

DEPARTMENT OF BANKING AND INSURANCE OVERVIEW

The fiscal 1997 budget recommends a new department, to be created through the consolidation of the Department of Banking and the Department of Insurance. Basic similarities in their core business activities -- licensing, chartering, examination, solvency review and complaint investigation -- offer an opportunity to eliminate duplicative regulatory activities and administrative functions.

The recommendation for the fiscal 1997 budget totals \$39.2 million. The Division of Management and Administration as well as the Division of Licensing and Regulatory Affairs as presented in the budget represent consolidated divisions, formerly separate divisions in both the Department of Banking and the Department of Insurance.

Since the functions provided by the Department of Banking and Insurance are cost reimbursed by the regulated entities, the reductions in expenditures realized through more cost-effective regulation will result in lower industry billings. Revenues have been lowered proportionately to the reductions in the areas of bank examination fees and the special purpose assessment made to the insurance industry.

Economies in the administrative and licensing divisions will accrue initial reductions, including savings in employee benefits accounts of approximately \$1.9 million in fiscal 1997. Further economies, requiring additional consolidation of functions and further organizational restructuring of the department, will be considered during the next fiscal year.

The Departments of Banking and Insurance were one department until separated in 1970 in response to changes and growth in the banking and insurance industries. The laws and regulatory structures that evolved in later years to oversee banking and insurance assumed those industries would offer separate, non-overlapping services. Over time, however, the once distinct business lines have become less so with expanded bank powers and increased links between banking and other financial services. Overlaps in regulatory responsibilities have emerged and will likely become increasingly common.

In fiscal 1996, the Department of Insurance budget was changed to reflect a gross budget presentation wherein the Department's full spending authority for revenues from all revenue sources had been moved "on-budget." This change resulted in a budget display that is easier to understand and reflects the total operating costs of the Department. The fiscal year 1995 expenditure data has been adjusted to display the Fair Automobile Insurance Reform Act reimbursements and the Insurance Fraud Prevention programs as on-budget data for comparison purposes.

The insurance related responsibilities of the department include provision of effective monitoring and regulation of the insurance industry; to assure fair markets and rates for all authorized lines of insurances; and, to monitor the real estate industry to ensure that professional standards are observed and maintained. In addition, the Division of Insurance Fraud Prevention was created under the "New Jersey Insurance Fraud Prevention Act," P.L. 1983, c.320 (C.17:33A-1 et seq.) and is responsible for investigating allegations of insurance fraud and developing and implementing programs to prevent insurance fraud and abuse. Various amendments to the Fraud Prevention Act have expanded the scope of the Division's investigations to not only those cases reported by property and casualty companies, but also those cases reported by life and health companies, investigations of fraud within insurance companies and rate evaders.

The banking regulation of financial services such as consumer lending also falls within the Department's supervisory authority. Financial services range from mortgage bankers, mortgage brokers, check cashing and check selling companies, non-profit credit unions to various forms of consumer lending firms.

Each state-chartered bank is examined to determine whether the bank is conducting its business in conformity with the laws of the State and with safety to its depositors, other creditors and the public. State-chartered savings and loan associations are covered by similar requirements. The Department is also empowered to examine mortgage bankers, mortgage brokers, insurance premium finance companies, consumer loan companies, secondary mortgage companies, credit unions and pawnbrokers.

The Department reviews and processes applications by depository institutions for new charters, branches, relocations, plans for acquisition, mergers, bulk sales, stock conversions, and auxiliary offices, and for licensing all consumer lenders. Written complaints filed by consumers against State regulated institutions are investigated.

In addition, the Department has available the community reinvestment ratings of State banks. The Community Reinvestment Act requires financial institutions to reinvest their assets in the communities they serve. These ratings provide municipalities, community groups, businesses and other banks with a convenient way to determine a bank's commitment to the community.

BANKING AND INSURANCE

SUMMARY OF APPROPRIATIONS BY PROGRAM (thousands of dollars)

