New Jersey Department of Banking and Insurance Acting Commissioner Richard J. Badolato

Testimony

Assembly Budget Committee
April 13, 2016

Good afternoon, Chairman Schaer and members of the Budget Committee

Thank you for inviting the Department to testify today.

I would like to introduce members of my staff who are seated here with me:

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

In discussing our budget, I would like to give you an overview of the Department including:

- The status of the State’s banking and insurance industries;
- Major initiatives undertaken by the Department;
- The Department’s work on national and international financial regulation; and
- The Department’s Financial Literacy Program.

The Department’s 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.

The Department:

- Licenses 300,291 banking, insurance and real estate individuals and entities, and
- Regulates the conduct of more than 1,400 insurance companies; 69 State chartered banks; 15 State chartered credit unions; 4 limited purpose trust companies; 3,327 consumer lenders; and over 11,000 individual mortgage loan originators, along with real estate agents and brokers.

As you may know, the Department must maintain accreditation to oversee the State’s banking and insurance industries.
Our Insurance Division is accredited by the National Association of Insurance Commissioners (NAIC) which examines all State insurance departments every five years to make sure they meet national solvency standards and have the proper statutory authority, expertise and procedures necessary for the financial oversight of the insurance companies in their states.

Likewise, our Banking Division must maintain accreditation from the Conference of State Bank Supervisors (CSBS) every five years to properly fulfill its mission of regulating the banking industry and protecting consumers.

I’m happy to report that our Insurance Division and Banking Division have recently been reaccredited for the next five years.

I would like to give you a status report on two of our major insurance markets, starting with the auto insurance industry. Then I will talk about our state-chartered banks.

During this Administration, two major insurers, Farmers and Nationwide, entered the New Jersey auto market. With the addition of Nationwide, nine of the nation’s top 10 auto insurers are writing auto
business in New Jersey. We continue to work on getting new carriers here for the benefit of our consumers and the economy.

As you are all aware, New Jersey’s auto insurance market was in crisis for many years until regulatory reforms in 2003.

Today, the State’s auto insurance market is exceptionally strong. We have a total of 80 active companies writing auto insurance in New Jersey, continuing an upward trend from 66 in 2011.

We completed another piece of auto reform in 2013 with improvements to the Personal Injury Protection (PIP) system. Those changes are working and exerting downward pressure on auto insurance rates.

The homeowners insurance market is also strong and vibrant. Following Superstorm Sandy, there was concern that homeowners rates would skyrocket, carriers would flee coastal areas and consumers would be saddled with higher prices and fewer choices.

This did not happen because we provided a strong, clear and consistent regulatory presence that encouraged insurers to remain dedicated, and, in
many instances, to even expand their financial commitment to the State.

We have not seen any widespread non-renewals or any major carriers pulling out of the market. In fact we have seen significant growth in the number of admitted carriers writing homeowners insurance here both overall and specifically in coastal areas.

Since 2008, 21 new companies have begun offering homeowner’s insurance in the State with some focusing exclusively on coastal areas. Overall, there are 121 active insurance companies writing policies here with all nine of the top national companies doing business in New Jersey.

Further, the homeowners market is being supplemented by an expanding surplus lines market. There are 200 companies eligible to write surplus lines insurance in New Jersey, up from 151 in 2012.

This development not only increases consumer choice, it places competitive pressure on insurers with respect to both the prices they charge and the areas they serve.

Indeed, NAIC data shows that we continue to be at or below the national average in homeowners premiums.
– despite being a coastal state with relatively high-value homes.

Another sign of the strength of our homeowners market, the number of insureds in our residual market, the FAIR plan. This is at an all-time low—at just a fraction of one percent.

Now let me give you a quick overview of our state chartered banks.

- The banks we regulate range in size from less than $100 million to over $20 billion in assets.

- The average size is now $1.2 billion with 140 employees.

- Total assets held by New Jersey state-chartered banks grew from $56 billion in 2010 to $86.4 billion in 2015, an increase of 54.3 percent over five years.

- The number of State-chartered depositories stands at 69 as of June 30 of this year.
The vast majority of State-chartered depositories are profitable and for the most part they have withstood the downturn in the economy.

