

BANKING AND INSURANCE

DEPARTMENT OF BANKING AND INSURANCE OVERVIEW

The recommendation for the fiscal 2002 budget totals \$63.3 million in Direct State Services for the Department of Banking and Insurance.

The Department of Banking and Insurance regulates the insurance and banking industries. The insurance related responsibilities of the Department include monitoring and regulation of the insurance industry; assurance of fair markets and rates for all authorized lines of insurance; monitoring of the real estate industry to ensure that professional standards are observed and maintained; and coordination and operation of programs to prevent insurance fraud and abuse. Fraud prevention investigator functions were shifted to the Department of Law and Public Safety in fiscal 1999 in an effort to provide more effective prosecution of insurance fraud related cases.

The Division of Banking reviews and processes applications by depository institutions for new charters, branches, relocations, acquisitions, mergers, bulk sales, stock conversions, and auxiliary offices, and for licensing all consumer lenders. In addition, the Division examines each state-chartered bank to determine whether the bank is conducting its business in conformity with the laws of the State, thus ensuring the safety of its depositors, other creditors and the public while administering the Department's responsibilities under the federal Community Reinvestment Act.

SUMMARY OF APPROPRIATIONS BY FUND (thousands of dollars)

Year Ending June 30, 2000						Year Ending June 30, 2002		
Orig. & (S)Supple- mental	Reapp. & (R)Recpts.	Transfers & (E)Emer- gencies	Total Available	Expended		2001 Adjusted Approp.	Requested	Recom- mended
59,545	2,592	1,347	63,484	59,516	Direct State Services	63,256	63,313	63,313
59,545	2,592	1,347	63,484	59,516	Total General Fund	63,256	63,313	63,313
59,545	2,592	1,347	63,484	59,516	GRAND TOTAL	63,256	63,313	63,313

BANKING AND INSURANCE

SUMMARY OF APPROPRIATIONS BY PROGRAM (thousands of dollars)

Year Ending June 30, 2000					Year Ending June 30, 2002			
Orig. & (S)Supple- mental	Reapp. & (R)Recpts.	Transfers & (E)Emer- gencies	Total Available	Expended		2001 Adjusted Approp.	Requested	Recom- mended
					DIRECT STATE SERVICES - GENERAL FUND			
					Economic Regulation			
13,706	617	1,072	15,395	14,131	Licensing and Regulatory Affairs	15,025	15,183	15,183
4,133	---	-5	4,128	4,020	Actuarial Services	5,253	5,292	5,292
2,462	128	---	2,590	2,366	Regulation of the Real Estate Industry	2,814	2,814	2,814
1,549	---	3	1,552	1,549	Public and Regulatory Services	1,610	1,610	1,610
1,742	11	-1	1,752	1,748	Unsatisfied Claims	1,868	1,868	1,868
27,992	---	---	27,992	27,991	Insurance Fraud Prevention	28,185	28,185	28,185
3,771	385	-273	3,883	3,353	Supervision and Examination of Financial Institutions	3,910	3,910	3,910
---	1,383	27	1,410	44	Pinelands Development Credit Bank	---	---	---
4,190	68	524	4,782	4,314	Administration and Support Services	4,591	4,451	4,451
59,545	2,592	1,347	63,484	59,516	<i>Subtotal</i>	63,256	63,313	63,313
59,545	2,592	1,347	63,484	59,516	Subtotal Direct State Services - General Fund	63,256	63,313	63,313
59,545	2,592	1,347	63,484	59,516	TOTAL DIRECT STATE SERVICES	63,256	63,313	63,313
59,545	2,592	1,347	63,484	59,516	TOTAL APPROPRIATION	63,256	63,313	63,313

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, banks and consumer finance 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. The Office of the Ombudsman investigates direct property-casualty claims settlements to determine the appropriate disposition of claims. 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.** Thoroughly and aggressively investigates allegations of insurance fraud in order to fully develop the facts and evidence of each case so the State can make a reasoned decision how best to address each case of insurance fraud whether by criminal prosecution, civil fraud enforcement, or administrative professional licensing enforcement. Activities of State and local law enforcement and regulatory agencies are coordinated to develop a statewide enforcement strategy addressing insurance fraud in its many forms; and serve as a liaison among state and local government and law enforcement agencies. Information is collected and analyzed about persons and entities engaging in insurance fraud related conduct in order to assist the prosecution in criminal, civil, or administrative forums. 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.).

