Good afternoon, Chairman Sarlo and members of the Budget Appropriations Committee.

Thank you for inviting the Department of Banking and Insurance to testify today.

I would like to introduce the members of the Department’s staff who are seated here with me today:

- Banking Director Patrick Mullen;
- Insurance Director Peter Hartt; and
- Chief Financial Officer Tom Gallagher.

What I would like to do today is give you an overview of the Department and then briefly discuss:

- Legislative and regulatory activities;
• Global financial regulation;
• Our Financial Literacy program; and
• Our budget.

DOBI'S MISSION

I’ll start today by providing you with a quick overview of the Department.

Our mission is to regulate the banking, insurance and real estate industries in a manner that protects and educates consumers and promotes the growth, financial stability, and efficiency of those industries.

To give you an idea of the scope of what we do, the Department licenses:

• 292,021 banking, insurance and real estate licensees and
• Regulates the conduct of more than 1,200 insurance companies, 72 State chartered banks; 33 holding companies; 16 State chartered credit unions; 4 limited purpose
trust companies, 3,200 consumer finance companies; and over 10,000 individual mortgage loan originators, along with real estate agents and brokers.

LEGISLATIVE UPDATE

*Insurance Solvency Modernization*
Let me update you quickly on some of the legislative and regulatory initiatives we have undertaken in recent years.

The most significant legislation relating to the regulation of the insurance industry in recent years is the Insurance Solvency Modernization Act signed into law last year.

The law included amendments to the Insurance Holding Company Systems Act; the Risk Management and Own Risk and Solvency (ORSA) Model Act; Risked Based Capital (RBC) for Health Organizations; Principles Based Reserving and Cease and Desist Authority.
I won’t go into detail on each of those, but the law overall gives the Department additional authority, information and tools necessary to monitor insurers’ solvency and protect New Jersey policyholders as insurance groups evolve and become more complex.

The New Jersey law is based on model legislation developed by the National Association of Insurance Commissioners, which accredits all State insurance departments.

As you know, there has been an unparalleled level of regulatory reform taking place globally across financial services since the global economic turndown in 2008.

The NAIC has been at the forefront of that reform.

As part of the reaccreditation process for state insurance departments, the NAIC is requiring states to adopt or amend certain laws to conform to NAIC model acts.
The overall effect is more protection for consumers and more accountability from insurers which I’m sure you agree is a good thing.

**Captives**

The New Jersey Captive Law, which allowed the formation and licensure of captive insurance companies in the State, became effective May 23, 2011.

Since that time, the Department has licensed 17 captive insurance companies and there are more applications pending.

Four of those 17 were redomestications from other jurisdictions, including notably one from Vermont, which is considered the gold standard of captive jurisdictions.

This law is doing what we hoped, permitting New Jersey businesses to insure their New Jersey risks here in New Jersey.
The Captives Law is just one more aspect of New Jersey’s regulatory environment that makes the State more attractive to business.

**Reinsurance and Surplus Lines**
The Reinsurance and Surplus Lines Stimulus and Enhancement Act, which was also signed in March 2011, provides incentives for surplus line carriers to domesticate in New Jersey and conduct surplus lines business here.

It also provides incentives for non-U.S. reinsurers to write business in the State due to lower collateral requirements.

Following the enactment of this law and the Department’s regulatory actions in recent years, New Jersey has moved to the forefront of attracting capital to the reinsurance market, which is extremely important following Super Storm Sandy.

**GLOBAL FINANCIAL REGULATION**

As I mentioned a few minutes ago, the scrutiny on insurance companies and financial services
has increased dramatically since the economic events of 2008.

New Jersey is heavily involved in this process through the NAIC.


In addition, the Department has been involved with the NAIC’s international counterpart, the International Association of Insurance Supervisors (IAIS), on a broad range of regulatory issues, including global capital standards and designing the framework for regulation of internationally active insurers. And I sit on the Executive Committee and Financial Stability Committee of the IAIS.

One of the reasons New Jersey increased participation in the NAIC particularly in international issues is our role as the lead state supervisor of Prudential Financial,
headquartered in Newark, one of the world’s largest insurance companies.

One of the ways the Department is facilitating and coordinating the supervision of that insurance group is through the hosting of supervisory colleges for Prudential.

For the last two years, we have hosted these meetings, which are joint meetings between company officials and regulators from different jurisdictions responsible for supervising the insurance group.

The meetings include detailed discussions about financial data, corporate governance, and enterprise risk management functions.

As Prudential’s group level supervisor, we have been able to bring together regulators from Arizona, Connecticut, and Japan, who along with New Jersey are responsible for overseeing much of the company’s activities.
This year for the first time the college also included the Federal Deposit Insurance Corporation and the Federal Reserve Board.

The forums allowed us to work collaboratively in understanding the different issues we face. This is of great importance to us as we work with our federal counterparts on the Federal Reserve Board moving forward, following Prudential’s designation as a systemic nonbank financial company by the Financial Stability Oversight Council last year.

In line with this discussion, I believe it is important to point out the size of the New Jersey insurance market.

New Jersey has the eighth highest insurance premium volume in the United States. At the same time, New Jersey as an individual jurisdiction has the 24th highest premium volume, globally.
In simpler terms, only 16 countries have more premium volume when compared individually to New Jersey.

Some countries that New Jersey has more premium volume than include: South Africa, Ireland, Belgium and Sweden, just to name a few.

All told, almost 1.2 percent of all insurance premiums in the world are written in New Jersey.

**Financial Literacy**

Before I discuss our budget, let me talk briefly about a program that is of great importance to the Department – financial literacy.

For the last nine years we have been conducting educational sessions on various financial issues in high schools, community colleges libraries, town halls and senior centers across the State.
Since 2006, we have held Financial Literacy programs in every county of the state and we have reached tens of thousands of students with our presentations for high school students.

In our program for high school students, we talk with the students about such basic concepts as how to balance a checkbook, the importance of saving money, how to select and properly use a credit card, the importance of credit and much more.

We believe if we can reach young adults at this stage of their lives we can make a difference.

In 2012 we saw a need to widen this program to another group—senior citizens. Seniors, unfortunately, are the country’s largest target for financial scams and con artists.

There is a growing array of complex financial products such as reverse mortgages, long-term care, life insurance and annuities aimed at seniors. If seniors understand those products and use them properly they can be beneficial. But if
they don’t they can lose huge sums of money and be victimized.

Finally in 2013 we decided to refine our program even further and design a financial literacy program specifically for college students who are dealing with such things as college-issued debit cards, health insurance, renters insurance and student loans.

This has been a very popular program. It has been extremely well received by all of the groups we visit.

I do many of these programs myself and I can tell you I enjoy them very much and the Department intends to continue this program.

**FISCAL YEAR 2016 BUDGET**

That brings us to the Fiscal Year 2016 budget.
As you know, DOBI is funded entirely through assessments on the industries it regulates. However, I want to stress that the source of our funding does not absolve us in any way from the obligation to spend frugally and operate efficiently.

The Department’s Fiscal Year 2016 proposed budget is $64.013 million, a slight increase over the two previous fiscal years when it was $63.450 million.

The budget does not contain any increase in fees, just as our previous four budgets did not contain any increases in fees, and I do not expect any changes in our operations, consumer protection, or monitoring of banks and insurance companies next year.

**WRAP UP**

As I said earlier, I appreciate your time and I look forward to working with you. I appreciate the support you provide the Department.
I am happy to take any questions you have.