An additional indicator of our State Chartered banks’ vitality is loan growth, which has expanded from 10 percent to 30 percent over the last year.

So overall, our state chartered banks are doing relatively well, but like all banks they are facing some pressing issues, such as the increasing costs of complying with federal regulations, mergers and acquisitions, low interest rates, and cyber security.

I believe our approach to regulation -- to diligently exercise our statutory responsibilities to protect consumers and promote financially strong markets that support our economy--has been remarkably successful and that is shown by the strength and competitiveness of our markets.

Another way we have kept our markets strong has been by working with you on initiatives that strengthen and expand our markets and protect consumers.
One of the more significant pieces of legislation relating to the regulation of the insurance industry is the Insurance Solvency Modernization Act, which was signed into law in late 2014.

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.

Overall, the law gives the Department more authority, information and tools to monitor insurers’ solvency and protect New Jersey policyholders as insurance groups evolve and become more complex.

We have also worked to establish new insurance markets and strengthen existing ones.

The 2011 New Jersey Captives Law allowed the formation and licensure of captive insurance companies in the State.

Since that time, the Department has licensed 22 captive insurance companies and there are more on the way.
Four of those were re-domestications from other jurisdictions, including one from Vermont, which is considered the gold standard of captive jurisdictions in the United States.

This law is doing what we hoped, permitting New Jersey businesses to insure their New Jersey risks 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.

The Reinsurance and Surplus Lines Stimulus and Enhancement Act provides incentives for surplus lines carriers to domesticate in New Jersey and conduct surplus lines business here.

In addition, it 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, New Jersey has moved to the forefront of attracting capital to the reinsurance market. This is especially important in
the aftermath of Superstorm Sandy because reinsurance provides stability and support to the homeowners market and increases overall availability to consumers.

In addition, we are involved in national and international insurance regulatory issues since they also impact consumers here in New Jersey.

The scrutiny on insurance companies and financial services has increased dramatically worldwide since the economic events of 2008.

New Jersey is involved in this process through the NAIC and its international counterpart, the International Association of Insurance Supervisors (IAIS). Significant issues here include global capital standards and designing the framework for the regulation of internationally active insurers.

One of the reasons for New Jersey’s increased participation in these areas is our role as group wide supervisor of Prudential Financial Group, headquartered in Newark. Prudential is one of the world’s largest insurance companies and has been
designated by federal and international regulators as systemically important to the broader economy.

One of the ways the Department is facilitating and coordinating the supervision of that global insurance group is through the hosting, in Newark, of supervisory colleges for Prudential. These are joint meetings between company officials and regulators from different jurisdictions, including Arizona, Connecticut, and Japan, who are responsible for supervising the insurance activities of the group.

Together with members of the Federal Reserve Board, we have detailed discussions about financial data, corporate governance, and enterprise risk management functions— all to ensure adequate transparency and oversight for this critical New Jersey employer.

I would also like to talk briefly about a program that is of great importance to the Department – financial literacy.

For more than a decade, we have been conducting educational sessions on various financial issues in high schools, community college, libraries, town halls and senior centers across the State.
We have held Financial Literacy programs in every county of the state and we have reached tens of thousands of high school and college students, as well as senior citizens.

Seniors, unfortunately, are the country’s largest target for financial scams and con artists.

We do our best to educate the consumers we serve and ensure they have the information they need to make informed decisions.

Now that we have discussed all of the things the Department does, we can talk about how much it costs and how we pay for it.

You already have a detailed breakdown of our spending and I’m sure we will discuss specifics further in response to your individual questions.

So I will keep this at a very high level.

As you know, DOBI is funded entirely through assessments on the industries it regulates.
However, we are still obligated to spend wisely and operate efficiently.

The Department’s Fiscal Year 2017 proposed budget is $64.013 million, the same as this year.

The budget does not contain any increase in fees, just as our previous six budgets did not contain any increases in fees. I expect our operations, consumer protection efforts, and monitoring of banks and insurance companies to continue to be successful for the remainder of the year and in the years ahead.

I appreciate your time and I look forward to working with you.

I am happy to take your questions.