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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.

99. **Administration and Support 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.

EVALUATION DATA

	Actual FY 1999	Actual FY 2000	Revised FY 2001	Budget Estimate FY 2002
PROGRAM DATA				
Licensing and Regulatory Affairs				
Consumer Credit Associations				
Licenses issued	6,134	5,546	6,000	6,100
Associations subject to examination	1,350	1,374	1,475	1,500
Examinations conducted	374	343	380	400
Consumer Complaints				
Received	2,432	2,276	2,200	2,200
Completed	2,095	2,646	2,200	2,200
Inquiries and Referrals	586	588	550	550
Insurance Licensing				
Licenses issued	25,502	29,476	33,000	35,000
Candidates examined	10,262	11,985	11,500	12,000
Number of Insurance Companies and Regulated Entities				
Field financial exams	53	65	40	40
Office analysis of companies - exams	500	400	425	425
Insurance Consumer Complaints				
Received	10,080	10,756	10,700	11,000
Resolved	9,249	14,748	10,500	11,000
Inquiries handled	5,107	4,758	4,750	5,000
Funds recovered on behalf of complainants	\$4,016,583	\$4,732,714	\$4,000,000	\$4,000,000
Actuarial Services				
Property and Casualty				
Commercial lines filings	2,483	2,018	2,500	2,600
Personal lines filings	785	661	700	720
Individual risk filings	34	13	20	25
Consent-to-rate filings	15	10	15	20
Authorization filings	128	153	165	175
Excess profits filings	62	65	65	65
Statistical filings	171	171	171	171
Surveys (a)	827	914	915	915
Record requests	363	399	415	420
Life and Health				
Policyforms - new	18,535	18,368	19,750	21,000
Policyforms - processed	18,535	18,368	19,750	21,000
Regulation of the Real Estate Industry				
Licensed brokers	16,799	16,319	16,500	16,500
Licensed salespersons	66,197	63,729	66,500	66,500
Candidates examined	8,312	5,916	7,000	7,000
Broker offices	549	539	550	550
Inspected	560	354	400	400
Complaints investigated	3,755	3,530	3,500	3,500
Licensed schools	53	57	60	60
Licensed satellite sites of school	52	74	70	70
Licensed instructors	170	179	175	175

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	Actual FY 1999	Actual FY 2000	Revised FY 2001	Budget Estimate FY 2002
Public and Regulatory Services				
OAL submissions	58	45	50	50
Booklets published	10	10	14	16
Newsletters published	14	10	8	8
Unsatisfied Claims				
Unsatisfied Claim and Judgment Fund				
Claim notices received	13,100	11,999	12,500	13,000
New and reopened claims in litigation	2,413	1,584	1,600	1,700
Number of collection payments received	8,475	8,499	9,000	9,250
Insurance Fraud Prevention				
Auto insurance audits	38	47	40	42
Health insurance audits	19	33	35	36
Civil penalties collected	\$2,256,654 ^(b)	\$2,047,974	\$2,100,000	\$2,100,000
Restitution of fraudulently obtained dollars	\$102,660	\$57,520	\$71,000	\$71,000
Type of cases investigated (%)				
Auto	81%	83%	78%	78%
Health	2%	7%	4%	4%
Workers' compensation	2%	2%	4%	4%
Homeowners	2%	4%	3%	3%
All other	13%	2%	11%	11%
New investigations referred	13,432	14,990	13,000	13,000
Pending investigations	6,511	10,113	11,000	11,000
Total investigations	19,943	25,103	24,000	24,000
Supervision and Examination of Financial Institutions				
State Chartered Institutions				
Banks and Savings and Loans				
Examinations Conducted	104	105	107	109
Examinations Conducted	48	41	48	54
Bank Holding Companies	47	38	41	44
Speciality Examinations	98	82	126	166
PERSONNEL DATA				
Affirmative Action Data				
Male Minority	37	42	40	40
Male Minority %	7.8%	8.9%	8.1%	7.3%
Female Minority	90	88	90	90
Female Minority %	19.1%	18.7%	18.1%	16.4%
Total Minority	127	130	130	130
Total Minority %	26.9%	27.6%	26.1%	23.7%
Position Data				
Filled Positions by Funding Source				
State Supported	468	467	493	544
All Other	4	5	5	5
Total Positions	472	472	498	549
Filled Positions by Program Class				
Licensing and Regulatory Affairs	194	185	206	227
Actuarial Services	61	59	61	71
Regulation of the Real Estate Industry	41	43	46	49
Public and Regulatory Services	21	27	26	27
Unsatisfied Claims	22	20	20	22
Insurance Fraud Prevention	46	35	35	37
Supervision and Examination of Financial Institutions	41	44	40	56
Administration and Support Services	46	59	64	60
Total Positions	472	472	498	549