Year Ending June 30, 1995					Year Ending June 30, 1997			
Orig. & (S)Supple- mental	Reapp. & (R)Recpts.	Transfers & (E)Emer- gencies	Total Available	Expended	1996 Adjusted Approp.	Requested	Recom- mended	
4,495	7,881	769	13,145	12,358	Economic Regulation			
2,221	2,994	-947	4,268	4,177	Licensing and Regulatory Affairs	12,523	11,722	11,722
1,811	270	759	2,840	2,436	Actuarial Services	4,266	4,204	4,204
					Regulation of the Real Estate Industry	2,352	2,322	2,322
729	856	55	1,640	1,539	Public and Regulatory Services	1,635	1,611	1,611
1,670	---	---	1,670	1,650	Unsatisfied Claims	1,985	1,965	1,965
---	9,926	---	9,926	9,925	Insurance Fraud Prevention	9,147	9,047	9,047
4,984	233	-142	5,075	5,058	Supervision and Examination of Financial Institutions	4,615	4,553	4,553
---	1,533	---	1,533	222	Pinelands Development Credit Bank	---	---	---
1,771	2,688	612	5,071	4,875	Management and Administrative Services	4,720	3,774	3,774
17,681	26,381	1,106	45,168	42,240	Total Appropriation	41,243	39,198	39,198

50. ECONOMIC PLANNING, DEVELOPMENT AND SECURITY

52. ECONOMIC REGULATION

OBJECTIVES

1. To assure the public of fair and equitable treatment by financial institutions.
2. To inform and educate the public concerning financial matters.
3. To protect the public from financial loss resulting from the failure of financial and consumer credit institutions.
4. To assure that fair and equitable insurance markets exist to provide full availability of reliable insurance coverage.
5. To improve the efficiency and responsiveness of the prior approval rate-making process.
6. To protect the public from unlawful or unfair practices by insurance or real estate agents, brokers, solicitors and salespersons.
7. To provide research and legislative support for new or revised legislation and regulations which will insure equitable pricing and reasonable underwriting standards.
8. To examine, monitor and investigate the affairs of insurance companies authorized to do business in New Jersey.
9. To process claims files against the Unsatisfied Claim and Judgment Fund.
10. To aggressively combat insurance fraud through prevention, investigations and prosecution.

PROGRAM CLASSIFICATIONS

01. **Licensing and Regulatory Affairs.** Insurance companies, brokers, agents and solicitors are licensed to engage in the business of insurance in the State. Companies are examined periodically for solvency and compliance with statutes and regulations. In instances of serious financial problems or insolvency, domiciled firms may be placed under the Department's jurisdiction as the rehabilitator or liquidator. As a result of complaints and investigations, the Department may fine licensees and suspend or revoke licenses.

Responsible for the chartering of commercial banks, savings banks, credit unions and savings and loan associations which operate in New Jersey. Responsible for investigating complaints against these institutions and/or licensees. Responsible for the licensing of all consumer credit lenders and vendors of credit as well as mortgage bankers and brokers. Processes applications of licensees and financial institutions with recommendations for their determination and performs the necessary statistical, economic and demographic research to determine the merits of these applications. Responsible for review and development of regulations.
02. **Actuarial Services.** Reviews insurance policies and other insurance forms relating to individual and group accident health, life, property and liability insurance; regulates compliance with the rating law for property and liability insurance; regulates public pension plans; verifies and analyzes liability calculations of domestic life and health insurers and participates with the Department of Health in regulating the financial aspects of health care facilities; and determines reasonableness of benefits provided in relation to premium charged.
03. **Regulation of the Real Estate Industry.** Assures that members of the industry comply with existing statutes and regulations; investigates and resolves complaints, conducts hearings involving violations and improper practices; registers and regulates out-of-State land sales through New Jersey brokers; inspects brokers' offices; examines and licenses brokers and salespersons; and maintains a directory of licensees and publishes bulletins.
04. **Public and Regulatory Services.** Promulgates regulations and monitors proposed legislation and legal issues affecting the regulation of the insurance industry; serves as the consumer watchdog for the Department; publishes a newsletter and consumer booklets on various types of insurance; researches policy questions and investigates consumer issues; and investigates market conduct of insurance companies with regard to treatment of consumers.
05. **Unsatisfied Claims.** Pays eligible persons for hit-and-run injuries and for injuries and property damage caused by uninsured motorists. The Unsatisfied Claim and Judgment Fund Board processes claims against the Fund; makes justified payments; processes installment repayments required by settlement agreements and court orders; and secures debtor repayments to the Fund.
06. **Insurance Fraud Prevention.** Aggressively combats insurance fraud through prevention, investigation and prosecution. Fines are assessed with restitution made to insurance carriers.
07. **Supervision and Examination of Financial Institutions.** Responsible for the supervision and examination of state chartered commercial banks, savings banks, credit unions and savings and loan associations which operate in New Jersey. Responsible for the supervision and examination of consumer credit associations such as check cashers, check sellers, insurance premium finance companies, pawnbrokers, secondary mortgage loan companies and foreign money remitters. Ensures compliance with the mortgage loan discrimination statute. (C17:16F et seq.). Regulates, supervises and examines mortgage bankers and brokers operating (C17:11B-1 et seq.). Determines financial and legal compliance with all applicable statutes and regulations and takes appropriate legal and regulatory action to ensure compliance with existing statutes and regulations. Responsible for the examination of bank holding companies (C17:9A-1 et seq.) and savings and loan holding companies (C17:12B-281 et seq.).
08. **Pinelands Development Credit Bank.** Empowered to purchase and sell Pinelands development credits, in accordance with a program included in the Comprehensive Management Plan for the Pinelands. Provides a mechanism to facilitate both the preservation of the resources of this area and the accommodation of regional growth influences in an orderly fashion.
09. **Management and Administrative Services.** Directs the activities of the Department and provides administrative and support services to all of the Department's program classifications and project activities. The Office of the Commissioner disseminates legislative and policy guidance to programs and project activities within the Department and coordinates all regulatory and legislative initiatives with the Legislature, Executive Branch and the financial community.

