

**Testimony by Commissioner Ken Kobylowski
New Jersey Department of Banking and
Insurance**

**Senate Budget and Appropriations
Committee**

April 10, 2013

Good afternoon, Chairman Sarlo and members of the Budget and 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:

- Acting Insurance Director Peter Hartt; and
- Chief Financial Officer Tom Gallagher.

DOBI'S MISSION

I would like to 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:

- 267,795 banking, insurance and real estate licensees; and
- Regulates the conduct of more than 1,200 insurance companies, 81 state chartered banks; 19 state chartered credit unions; along with real estate agents and brokers, mortgage professionals, check cashers, money remitters, pawn brokers and debt adjusters.

SUPER STORM SANDY

First, I would like to discuss the Department's preparation and response to Super Storm Sandy.

Like many Departments of State government, our top priority since the end of October has been to assist New Jersey residents who suffered property damage or loss in Superstorm Sandy.

As the storm approached, we worked with State banks and insurance companies to ensure they had emergency plans in place to serve consumers following the disaster.

Since Sandy devastated New Jersey, the Department has worked ceaselessly with New Jersey residents as they recover and rebuild in the aftermath of unprecedented damage. Immediately following the storm, Governor Christie ordered this Department's regulated firms to work with residents on items such as mortgage and insurance premium payments delayed by Sandy. The Governor also ordered insurance carriers to refrain from charging hurricane deductibles since the regulatory threshold for applying them was not met because the National Weather Service downgraded Sandy to a post-tropical cyclone prior to making landfall. These actions saved thousands of

consumers significant expense which could be applied to the recovery effort.

We expanded the hours of our consumer call center so the Department could answer questions and provide assistance to consumers on the weekends. We also established a back-up call center at the National Association of Insurance Commissioners offices in Kansas City, Kansas to handle the expected heavy volume of calls.

We have provided staff to assist at all of the federal Disaster Relief Centers and we have hosted 20 “mobile offices” throughout the State, including one in Brigantine today, in which Department staff go to communities and answer consumers’ questions and assist them in filing insurance claims or deal with banking issues related to damages caused by the storm.

As of the end of March, the Department has handled more than 3,200 consumer calls related to the storm. Of those, 1,880 were formal requests for assistance.

One issue that concerned consumers was the manner in which mortgage lenders who are co-recipients of insurance proceeds were managing disbursements of funds. This Department has intervened on behalf of hundreds of consumers when mortgage servicers have unfairly delayed disbursements. This Department has recently learned that the four major mortgage servicers would release 50 to 75 percent of remaining insurance proceeds so that homeowners along the shore can begin to rebuild.

As you know, most of the damages in the storm were flood related and under the jurisdiction of the National Flood Insurance Program (NFIP), a federal program that we do not regulate.

The homeowners, personal auto and commercial claims related to Superstorm Sandy are regulated by the Department. In those areas the New Jersey insurance industry's response has been good.

As of March 29, a total of 448,133 insurance claims have been reported in New Jersey for an

incurred loss of \$4 billion. Overall, 93 percent of those claims have been closed. If you look at homeowners claims alone, 95 percent have been closed. For personal auto claims, 92 percent of claims have been closed.

To resolve the remaining claims, the Department has established a mediation program that will allow consumers, free of charge, to avail themselves of a mediation service to settle claims and avoid lengthy and costly litigation.

After reviewing a response to an RFQ, we recommended the American Arbitration Association as the vendor, and they were recently approved. We issued an order to industry giving general outline and a subsequent bulletin with program specifics for insureds.

Needless to say, it is our top priority to continue working with consumers until this recovery is complete.

LEGISLATIVE UPDATE

In the three years I have been with the Department, I have had the pleasure of working with many of you on legislation that strengthened and expanded our banking and insurance markets.

I would like to give you an update on how a few of those laws have helped the State's economy.

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 10 captive insurance companies and there are more applications pending. That is a significant increase from when I addressed you last year at this time and we had licensed three.

The Captives law is one more aspect of New Jersey's regulatory environment that makes the State more attractive to business.

The impact of the law extends beyond the captive operation. The fact that companies now have the ability to form captives in New Jersey will draw more businesses to New Jersey and keep existing ones here, which is particularly important in the aftermath of Superstorm Sandy.

The Reinsurance and Surplus Lines Stimulus and Enhancement Act, which was 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.

Before the revisions to the surplus lines law, insurers could only sell policies in New Jersey if they were located out of state. This gave companies no incentive to domesticate in New Jersey.

Since the passage of this law we have already had one surplus lines company redomesticate to

New Jersey after purchase, and there are others in the pipeline.

The law also helps domestic companies because it provides a wider range of possible reinsurers. Since reinsurers will be tying up less capital, it may also eventually result in lower rates for consumers

Finally, this new law helps keep New Jersey an attractive market for insurance investment, which is especially important after Superstorm Sandy.

The Interstate Insurance Compact, signed by Governor Christie in January 2011, made New Jersey a member of a national commission that focuses on uniform contract/filing standards.

Consumers now have roughly 500 product options available to them, and New Jersey insurance companies enjoy a more streamlined process for approvals as a direct result of this.

Further, New Jersey is a lead state in the Compact and we sit on the Management

Committee and the Products Standards Committee where we develop uniform standards for products used nation-wide, allowing New Jersey to have a prominent voice.

So those are a few examples of legislation we have worked on with you that have been beneficial to the business community and to consumers.

We hope to continue to work with you.

FISCAL YEAR 2014 BUDGET

That brings us to the Fiscal Year 2014 budget.

As you know, DOBI is funded entirely through assessments on the industries it regulates.

However, I want to stress that the nature of our funding Department does not absolve us in any way from the obligation to spend frugally and operate efficiently.

The Department's Fiscal Year 2014 proposed budget is \$63.450 million, the same as Fiscal Year 2013.

The budget does not contain any increase in fees and I do not expect any changes in our operations, consumer protection, or monitoring of banks and insurance companies in Fiscal Year 2014.

We vigilantly monitor the solvency of all the companies we regulate in New Jersey, but this coming year we anticipate being even more vigilant in our monitoring to ensure no subsequent issues arise as a result of Sandy.

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 think you would agree that our mission is a very important one and more necessary than ever in the wake of Super Storm Sandy and the

difficult economic times it has brought for many
New Jerseyans.

I am happy to take any questions you have.