

DEPARTMENT OF BANKING AND INSURANCE

OVERVIEW

The mission of the Department of Banking and Insurance is to regulate the banking, insurance, and real estate industries in a professional and timely manner that protects and educates consumers and promotes the growth, financial stability and efficiency of those industries.

The Department's goals are to ensure the solvency of the financial institutions through regular financial examinations and analysis; protect the public from unlawful or unfair practices by insurers, financial institutions, and real estate licensees, by promptly investigating complaints filed by consumers and aggressively prosecuting violators; issue licenses to qualified individuals and companies to provide Banking, Insurance, and Real Estate services to New Jersey citizens; improve the efficient and effective review of insurance rates and forms; and apply technology, where appropriate, to more effectively interact with the public and regulated industries.

FY 2005 Budget Highlights

The Department's proposed budget of \$66.7 million is \$1.9 million less than the fiscal 2004 adjusted appropriation of \$68.6 million. This reduction represents the costs associated with the administration of the Unsatisfied Claim and Judgment Fund. As a result of P.L. 2003, c.89, the administration of the Unsatisfied Claim and Judgment Fund was transferred to the New Jersey Property Liability Insurance Guaranty Association. The Department has achieved organizational efficiencies without sacrificing its core mission of regulating the industry and protecting the public.

In addition to its central mission of regulating the banking, insurance and real estate industries, \$29.9 million of the Department's budget is used to fund the activities of the Office of the Insurance Fraud Prosecutor in the Department of Law & Public Safety.

Consumer Protection

The enforcement unit and ombudsman's office answer and investigate complaints from consumers and take action against companies that have behaved improperly. Over the last fiscal year, these units have garnered over \$10.7 million in recoveries for consumers and charged \$663,000 in fines. Similarly, the Examination Unit in the Office of Consumer Finance was responsible for borrowers receiving refunds of over \$1 million in impermissible fees from New Jersey licensed lenders, and the Real Estate Commission collected over \$578,000 through sanctions and monetary fines on violators.

Department Accomplishments

The Department continues to reach out to consumers throughout the State, offering presentations on identity theft, predatory lending, auto insurance, budgeting, and financial responsibility. The Department has launched extensive education efforts regarding the new predatory lending law and participated in a nationwide settlement of complaints involving Household Finance, thereby returning \$17 million to victimized New Jerseyans. Two Consumer Centers were opened to host educational outreach programs, help consumers file complaints and answer questions from consumers and licensees.

The enacted comprehensive auto insurance reform package (P.L. 2003, c.89) provides for more competition, more consumer protection, and a commitment that good drivers should not pay for bad drivers. To make it easier to shop for a new policy in the competitive marketplace, consumers will be provided with a user-friendly Buyer's Guide, a Consumer Report Card and a Consumers' Bill of Rights.

Finally, the Department will continue to improve operational efficiencies by consolidating the licensing divisions of Banking, Insurance and Real Estate.

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SUMMARY OF APPROPRIATIONS BY FUND

(thousands of dollars)

Year Ending June 30, 2003						Year Ending June 30, 2005		
Orig. & (S)Supple- mental	Reapp. & (R)Recpts.	Transfers & (E)Emer- gencies	Total Available	Expended		2004 Adjusted Approp.	Requested	Recom- mended
68,123	4,051	---	72,174	66,010	Direct State Services	68,589	66,703	66,703
68,123	4,051	---	72,174	66,010	Total General Fund	68,589	66,703	66,703
68,123	4,051	---	72,174	66,010	GRAND TOTAL	68,589	66,703	66,703

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SUMMARY OF APPROPRIATIONS BY PROGRAM (thousands of dollars)

Year Ending June 30, 2003					Year Ending June 30, 2005			
Orig. & (S)Supple- mental	Reapp. & (R)Recpts.	Transfers & (E)Emer- gencies	Total Available	Expended		2004 Adjusted Approp.	Requested	Recom- mended
					DIRECT STATE SERVICES - GENERAL FUND			
					Economic Regulation			
15,845	226	29	16,100	14,895	Consumer Protection Services and Solvency Regulation	15,992	15,992	15,992
5,511	7	---	5,518	5,242	Actuarial Services	5,748	5,820	5,820
3,004	114	---	3,118	3,060	Regulation of the Real Estate Industry	3,151	3,151	3,151
1,743	---	-15	1,728	1,643	Public Affairs, Legislative and Regulatory Services	1,844	1,844	1,844
1,910	5	---	1,915	1,781	Unsatisfied Claims	1,958	---	---
32,152	17	---	32,169	31,452	Insurance Fraud Prevention	31,976	31,976	31,976
3,837	2,313	-375	5,775	3,319	Supervision and Examination of Financial Institutions	3,600	3,600	3,600
---	1,283	---	1,283	170	Pinelands Development Credit Bank	---	---	---
4,121	86	361	4,568	4,448	Administration and Support Services	4,320	4,320	4,320
<i>68,123</i>	<i>4,051</i>	<i>---</i>	<i>72,174</i>	<i>66,010</i>	<i>Subtotal</i>	<i>68,589</i>	<i>66,703</i>	<i>66,703</i>
<i>68,123</i>	<i>4,051</i>	<i>---</i>	<i>72,174</i>	<i>66,010</i>	<i>Subtotal Direct State Services - General Fund</i>	<i>68,589</i>	<i>66,703</i>	<i>66,703</i>
<i>68,123</i>	<i>4,051</i>	<i>---</i>	<i>72,174</i>	<i>66,010</i>	TOTAL DIRECT STATE SERVICES	68,589	66,703	66,703
<i>68,123</i>	<i>4,051</i>	<i>---</i>	<i>72,174</i>	<i>66,010</i>	TOTAL APPROPRIATION	68,589	66,703	66,703

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 ensure 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 aggressively combat insurance fraud through prevention, investigations, and prosecution.