BANKING AND INSURANCE

EVALUATION DATA

	Actual FY 1994	Actual FY 1995	Revised FY 1996	Budget Estimate FY 1997
PROGRAM DATA				
Licensing and Regulatory Affairs				
Consumer Credit Associations				
Licenses Issued	5,800	6,662	6,000	6,000
Associations subject to examination	1,015	930	1,000	1,020
Examinations conducted	306	289	320	350
Banking Consumer Complaints				
Received	2,922	2,083	2,500	2,500
Completed	2,615	2,331	2,500	2,500
Banking Inquiries and Referrals				
	666	565	575	600
Insurance Licensing				
Licenses issued	21,000	21,570	27,500	19,000
Candidates examined	10,256	10,437	10,000	10,600
Number of Insurance Companies and Regulated Entities				
Field financial exams	40	36	36	35
Office analysis of companies - exams	360	410	580	600
Insurance Consumer Complaints				
Received	18,000	11,955	15,500	12,000
Resolved	19,000	12,336	16,000	13,000
Funds recovered on behalf of complainants	\$4,000,000	\$3,271,285	\$3,750,000	\$3,750,000
Actuarial Services				
Property and Casualty				
Commercial lines filings	1,160	1,290	1,445	1,778
Personal lines filings	550	600	595	732
Individual risk filings	48	39	33	47
Consent-to-rate filings	19	24	11	15
Authorization filings	170	168	127	107
Excess profits filings	120	65	72	72
Statistical filings	136	171	171	171
Standard/nonstandard filings	324	324	424	424
Record requests	462	426	457	490
Life and Health				
Policyforms - pending	1,125	1,743	755	305
Policyforms - new	16,757	17,594	18,488	18,034
Policyforms - processed	16,278	16,139	18,945	18,798
Regulation of the Real Estate Industry				
Licensed brokers	16,657	17,832	17,700	17,600
Licensed salespersons	59,031	65,211	65,000	67,000
Candidates examined	8,050	9,900	8,000	8,000
Broker offices	6,500	6,250	6,250	6,000
Inspected	300	300	300	300
Complaints investigated	3,000	2,850	2,750	2,750
Licensed schools	---	63	65	70
Licensed school directors	---	63	65	70
Licensed instructors	---	200	205	210
Public and Regulatory Services				
OAL submissions	85	85	100	105
Booklets published	6	8	10	10
Newsletters published	12	12	12	12
Unsatisfied Claims				
Unsatisfied Claim and Judgment Fund				
Claim notices received	15,271	17,299	15,000	15,000
New and reopened claims in litigation	2,923	2,968	3,825	3,825
Claims closed (litigated)	3,236	2,786	3,300	3,300

