INSURANCE
DEPARTMENT OF BANKING AND INSURANCE
DIVISION OF INSURANCE

Financial Examinations Monitoring System (FEMS)

Proposed Readoption: N.J.A.C. 11:19

Authorized By: Holly C. Bakke, Commissioner, Department of Banking and Insurance

Authority: N.J.S.A. 17:1-8.1; 17:1-15(e); 17B:17-1 et seq.; 17:23-1 and 2; 17:23B-1; 17:22-6.40 et seq.; 17:22-6.70 and 17:22A-17

Calendar Reference: See Summary below for explanation of exceptions to calendar requirement.

Proposal Number: PRN 2003-58

Submit comments by April 4, 2003 to:

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The agency proposal follows:

Summary

Pursuant to Executive Order No. 66 (1978), the Department of Banking and Insurance ("Department") proposes to readopt N.J.A.C. 11:19. This chapter is due to expire on July 22, 2003, pursuant to N.J.S.A. 52:14B-5.1c.

The Department has undertaken a review of these rules at several levels and finds that these rules continue to be necessary in order for the Department to continue to monitor the financial solvency, financial analysis, and surplus lines activity of insurers. This chapter contains rules that implement the Department's Financial Examination Monitoring System

(FEMS). FEMS was designed in order to improve the Department's ability to identify and react to financially troubled insurers in a timely manner. These rules were also intended to improve the overall quality and effectiveness of the Department's regulatory procedures; to provide up-to-date financial data for company analysis as soon as it is available; and to reduce or eliminate rote number crunching and cross-checking activities so that examiners may spend more time on solvency analysis and less on compliance testing.

This chapter contains rules related to five FEMS subsystems: the Financial Analysis Subsystem (FAS); the Investment Valuation Subsystem (IVS); the General Ledger Analytical Review Subsystem (GLARS); the Surplus Lines Processing Subsystem (SLPS); and the Actuarial Data and Analysis Subsystem (ADAS).

FAS enhances the efficiency of the Office of Solvency Regulation by performing, in a few hours, several thousand calculations and screening that would take analysts days to complete. The automatic prescreening and ranking of insurance companies on hundreds of predefined criteria provides for more efficient use of Department resources by permitting examiners to concentrate their efforts on those companies that are in most need of attention.

IVS analyzes investment information to determine whether the information provided is reasonably stated and verifies the accuracy of securities held by domestic insurers reported in Schedule D of their Annual Statements. IVS assists Department examiners' efforts in verifying the securities reported on Schedule D to securities held by their custodians as reported on their certificate of verification or statement of assets held.

GLARS is an examination productivity tool which generates trial balances and lead sheets from company ledger detail and annual statement filings. It allows examiners to load data, produce financial statements, and generate lead sheets.

SLPS is designed to assist the Department’s Surplus Lines Examining Office in monitoring surplus lines activity in the State. SLPS maintains and monitors premium and tax data for all licensed producers with surplus lines authority. It is primarily a quarterly reconciliation system. Each calendar quarter, SLPS collects tax information from surplus lines producers and net written premiums information from surplus lines insurers. Tax filings are entered into the system and are reconciled against the surplus lines insurer’s report listing New Jersey business.

ADAS is designed to provide an “actuarial tool kit” for the analysts in the Valuation Bureau in the Office of Life and Health. ADAS assists the Department’s analysts in the valuation of the reserves of domestic life insurance companies. Specifically, ADAS provides the analysts with a method for examining the reserves for various types of insurance products.

As the department has provided a 60-day comment period on this notice of proposal, this notice is excepted from the rulemaking calendar requirements, pursuant to N.J.A.C. 1:30-3.3(a)5.

Social Impact

The rules proposed for readoption will continue to aid the Department in carrying out its responsibility of monitoring all insurance companies authorized to do business in New Jersey in order to protect policyholders by determining the solvency of these insurers or by analyzing the reserves of these insurers.

Additionally, the rules will continue to aid the Department in carrying out its statutory responsibility of monitoring surplus lines activity in the State of New Jersey.

By using state-of-the-art, transaction-oriented systems, the Department can more effectively monitor the financial condition of the insurance companies under its jurisdiction and act to avert impairments or insolvencies by recommending remedial action. This, in turn, will continue to benefit the public, insurers, and the market generally, by avoiding disruptions associated with the impairment or insolvency of an insurer.

Economic Impact

These rules proposed for readoption will continue to impact the Department and insurers which are required to submit data for use in FEMS.

In order to carry out its fiscal responsibility to monitor the financial solvency of approximately 1,600 insurance companies and other risk assuming entities - most of which are highly automated - the Department believes that it is important to continue to provide its Office of Solvency Regulation, Office of Life and Health, and Surplus Lines Examining Office personnel with a system that increases the Department's ability to perform its duty of monitoring the financial solvency of insurance companies. The Department has already developed the FEMS system, and insurers have developed necessary systems to comply with the rules and have been providing the data in the format required herein.

The cost to insurers to comply with these requirements varies depending on an insurers' size and current computer systems. However, the Department notes that these rules have been in effect since 1993. Costs of continued compliance should be minimal in that the primary costs of compliance to insurers was in the establishment of systems necessary to comply with these rules. Further, insurers presently pay for regular examinations and incur costs in submitting that data.

Federal Standards Statement

A Federal standards analysis is not required because the rules proposed for readoption relate to analysis of insurers authorized, admitted or eligible to transact business in this State, and are not subject to any Federal requirements or standards.

Jobs Impact

The Department does not anticipate that any jobs will be generated or lost as a consequence of the rules proposed for readoption. Staff currently utilized to comply with these rules may continue to be utilized.

The Department invites commenters to submit any data or studies concerning the jobs impact of the proposed readoption together with their comments on other aspects of the proposal.

Agriculture Industry Impact

The rules proposed for readoption will not have any impact on the agriculture industry in New Jersey.

Regulatory Flexibility Analysis

The rules proposed for readoption will continue to impose reporting, recordkeeping and other compliance requirements on “small businesses,” as defined under the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq. The small businesses to which these rules may apply are insurers domiciled in this State and resident producers. As noted in the Economic Impact above, the Department does not believe that the rules proposed for readoption will impose any undue cost or burden in that the primary costs of compliance related to the development of systems necessary to comply with the rules. Since regulated entities have developed such systems, continued costs of compliance should be minimal, if any. Moreover, the purpose of the rules is to assist the Department in its monitoring and analysis of insurers authorized, admitted or eligible in this State to enable the Department to determine the financial position of these entities and take appropriate remedial action to their avoid impairment or insolvency. The Department is unable to estimate the need for professional services that may be required. The goal of these rules does not vary based on business size. Accordingly, the rules proposed for adoption provide no differentiation in compliance requirements based on business size.

Smart Growth Impact

The rules proposed for readoption will not have an impact on the achievement of smart growth or the implementation of the State Development and Redevelopment Plan.

Full text of the proposed readoption may be found in the New Jersey Administrative Code at N.J.A.C. 11:19.

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