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STATEMENT OF MARK GREEN PUBLIC ADVOCATE FOR THE CITY OF NEW YORK AT THE FEDERAL RESERVE BOARD PUBLIC MEETING ON THE PROPOSAL OF TRAVELERS GROUP TO ACQUIRE CITICORP

June 25, 1998

If you approve the Travelers Group application, you will be giving a green light to the restructuring of the bulk of the nation's financial services industry into a handful of massive financial services conglomerates. I urge you to say no to this application because such a restructuring would occur in the absence of crucial laws to protect consumers, because it would expose taxpayers to enormous liability, and because it would likely diminish the effectiveness of the Community Reinvestment Act (CRA).

Members of Citicorp-Travelers Watch will testify today and tomorrow on the threat your approval could pose to the CRA. They will also document Citicorp's comparatively poor community reinvestment record and Travelers' virtual absence from inner-city communities. I will focus my comments on consumer issues such as cross-marketing and personal privacy and on how the current regulatory oversight system is inadequate for multi-faceted financial services conglomerates such as the proposed Citigroup.

Cross-marketing and *de facto* product tying.

Although Citicorp and Travelers have stated that their chief merger motivation is to cross-market their wide array financial services and products, the applicant did not answer the Board's explicit request for "detailed information" about cross-marketing plans. In its reply to your written questions, Travelers Group said that while there are "no detailed plans" for cross-marketing, they "will develop over time."

Since cross-marketing presents serious consumer pitfalls, it is important to know now-- not after you've reached your decision -- how Citigroup is going to cross-market among its affiliates. One of these pitfalls is "product tying" -- the *de facto* requirement for a customer buying one financial product to purchase another one at the same time. Consider the position of someone applying for a car loan from one Citigroup affiliate who is handed a credit insurance application from another Citigroup affiliate. It would be very

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and banking affiliates serves only to increase the motivation to cross-market these products. Rep. John Dingell has proposed giving the SEC more power to regulate brokerage activities in banks because current protections are insufficient. The Travelers Group acquisition of Citicorp would occur without such necessary new protections

NationsBank is not an isolated case. A May 1996 study by the FDIC found that more than one-fourth of the banks surveyed failed to tell on-site customers that products are not insured and 55 percent failed to inform telephone customers.

Consumers are vulnerable to misinformation and manipulation. A 1994 survey conducted for the American Association of Retired Persons and the North American Securities Administrators Association found that fewer than one in five bank customers understood that products such as mutual funds and annuities are uninsured.

Consumer privacy

The Consumer Electronic Payments Task Force, headed by the Comptroller of the Currency, released a report in May 1998 that raised a number of serious concerns about the possible misuse of personal financial information. One of the report's findings was that Americans are concerned about the use of transaction information for purposes other than the original transaction. This is exactly what Travelers and Citicorp intend to do, since their proposed acquisition is premised in large part on using consumer information obtained in one transaction for other purposes. The Board should not approve the Travelers application until new privacy protections applying to financial services conglomerates are enacted into law.

Primerica, Credit Corporation, Citibank, and Salomon Smith Barney possess intimate, private information about tens of millions Americans. Through loan applications they know about the jobs many people hold, from credit card records they know about recent purchases, from mortgage applications they know the age and value of their residences, from auto insurance files they know about driving records, and from banking files they know if there was recently a large deposit in an account. Travelers recently sold an HMO which provided access to personal medical data such as records of visits to mental therapists; Travelers could re-enter the health insurance business and regain access to health information. Nothing prevents the proposed Citigroup from disseminating this kind of very sensitive personal information among its far-flung affiliates.

Travelers has told you that it would deal with information dissemination issues by adopting an "opt out" system by which consumers could affirmatively indicate to Citigroup that they do not want their personal information shared. Travelers did not explain how this "opt out" would function. However, Acting Comptroller of the Currency Julie Williams, in a May 8th speech before a banking organization on privacy concerns, warned of serious problems with the "opt out" method where currently used, such as that the "opt out" disclosures are "buried in the middle or near the end of a multi-page agreement." A much better approach would to require consumers to affirmatively "opt in" to approve dissemination of personal information among Citigroup affiliates.

