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Regulations and Financial Services Advertising

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Abstract – It is critical to measure and record sales levels and other advertising responses following an ad campaign in order to determine the financial effects of the invested advertising dollars. Such measures may help fine-tune the advertising strategy of the company and provide estimates for optimizing future advertising campaigns. For direct advertising campaigns, such measures are obtained through the tracking of consumer inquiries following the ad campaign and the use of tracking numbers, which can pinpoint the exact promotional material to which the consumers are reacting.

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INTRODUCTION:-

As pointed out earlier in this paper, the large numbers of regulations that limit the con- tents of financial services ads result in creative challenges for advertisers. Regulatory bodies such as the Securities and Exchange Commission (SEC), the Federal Reserve, the National Association of Securities Dealers (NASD), and the insurance departments of the individual states closely monitor the contents of financial services advertisements. Regulations, restrictions, and rules of conduct enforced by these regulatory authorities impose specific limitations on what can or cannot be included in the ads.

The primary objective of regulating financial services advertisements is to protect consumers against misleading advertisements. In addition, regulations are in place to ensure that consumers have the necessary information available to them prior to making decisions on financial services. The types of regulations that are in place vary depending on the financial service category. For credit products, the cost of credit is a critical decision-making variable, and the Truth in Lending Act dictates some of the restrictions that apply to ad content. Conversely, for savings products, the Truth in Savings Act needs to be closely examined. For investment and brokerage services, the rules and guidelines set by the Securities and Exchange Commission and the National Association of Securities Dealers regulate much of the ad content. Similarly, the Department of Insurance of the state in which an insurance company is operating typically regulates advertisements for insurance products. Readers are encouraged to examine additional resources on regulations governing financial services advertising in order to ensure regulatory compliance.

Furthermore, the legal advice of attorneys specialized in financial services advertising regulations may be necessary to ensure regulatory compliance.

Below, we will examine some of the regulations that have a direct influence on advertising specific financial services.

Advertising Commercial Banking Services: Advertising of commercial banking ser- vices is monitored through the various regulations enforced by the Federal Reserve as well as the Office of the Comptroller of the Currency. For example, the Truth in Savings Act specifies items of information that depository institutions should disclose about deposit accounts featured in their advertisements. Terms such as the rate of interest, applicable fees, and terms of the deposit such as the minimum length of time that is required prior to withdrawal of the funds need to be clearly communicated to consumers. For credit products, the Truth in Lending Act (regulation Z of the Federal Reserve) dictates that the true cost of credit must be communicated in written form to consumers. Regulation Z also establishes the method to be used to determine the cost of credit and requires that lenders communicate this information in the form of the annual percentage rate (APR). Regulators may also monitor advertisements to ensure that banks do not exaggerate the extent to which they claim to make credit available to customers as a means for generating leads. In addition, commercial banks, which are ensured by the Federal Deposit Insurance Corporation (FDIC), need to mention their coverage status with the FDIC in their ads and other consumer communications.

Advertising Insurance: Each state's department of insurance regulates insurance advertising. The objectives of insurance advertising regulations are twofold. The first objective is to prevent the creation of biases in consumer assessment of the probability of catastrophic events. This objective relates to the established fact that consumers typically are unaware of the risks and probabilities for events for which they purchase insurance products. For example, insurance advertising that bolsters the fear of catastrophic events through dramatic imagery is not allowed. Negative outcomes of disasters should also not be overstated in insurance advertisements. The second objective of insurance advertising regulations is to prevent the creation of inferences that suggest that an insurance company is unusually generous in its payout behavior. As a result, insurance advertisers have to take great care not to exaggerate either the severity of harmful events or their own willingness to payout customer claims. In addition, images of currency and checks should not be included in advertisements for insurance products as they may make consumers infer unconsciously that the insurance company has a high propensity to payout claims and is usually generous.

An additional objective in insurance advertising is to prevent misleading information from being communicated to consumers. Formally, an ad can be considered misleading when it causes individuals with average levels of intelligence to arrive at inferences that conflict with reality. In order to establish if such inferences are a result of the advertisement, formal market research utilizing third-party companies and random samples of consumers would be used. Insurance advertising is further restricted by the terminology that may be used. Terms such as “liberal” and “generous,” for example, cannot be used as they boost impressions of the payout behavior of the insurance company. Similarly, references to words such as “financial disaster” and “catastrophic” are not allowed because they may exaggerate the extent of the harm consumers might face if they do not have insurance coverage. The fact that insurance prices vary from one consumer to the next due to varying risk levels also limits the pricing terminology that can be used in insurance advertising. Therefore, terms such as “low,” “budget,” and “low-cost” cannot be used.

Advertising, Investment and Brokerage Services: The advertising of investment and brokerage services is regulated by the SEC as well as the NASD. These regulators require that advertisers ensure that consumers understand that past returns of an investment may or may not be realized in the future. As a result, statements to this effect need to be mentioned in consumer communications, including advertisements in mass media and direct mail. Advertisements for mutual funds must also encourage potential investors to seek the detailed technical information on the fund by requesting the fund’s prospectus. The ads should facilitate such action by providing consumers the necessary contact information. Additional Securities and Exchange Commission rules should be consulted for the details of information that must be included in mutual fund advertisements. Readers are encouraged to further examine sources specializing in financial services advertising regulations for additional details.

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