate reports that cash or consumer credit transactions offered military personnel by a business establishment off post are usurious, fraudulent, misleading, or deceptive. If it is found that the commercial establishment engages in such practices; that it has not taken corrective action on being duly notified; and that the health, morale, and welfare of military personnel would be served, the Armed

rces Disciplinary Control Board may rec-
mend that the offending business estab-
ıment be declared "off limits" to all
itary personnel. The procedures for mak-
h ·terminations are in AR 190–24.
ding that a company transacting
h consumer credit business with mem-
s of the Armed Forces, nationwide or in-
nationally, is engaged in widespread
rious, fraudulent, or deceptive practices,
: Secretary of the Army may direct
med Forces Disciplinary Control Boards
all geographical areas where this oc-
red to investigate the charges and take
propriate action.

Appendix
Standards of Fairness

1. ... finance charge contracted for, made, or received under any contract shall be in excess of the charge which could be made for such contract under the law of the place in which the contract is signed in the United States by the serviceman. In the event a contract is signed with a United States company in a foreign country, the lowest interest rate of the state or states in which the company is chartered or does business shall apply.

2. No contract or loan agreement shall provide for an attorney's fee in the event of default unless suit is filed in which event the fee provided in the contract shall not exceed 20 percent of the obligation found due. No attorney's fee shall be authorized if he is a salaried employee of the holder.

3. In loan transactions, defenses which the debtor may have against the original lender or its agent shall be good against any subsequent holder of the obligation. In credit transactions, defenses against the seller or its agent shall be good against any subsequent holder of the obligation provided that the holder had actual knowledge of the de- ...e or under condition where reasonable ... would have apprised him of this

4. The debtor shall have the right to remove any security for the obligation beyond state or national boundaries if he or his family moves beyond such boundaries under military orders and notifies the creditor, in advance of the removal, of the new address where the security will be located. Removal of the security shall not accelerate payment of the obligation.

5. No late charge shall be made in excess of ... percent of the late payment, or $5.00 whichever is the lesser amount. Only one late charge may be made for any tardy installment. Late charges will not be levied where an allotment has been timely filed, but payment of the allotment has been delayed.

6. The obligation may be paid in full at any time or through accelerated payments of any amount. There shall be no penalty for repayment and in the event of prepayment that portion of the finance charges which have insured to the benefit of the seller or creditor shall be prorated on the basis of the ...es which would have been ratably pay- ... finance charges been calculated ... ble as equal periodic payments ...er the terms of the contract and only the prorated amount to the date of prepayment shall be due. As an alternative the "Rule of ..." may be applied, in which case its operation shall be explained in the contract.

7. No charge shall be made for an insurance premium or for finance charges for such premium unless satisfactory evidence of a policy, or insurance certificate where State insurance laws or regulations permit such certificates to be issued in lieu of a policy, reflecting such coverage has been delivered to the debtor within 30 days after the specified date of delivery of the item purchase or the signing of a cash loan agreement.

8. If the loan or contract agreement provides for payments in installments, each payment, other than the down payment, shall be in equal or substantially equal amounts, and installments shall be successive and of equal or substantially equal duration.

9. If the security for the debt is repossessed and sold in order to satisfy or reduce the debt, the repossession and resale will meet the following conditions:

a. The defaulting purchaser will be given advance written notice of the intention to repossess;

b. Following repossession, the defaulting purchaser will be served a complete statement of his obligations and adequate advance notice of the sale;

c. He will be permitted to redeem the item by payment of the amount due before the sale, or in lieu thereof submit a bid at the sale;

d. There will be a solicitation for a minimum of three sealed bids unless sold at auction.

e. The party holding the security, and all agents thereof, are ineligible to bid.

f. The defaulting purchaser will be charged only those charges which are reasonably necessary for storage, reconditioning, and resale, and

g. He shall be provided a written detailed statement of his obligations, if any, following the resale and promptly refunded any credit balance due him, if any.

10. A contract for personal goods and services may be terminated at any time before delivery of the goods or services without charge to the purchaser. However, if goods made to the special order of the purchaser result in preproduction costs, or require preparation for delivery, such additional costs will be listed in the order form or contract. No termination charge shall be made in excess of this amount. Contracts for delivery at future intervals may be terminated as to the undelivered portion, and the purchaser shall be chargeable only for that proportion of the total cost which the goods or services delivered bear to the total goods called for by the contract. (This is in addition to the right to rescind certain credit transactions involving a security interest in real estate provided by section 125 of the Truth-in-Lending Act, P.L. 90–321 (15 USC 1601) and section 226.9 of Regulation Z (12 CFR 226).

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