Putting taxpayers on the line.

When Citicorp was on the brink of insolvency earlier this decade, it was widely believed that the government would not let it collapse because it was "too big to fail"-- i.e., the repercussions on the banking system and the economy would have been too serious. Citigroup would be more than twice as big as Citibank. Practically speaking, to make extra sure that such a behemoth never fails, Citigroup as a whole would need to be regulated and monitored more rigorously than at present. Unfortunately, the regulatory structure required to virtually eliminate the possibility of a Citigroup failure doesn't exist. And the inadequacy of current fire walls separating banking, insurance, and securities affiliates pose a special threat to the bank deposit insurance funds.

Fire walls. Although it is claimed that Citigroup's affiliates would stand alone under all circumstances, realistically speaking, serious reverses and losses in one affiliate would redound on the entire holding company. It is highly improbable that regulators would permit a major non-bank affiliate of a financial services holding company such as Citigroup to fail or even to come close to failure because such a development could destroy public confidence in the holding company's government-insured affiliates. Ultimately, a failure of a non-bank affiliate could lead to a bail-out using either deposit insurance funds or funds appropriated by Congress. This is a particular concern with Citigroup. Since the non-insured portion of Citigroup would be larger than the insured portion, large losses at one of the non-insured affiliates could have a very significant impact on public confidence in Citibank.

The current good times aren't going to last forever. The Clinton Administration is properly concerned that an Asian economic meltdown triggered by Japan could have severe repercussions for U.S. banks, securities firms and even insurance companies. So it is essential that the Board move very slowly and cautiously when considering the approval of a new financial structure like Citigroup that could become very unstable in times of economic stress.

It shouldn't be forgotten that only a few years ago Citibank itself was in trouble and was saved by a $2.6 billion capital investment in the bank by a Middle Eastern prince and by low rates charged by the Federal Reserve System that allowed it to make large lending profits .

Regulatory oversight. Nearly one-quarter of Citigroup's total revenue would come from insurance, based on 1997 figures. Although it would now be linked to Citibank and its billions of dollars of FDIC-insured deposits, Travelers' insurance subsidiaries would essentially remain free of any federal safety and soundness oversight since insurance companies are entirely regulated by the states.

State insurance department examinations, capital requirements and regulatory enforcement would continue to apply to insurance companies owned by financial services holding companies such as Citigroup. Many states' insurance departments are under-funded, understaffed and uncomfortably close to the industry they are supposed to oversee. This was a conclusion of the report the Oversight Subcommittee of the House Commerce Committee in 1990, which found "numerous weaknesses and breakdowns in this [state insurance regulation] system, including lack of coordination and cooperation, infrequent examinations based on outdated information, insufficient capital requirements and licensing procedures, failure to require use of actuaries and independent audits, and improper influence on regulators." One must remember that approval of this application will set the mold for more to come. Practically speaking, a joinder of Citicorp and Travelers -- and more such combinations now being considered -- would extend government deposit insurance to questionably state-insurance affiliates.

There also are serious concerns about the coordination of regulatory oversight among numerous federal bodies that regulate banking and securities. Each agency has its own area of expertise, while what is really needed is a single body with a wide range of expertise that can closely monitor the entire financial services holding company. The General Accounting Office has been very critical of the lack of regulatory coordination that results from mixing insurance, securities, and banking in one entity.

Therefore, Travelers Group's application should not be approved absent the establishment of an effective overall regulatory structure.

Conclusion

There is no emergency requiring approval of this application at this time. And with our financial institutions doing very well in worldwide competition, any arguments that we need massive banks" and mega-holding companies such as Citigroup to compete effectively in financial services are groundless.

The only benefit for consumers that the applicant seems to be able to cite are one-stop shopping and more personalized service. The American people are not clamoring for these supposed benefits. Therefore, since the proposed nonbanking activities cannot be reasonably expected to produce benefits to the public that outweigh the possible adverse effects, the application should be rejected.