Notes:

Actual payroll counts are reported for fiscal years 1999 and 2000 as of December and revised fiscal year 2001 as of September. The Budget Estimate for fiscal year 2002 reflects the number of positions funded.

(a) Excludes Surplus Lines filings

(b) Data revised to reflect revised totals.

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APPROPRIATIONS DATA (thousands of dollars)

Year Ending June 30, 2000					Year Ending June 30, 2002			
Orig. & (S) Supplemental	Reapp. & (R) Recpts.	Transfers & (E) Emergencies	Total Available	Expended	Prog. Class.	2001 Adjusted Approp.	Requested	Recommended
<u>DIRECT STATE SERVICES</u>								
Distribution by Fund and Program								
13,706	617	1,072	15,395	14,131	Licensing and Regulatory Affairs	01	15,025	15,183
4,133	---	-5	4,128	4,020	Actuarial Services	02	5,253	5,292
2,462	128	---	2,590	2,366	Regulation of the Real Estate Industry	03	2,814	2,814
1,549	---	3	1,552	1,549	Public and Regulatory Services	04	1,610	1,610
1,742	11	-1	1,752	1,748	Unsatisfied Claims	05	1,868	1,868
27,992	---	---	27,992	27,991	Insurance Fraud Prevention	06	28,185	28,185
3,771	385	-273	3,883	3,353	Supervision and Examination of Financial Institutions	07	3,910	3,910
---	1,383	27	1,410	44	Pinelands Development Credit Bank	08	---	---
4,190	68	524	4,782	4,314	Administration and Support Services	99	4,591	4,451
59,545	2,592	1,347	63,484	59,516	Total Direct State Services		63,256^(a)	63,313
Distribution by Fund and Object								
Personal Services:								
26,161	---	-212	25,949	25,718	Salaries and Wages		29,099	29,156
26,161	---	-212	25,949	25,718	Total Personal Services		29,099	29,156
346	---	-3	343	324	Materials and Supplies		342	342
14,570	---	941	15,511	15,279	Services Other Than Personal		5,780	5,780
150	---	94	244	217	Maintenance and Fixed Charges		208	208
Special Purpose:								
---	407	---	459	---	Public Adjusters Licensing	01	---	---
776	52 ^R	---	776	181	Ombudsman Program	01	776	776
---	---	---	---	---	Actuarial Services	02	600	600
2,250	---	---	2,250	2,250	Additional Investigators - Insurance Fraud Prevention	06	2,250	2,250
14,018	---	---	14,818	14,818	Insurance Fraud Prosecution Services	06	23,727	23,727
800 ^S	255	---	310	---	Supervision and Examination of Financial Institutions	07	---	---
---	130 ^R	-75	310	---	Pinelands Development Credit Bank	08	---	---
---	339	27	1,410	44	Affirmative Action and Equal Employment Opportunity	99	30	30
30	1,044 ^R	---	30	25	Additions, Improvements and Equipment		444	444
444	365	575	1,384	660	Grand Total State Appropriation		63,256	63,313
59,545	2,592	1,347	63,484	59,516				
OTHER RELATED APPROPRIATIONS								
All Other Funds								
---	1,771	68	29,979	28,234	Licensing and Regulatory Affairs	01	37,329	37,329
---	28,140 ^R	---	164	35	Regulation of the Real Estate Industry	03	51	51
---	114	---	---	---	Supervision and Examination of Financial Institutions	07	250	250
---	50 ^R	---	---	---	Total All Other Funds		37,630	37,630
---	30,075	68	30,143	28,269	GRAND TOTAL ALL FUNDS		100,886	100,943
59,545	32,667	1,415	93,627	87,785				

