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

Assembly Budget Committee
April 9, 2014

Good afternoon, Chairman Schaer and members of the Budget 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;
- Acting Insurance Director Peter Hartt; and
- Chief Financial Officer Tom Gallagher.

<u>DOBI'S MISSION</u>

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:

- 275,890 banking, insurance and real estate licensees; and
- Regulates the conduct of more than 1,200 insurance companies, 79 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 ongoing response to Super Storm Sandy.

As discussed last year, the Department continues to staff Mobile Cabinet events where Department representatives visit communities and meet one-on-one with consumers directly affected by Super Storm Sandy. This allows us to answer their questions, process complaints, and explain the Department's mediation program, among other services

In addition, as of the end of March, the Department has handled 4,016 consumer calls related to the storm and 2,776 were formal requests for assistance.

These calls and requests were for a variety of issues including: delays in claims handling; releasing escrowed funds for rebuilding; and explaining coverage options for those rebuilding.

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 Super Storm Sandy are regulated by the Department in various ways depending on the line of business and type of insurer involved. In those areas the New Jersey insurance industry's response has been good.

As of January 31, 2014, a total of 468,254 insurance claims have been reported in New Jersey for an incurred loss of $4.5 billion. This represents an increase of 20,000 claims and half a billion dollars in incurred losses since last year's budget testimony. Overall, 99 percent of those claims have been closed. In total, only 4,581 State-regulated claims remain open.

If you look at homeowners claims alone, 99.3 percent have been closed. For personal auto claims, 99.6 percent of claims have been closed. Similarly, 96.9 percent of commercial property claims and 99 percent of commercial auto claims have been closed.

When I spoke to you last year, the Department had just approved the American Arbitration

Association as the vendor for the Department's mediation program. To give you a brief overview of the mediation program, we created it to resolve the remaining outstanding claims. Insureds with a dispute greater than $1,000 could file for mediation, the cost of which the insurer would pay.

This program gives New Jersey consumers with disputed claims the opportunity to meet with their insurance company in person and in the presence of an independent, experienced mediator who could assist consumers reviewing their disputes line by line. It also allowed insureds an opportunity to provide any information they may have obtained subsequently that demonstrated that their claim was worth more than they were initially offered.

It is important to note that the mediation program is voluntary and non-binding on residents. It is designed to provide them an alternative option for settling their outstanding claims, should they not wish to resort to costly and time consuming litigation. Consumers who utilize the process and remain unsatisfied are free to pursue other options, including litigation.

To date, 855 insureds have requested to participate in the mediation program. 601 mediations have been held to date, with 407 of those resulting in some form of settlement. In total, the mediation program has helped consumers recover an additional $4.1 million in claims. Importantly, 91 percent of participants in the mediation program, including those that came to no settlement, have rated it either a 4 or 5, on a scale of 1 to 5, with five being the most satisfactory.

Unfortunately, the Department asked the NFIP to participate in the mediation program, but received no meaningful proposal.

Following Super Storm Sandy, last year, the Legislature passed, and Governor Christie signed into law, a requirement that insurance companies provide a one page summary of notable coverages and exclusions. I am pleased to announce that the proposal to implement this statute will be published in the May 5, 2014 edition of the *New Jersey Register*. The Department will evaluate any comments it receives and looks forward to making a final adoption in the coming months.

LEGISLATIVE UPDATE

In light of that, I would also like to provide you with an update on other legislative and regulatory initiatives we have undertaken.

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. That represents an increase of nine since last year. 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 really is doing what we hoped, permitting New Jersey businesses to insure their New Jersey risks right 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.

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. 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, something that is especially important after Super Storm Sandy.

GLOBAL FINANCIAL REGULATION

One of the more interesting activities we have been involved with recently has been our active engagement in discussions with international regulators on global capital standards and the framework for the regulation of internationally active insurers. The reason this is particularly important to us is we are the State group level supervisor for Prudential and any changes will directly impact both Prudential as well as how we regulate it. As many of you know, Prudential is the nation's second largest insurer and is headquartered in Newark, NJ.

Something we are particularly proud of in the developing world of international insurance regulation was New Jersey hosting its first ever supervisory college for Prudential. Supervisory colleges are defined as "forum[s] for cooperation and communication between the involved supervisors established for the fundamental purpose of facilitating the effectiveness of supervision of entities which belong to an insurance group; facilitating both the supervision of the group as a whole on a group-wide basis and improving the legal entity supervision of the entities within the insurance group."

As Prudential's group level supervisor, we were able to bring together regulators from other jurisdictions in the United Sates, as well as Japanese insurance regulators, who along with us are responsible for overseeing much of the company's activities. This forum 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, 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 24^{th} most premium volume, globally—more than many countries. We have more than South Africa, Ireland, Belgium and Sweden, just to name a few. In fact, only 16 countries have more premium volume when compared to New Jersey, and all told, almost 1.2 percent of all insurance premiums in the world are located here in the Garden State.

FISCAL YEAR 2015 BUDGET

That brings us to the Fiscal Year 2015 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 does not absolve us in any way from the obligation to spend frugally and operate efficiently.

The Department's Fiscal Year 2015 proposed budget is $63.450 million, the same as the two previous fiscal years.

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 in Fiscal Year 2015.

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.