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	Actual FY 1994	Actual FY 1995	Revised FY 1996	Budget Estimate FY 1997
Insurance Fraud Prevention^(a)				
Auto insurance audits	18	14	21	34
Health insurance audits	---	---	---	15
Civil penalties imposed	\$7,500,000	\$7,500,000	\$7,000,000	\$7,500,000
Restitution of fraudulently obtained dollars	\$1,000,000	\$900,000	\$1,000,000	\$2,000,000
Type of cases investigated (%)				
Auto	87%	87%	87%	82%
Health	4%	4%	5%	10%
Workers' compensation	3%	3%	4%	4%
Homeowners	3%	3%	3%	3%
All other	3%	3%	1%	1%
New investigations referred	26,306	23,057	13,000	20,000
Pending investigations	22,580	19,720	17,000	17,000
Total investigations	48,886	42,777	30,000	37,000
Supervision and Examination of Financial Institutions				
State Chartered Institutions				
Banks	103	99	89	90
Examinations Conducted	48	47	40	45
Bank Holding Companies	44	47	41	42
Saving and Loan Associations	46	38	30	28
Examinations Conducted	18	17	13	16
PERSONNEL DATA				
Affirmative Action Data				
Male Minority	53	44	45	47
Male Minority %	8.2%	6.9%	7.3%	7.0%
Female Minority	107	99	102	102
Female Minority %	16.5%	15.5%	16.6%	15.3%
Total Minority	160	143	147	149
Total Minority %	24.7%	22.4%	23.9%	22.3%
Position Data				
Filled Positions by Funding Source				
State Supported	647	633	612	665
All Other	---	4	4	4
Total Positions	647	637	616	669
Filled Positions by Program Class				
Licensing and Regulatory Affairs	184 ^(b)	184 ^(b)	171	187
Actuarial Services	67	62	68	79
Regulation of the Real Estate Industry	45	43	40	43
Public and Regulatory Services	21	23	25	33
Unsatisfied Claims	26	23	22	30
Insurance Fraud Prevention	155 ^(b)	149 ^(b)	136	160
Supervision and Examination of Financial Institutions	90	79	77	80
Management and Administration	59	74	77	57
Total Positions	647	637	616	669

Notes: Actual fiscal years 1994 and 1995 and Revised fiscal year 1996 position data reflect actual payroll counts. The Budget Estimate for fiscal year 1997 reflects the number of positions funded.

(a) Data revised to reflect revised data categories and totals.

(b) Fiscal year 1994 and 1995 position data adjusted to reflect off to on-budget status of Insurance Fraud Prevention.

BANKING AND INSURANCE

APPROPRIATIONS DATA (thousands of dollars)

Year Ending June 30, 1995					Year Ending June 30, 1997				
Orig. & (S) Supplemental	Reapp. & (R) Recpts.	Transfers & (E) Emergencies	Total Available	Expended	Prog. Class.	1996 Adjusted Approp.	Requested	Recommended	
Distribution by Program									
4,495	7,881	769	13,145	12,358					
					01	12,523	11,722	11,722	
2,221	2,994	-947	4,268	4,177	02	4,266	4,204	4,204	
1,811	270	759	2,840	2,436	03	2,352	2,322	2,322	
729	856	55	1,640	1,539	04	1,635	1,611	1,611	
1,670	---	---	1,670	1,650	05	1,985	1,965	1,965	
---	9,926	---	9,926	9,925	06	9,147	9,047	9,047	
4,984	233	-142	5,075	5,058	07	4,615	4,553	4,553	
---	1,533	---	1,533	222	08	---	---	---	
<u>1,771</u>	<u>2,688</u>	<u>612</u>	<u>5,071</u>	<u>4,875</u>	99	<u>4,720</u>	<u>3,774</u>	<u>3,774</u>	
17,681	26,381	1,106	45,168	42,240		41,243^(a,b)	39,198	39,198	
Distribution by Object									
Personal Services:									
	8,051								
<u>15,250</u>	<u>13,038^R</u>	<u>-4,415</u>	<u>31,924</u>	<u>30,872</u>		<u>31,083</u>	<u>29,245</u>	<u>29,245</u>	
15,250	21,089	-4,415	31,924	30,872		31,083	29,245	29,245	
287	---	95	382	345		463	456	456	
1,777	1,762	3,644	7,183	6,771		7,966	7,842	7,842	
290	201	1,737	2,228	2,221		881	876	876	
Special Purpose:									
	49								
---	46 ^R	---	95	---	01	---	---	---	
---	1,533	---	1,533	222	08	---	---	---	
<u>30</u>	<u>---</u>	<u>-10</u>	<u>20</u>	<u>8</u>	99	<u>30</u>	<u>30</u>	<u>30</u>	
30	1,628	-10	1,648	230		30	30	30	
47	1,701	55	1,803	1,801		820	749	749	
OTHER RELATED APPROPRIATIONS									
Federal Funds									
---	---	48	48	9	04	---	---	---	
---	---	48	48	9		---	---	---	
All Other Funds									
	698								
---	45,486 ^R	43	46,227	32,220	01	252	252	252	
	102								
---	42 ^R	---	144	43	03	---	---	---	
<u>---</u>	<u>46,328</u>	<u>43</u>	<u>46,371</u>	<u>32,263</u>		<u>252</u>	<u>252</u>	<u>252</u>	
17,681	72,709	1,197	91,587	74,512		41,495	39,450	39,450	

Notes: (a) The fiscal year 1996 appropriation has been adjusted for the allocation of salary program and has been reduced to reflect the transfer of funds to the Employee Benefits and Salary and Other Benefits accounts.

