

PRESS RELEASE

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State Insurance Department, Corporation Commission Crack Down on Insurance Agents Selling Unregistered Securities

The Arizona Department of Insurance and the Arizona Corporation Commission's Securities Division are coordinating enforcement efforts to address a growing number of cases involving the sale of fraudulent securities by unscrupulous or misinformed insurance agents. These cases have been on the rise around the country as investment companies recruit insurance agents to market various types of unregistered securities.

"Consumers should carefully research potential investments," says State Insurance Director Charles Cohen. "Arizona insurance agents and their clients should be particularly cautious about investments that "guarantee" a high rate of return in a short time. If something sounds too good to be true, it probably is. It is important that consumers ask the person marketing the investment whether they are licensed to sell such a product and whether the product is registered with the Securities Division. Do your homework before you invest."

"The vast majority of insurance agents are honest and competent professionals. Many of these problems are caused by only a few unprincipled agents," Cohen said. "However, in some cases even the insurance agents may have been misled about the validity of the products. Insurance agents should be aware that in order to sell a securities product, not only must the product be registered with the Arizona Corporation Commission's Securities Division, but the agent selling it must be registered with the Securities Division as well."

In many of these cases, consumers are encouraged to convert annuities or other insurance products to fund the allegedly more profitable investments. Examples of unregistered securities that have been marketed include investments in promissory notes, automatic teller machines, pay phones and viatical settlements. "While touting above-market returns, insurance agents often fail to tell their clients that investments in promissory notes, automatic teller machines, pay phones and viatical settlements are highly risky and often fraudulent," says Securities Director Mark Sendrow. "The big commissions that insurance agents earn may blind them to the problems involved in selling these investments. In fact, many agents may know very little or nothing about the promoters of the investments."

In a recent case of securities fraud by an insurance agent, the Department of Insurance revoked the insurance license of Jerome A. Zanowski on April 4, 2001. According to the revocation order, between November 1996 and April 2000, Zanowski sold \$175,875 in unregistered securities to at least seven Arizona residents. The unregistered securities were in the form of promissory notes, pay phone purchases with leaseback agreements, and viatical settlements. In more than one instance, Zanowski convinced his own Sun City annuity clients to surrender their annuities, for which they paid surrender penalties, in order to fund the investment in an unregistered security product.

Prior to having his insurance license revoked, Zanowski was ordered to cease and desist by the Arizona Corporation Commission Securities Division. He was cited for making untrue statements and/or omitting material facts in his dealings with investors, and for failing to inform investors that the securities were not registered and that he was not registered as a securities dealer. He was also cited for not disclosing the financial incentives he received for selling the securities, the risks associated with the investment, his lack of due diligence in investigating the investments, his failure to verify the legitimacy of insurance companies issuing bonds on the viatical settlements he sold, and that the viatical settlement company was under indictment at the time of his client's investment.

Under Arizona law, a person who offers or sells unregistered securities is subject to civil or criminal prosecution by the Securities Division. Zanowski was fined \$10,000 and ordered to pay more than \$23,000 in restitution. The Securities Division notifies the Insurance Department of all actions it takes against persons possessing an insurance license. The Insurance Department may then pursue regulatory action, which can result in the suspension or revocation of an insurance agent license and/or the imposition of civil penalties.

The Insurance Department has revoked the licenses of Zanowski and four other insurance agents in recent months as a result of referrals from the Securities Division. Several additional cases are pending.

"Insurance agents may be attracted to securities transactions by the prospect of high commissions," Cohen said, adding, "Agents and consumers can help our community by notifying the Insurance Department or the Securities Division about requests to market or invest in unregistered securities."

Insurance agents and consumers are encouraged to contact the Arizona Corporation Commission Securities Division at (602) 542-4242 and toll free at (877) 811-3878 with questions about the authenticity of particular securities and to verify whether a person marketing securities products is properly licensed. For additional information about securities fraud, you can visit Securities' website at www.ccsd.sd.state.az.us.

To verify whether an insurance agent is licensed to sell insurance in Arizona, please call the Arizona Department of Insurance at (602) 912-8444 or toll free at (800) 325-2548. Recent administrative actions against agents are posted on our website at www.state.az.us/id/newsletter/index.