INVESTMENT COMPANY INSTITUTE

The Asset Management Industry
SERVING INDIVIDUAL INVESTORS

OPINIONS

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Pass This Bill That Would Let Mutual Funds Delay Withdrawals if They Suspect Financial Exploitation

The Senate Should Follow the House and Pass the Financial Exploitation Prevention Act

Financial exploitation is a significant, and potentially devastating, problem throughout the country, particularly for seniors and other vulnerable adults who are common targets of scammers and cheaters.

These criminals prey on lonely and isolated seniors to gain their trust and affection, then often make an urgent request for money for reasons ranging from a personal emergency or last-minute plane ticket to medical expenses or gambling debts. An estimated 7.86 million cases of elder fraud take place annually in the United States, resulting in losses of $148 billion to this vulnerable population *each year*.

While financial companies may identify certain withdrawal requests as unusual, there are currently no laws that enable them to stop such transactions. But there is legislation moving through Congress right now to allow the firms behind mutual funds and exchange-traded funds (ETFs)—which is where many seniors save and invest their money—to better protect vulnerable Americans.

A bill called the Financial Exploitation Prevention Act would allow fund companies to delay transactions reasonably believed to be the result of financial exploitation for as long as 15 business days. This would allow time to confirm the validity of the transaction, verify the customer's contact information, or identify any legal guardians, executors, or trustees.

The ability to pause a transaction is especially important because a key component of these scams is the pressure criminals put on victims to withdraw money urgently. Under the Financial Exploitation Prevention Act, fund companies can pause the transaction to verify its validity before the money is stolen. Once the money is gone, it's likely taken from the senior forever and could potentially leave them unable to pay their bills or afford basic living expenses.

The legislation also would cover anyone 18 or older who is unable to protect his or her own interests.

In addition to allowing companies to delay suspicious transactions, the bill requires the Securities and Exchange Commission (SEC) to report to Congress with recommendations for legislative and regulatory reforms to combat financial exploitation of seniors and other vulnerable adults. Elder abuse is a vastly underreported crime. Enhanced reporting from the SEC would likely lead to more information and data about these crimes, which could help identify additional safeguards to protect those at risk. These efforts could also identify ways to help educate potential victims as well as their family or caretakers to help prevent future theft.

The House of Representatives approved the Financial Exploitation Prevention Act—which was introduced by Rep. Ann Wagner (R-MO) a senior member on the powerful House Financial Services Committee—unanimously in October. While the Senate has yet to take it up, the bill passing the House with strong bipartisan support is a positive sign and should serve as a catalyst for action in the Senate.

The Investment Company Institute and its members prioritize the fight against financial abuse and exploitation. We are constantly working to ensure the fund industry uses the most sophisticated security measures and safeguards available and continually searching for new ways to protect individual investors. That’s why ICI strongly supports the Financial Exploitation Prevention Act and calls on the Senate to pass it immediately.