(b) Fiscal year 1995 Appropriations Data has been adjusted to display FAIR Act reimbursements and the Insurance Fraud Prevention program as on-budget data for comparison purposes.

LANGUAGE RECOMMENDATIONS

Receipts derived from extraordinary financial condition examinations or actuarial certifications of loss reserves are appropriated for the conduct of such examinations or certifications, subject to the approval of the Director of the Division of Budget and Accounting.

Receipts in excess of those anticipated, with the exception of receipts derived from examinations billings and assessments, are appropriated, subject to the approval of the Director of the Division of Budget and Accounting.

The unexpended balance as of June 30, 1996 in the Public Adjusters' Licensing account, together with receipts derived from the "Public Adjusters' Licensing Act," P.L. 1993, c. 66 (C.17:22B-1 et seq.), are appropriated for the administration of the act, subject to the approval of the Director of the Division of Budget and Accounting.

The amount hereinabove for Unsatisfied Claims is appropriated out of the Unsatisfied Claim and Judgment Fund and, in addition, there are appropriated out of that fund additional sums as may be necessary for the payment of claims pursuant to section 7 of P.L. 1952, c. 174 (C.39:6-67), and for such additional costs as may be required to administer the fund pursuant to P.L. 1952, c. 174 (C.39:6-61 et seq.).

Receipts from the investigation of out-of-State land sales are appropriated for the conduct of such investigations. There are appropriated from assessments as imposed by the New Jersey Individual Health Coverage Board, created pursuant to the "Individual Health Insurance Reform Act," P.L. 1992, c. 161 (C.17B:27A-2 et seq.), and by the New Jersey Small Employer Health Excess Insurance Board, created pursuant to P.L. 1992, c. 162 (C.17B:27A-17 et seq.), such sums as may be necessary to carry out the provisions of these acts, subject to the approval of the Director of the Division of Budget and Accounting.

There are appropriated from the Real Estate Guaranty Fund such sums as may be necessary to pay claims.

There are appropriated out of the New Jersey Automobile Insurance Guaranty Fund such sums as may be necessary to satisfy the financial obligations of the New Jersey Automobile Full Insurance Underwriting Association, as set forth in the "Fair Automobile Insurance Reform Act of 1990," P.L. 1990, c. 8 (C.17:33B-1 et al.), subject to the provisions of subsection e. of section 23 of P.L. 1990, c. 8 (C.17:33B-5).

Notwithstanding the provisions of section 6 of P.L. 1983, c. 65 (C.17:29A-35), the receipts otherwise remaining prior to October 1, 1991, derived from surcharges levied on drivers in accordance with the New Jersey Automobile Insurance Reform Act of 1982-Merit Rating System Surcharge Program, P.L. 1983, c. 65 (C.17:29A-33 et al.) are appropriated to the New Jersey Automobile Full Insurance Underwriting Association. Those receipts otherwise remaining on and after October 1, 1991, are appropriated to the New Jersey Automobile Insurance Guaranty Fund.

All monies deposited in the DMV Surcharge Fund are appropriated to the Market Transition Facility Revenue Fund in accordance with the provisions of P.L. 1994, c. 57 (C.34:1B-21.12 et seq.).

The amount appropriated hereinabove for FAIR Act Administration shall be funded from the additional taxes on the taxable premiums of insurers for the payment of Department of Insurance administrative costs related to its statutory duties, pursuant to P.L. 1990, c. 8 (C.17:33B-1 et al.).

In addition to the sum hereinabove, such other sums as the Director of the Division of Budget and Accounting shall determine, are appropriated on behalf of the Department of Insurance with respect to the assessments of the insurance industry.

The unexpended balance as of June 30, 1996 in the Pinelands Development Credit Bank account is appropriated for the same purpose.

The receipts in excess of anticipated revenues from examination and licensing fees, bank assessments, fines and penalties, not to exceed \$200,000, are appropriated, subject to the approval of the Director of the Division of Budget and Accounting.

17,681	26,381	1,106	45,168	42,240	Total Appropriation, Department of Banking and Insurance	41,243	39,198	39,198
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