Notes

(a) The fiscal year 2001 appropriation has been adjusted for the allocation of salary program.

Language Recommendations -- Direct State Services - General Fund

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.

The unexpended balance as of June 30, 2001 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.

Receipts from the investigation of out-of-State land sales are appropriated for the conduct of those investigations.

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

There are appropriated from the assessments imposed by the New Jersey Individual Health Coverage Program 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 Benefits Program 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 those acts, subject to the approval of the Director of the Division of Budget and Accounting.

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).

Upon certification by the Commissioner of Banking and Insurance pursuant to subparagraph (b) of paragraph (9) of subsection a. of section 8 of P.L. 1974, c.17 (C.17:30A-8) that loans in an amount less than \$160,000,000 per calendar year will satisfy the current and anticipated financial obligations of the Market Transition Facility without reference to the amount of funds remaining from the sale of the Market Transition Facility Senior Lien Revenue Bonds, there is appropriated out of the New Jersey Automobile Insurance Guaranty Fund such sums as may be necessary to satisfy the obligation of the New Jersey Property Liability Insurance Guaranty Fund to make refunds according to law in the amount of any exemption due pursuant to subparagraph (b) of paragraph (9) of subsection a. of section 8 of P.L. 1974, c.17 (C.17:30A-8).

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 in excess of anticipated revenues from examination and licensing fees, bank assessments, fines and penalties and the unexpended balances as of June 30, 2001, not to exceed \$250,000, are appropriated to the Division of Banking, subject to the approval of the Director of the Division of Budget and Accounting.

Proceeds from the sale of credits by the Pineland Development Credit Bank pursuant to NJSA 13:18A-34 et. seq. shall be appropriated to the Pineland Development Credit Bank for the same purpose.

The unexpended balance as of June 30, 2001 in the Pinelands Development Credit Bank account is appropriated for the same purpose.

In addition to the sum hereinabove, such other sums as the Director of the Division of Budget and Accounting shall determine, are appropriated from the assessments of the insurance industry pursuant to P.L. 1995, c. 156 (C.17:1C-19 et seq.).

The amount hereinabove for the Division of Insurance accounts is payable from receipts received from the Special Purpose Assessment of insurance companies pursuant to section 2 of P.L.1995, c.156 (C.17:1C-20). If the Special Purpose Assessment cap calculation is less than the amount herein appropriated for this purpose for the Division of Insurance, the appropriation shall be reduced to the level of funding supported by the Special Purpose Assessment cap calculation.

All monies deposited in the Division of Motor Vehicles 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-21.1 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 Banking and Insurance administrative costs related to its statutory duties, pursuant to P.L. 1990, c. 8 (C.17:33B-1 et al.).

Notwithstanding any provisions of law to the contrary, any surplus balance remaining in the New Jersey Medical Malpractice Reinsurance Recovery Fund after all financial obligations of the New Jersey Medical Malpractice Reinsurance Association are funded, as determined by the Director of the Division of Budget and Accounting, are appropriated for transfer to the General Fund as State revenue.

NOTES