PROGRAM CLASSIFICATIONS

01. **Consumer Protection Services and Solvency Regulation.** Insurance companies, brokers, and agents are licensed to engage in the business of insurance in the State. Companies are examined periodically for solvency and compliance with statutes and regulations and market conduct with regard to treatment of consumers. 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, 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; 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 the premium charged.

03. **Regulation of the Real Estate Industry.** Ensures 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 Affairs, Legislative and Regulatory Services.** Promulgates regulations and monitors proposed legislation and legal issues affecting the regulation of the banking, insurance and real estate industries for the Department; publishes a quarterly newsletter and consumer booklets, and provides consumer educational outreach programs; researches policy questions and investigates consumer issues.
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. Pursuant to P.L.2003, c.89, all balances and interest earnings in the Unsatisfied Claims and Judgment Fund were transferred to the New Jersey Property Liability Insurance Guaranty Association in fiscal 2004.
06. **Insurance Fraud Prevention.** The Office of the Insurance Fraud Prosecutor 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 on how best to address each case of insurance fraud; whether by criminal prosecution, civil fraud enforcement, or administrative professional licensing enforcement. Activities of State, 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. Within the Department of Banking and Insurance, activities related to Fraud Prevention are handled as part of a company's market conduct exam and consist of audits of fraud prevention and detection plans. Collection of all civil penalties related to insurance fraud and training for industry groups and law enforcement groups on various aspects of insurance fraud are also handled by the Department.
07. **Supervision and Examination of Financial Institutions.** Responsible for the supervision and examination of State chartered commercial banks, savings banks, credit unions, 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

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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.

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 2002	Actual FY 2003	Revised FY 2004	Budget Estimate FY 2005
PROGRAM DATA				
Consumer Protection Services and Solvency Regulation				
Consumer Credit Associations - Banking				
Licenses issued	6,206	6,640	6,300	6,500
Associations subject to examination	1,450	1,689	1,500	1,700
Examinations conducted	350	348	450	500
Consumer Complaints				
Received	3,041	4,159	3,000	3,200
Completed	2,362	2,081	3,000	2,500
Inquiries and Referrals	679	752	700	1,000
Insurance Licensing				
Licenses issued	25,515	30,628	32,000	34,000
Candidates examined	12,894	13,333	14,000	14,500
Phone inquiries handled	59,178	41,201	40,000	40,000
Number of Insurance Companies and Regulated Entities	1,883	1,869	1,880	1,890
Field financial exams	53	20	27	30
Office analysis of companies - exams	516	520	520	520
Insurance Consumer Complaints				
Received	9,889	10,348	10,000	10,500
Resolved	8,194	9,484	9,500	10,000
Phone inquiries handled	46,323	50,760	50,000	52,000
Inquiries handled	4,265	4,115	4,000	4,300
Funds recovered on behalf of complainants	\$5,380,886	\$4,214,448	\$4,000,000	\$4,500,000
Actuarial Services				
Property and Casualty				
Commercial lines filings	2,033	2,438	2,500	2,575
Personal lines filings	644	620	750	750
Individual risk filings	23	5	20	25
Consent-to-rate filings	12	39	30	35
Authorization filings	115	82	100	125
Excess profits filings	55	48	49	49
Statistical filings	175	175	175	175
Surveys	914	598	598	598
Record requests	269	251	275	300
Life and Health				
Policyforms - new	16,488	16,751	17,000	17,500
Policyforms - processed	16,488	16,751	17,000	17,500

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	Actual FY 2002	Actual FY 2003	Revised FY 2004	Budget Estimate FY 2005
Regulation of the Real Estate Industry				
Licensed brokers	16,038	16,007	16,250	16,300
Licensed salespersons	66,809	71,537	70,000	70,250
Candidates examined	11,344	16,876	13,000	12,500
Broker offices	597	637	625	630
Inspected	275	261	275	285
Complaints investigated	3,016	3,102	3,000	3,100
Licensed schools	56	57	60	65
Licensed satellite sites of school	65	57	60	60
Licensed instructors	194	197	200	210
Public Affairs, Legislative and Regulatory Services				
OAL submissions	73	94	100	105
Bulletins and orders issued	97	131	135	140
Written inquiries handled	1,172	902	1,100	1,250
Services of process handled	1,017	820	900	925
Booklets published	14	22	25	26
Newsletters published	5	19	22	23
Unsatisfied Claims				
Unsatisfied Claim and Judgment Fund (a)				
Claim notices received	9,668	9,098	-	-
New and reopened claims in litigation	953	1,094	-	-
Number of collection payments received	7,436	7,409	-	-
Insurance Fraud Prevention				
Auto insurance audits (b)	40	-	-	-
Health insurance audits (b)	39	-	-	-
Market Conduct Examinations	---	9	9	9
Civil penalties collected	\$2,046,826	\$1,898,421	\$2,000,000	\$2,000,000
Education programs	120	299	300	300
Restitution of fraudulently obtained dollars	\$53,355	\$20,922	\$30,000	\$40,000
Type of cases investigated (%)				
Auto	75%	80%	80%	80%
Health	9%	7%	8%	8%
Workers' compensation	4%	2%	2%	2%
Homeowners	3%	3%	3%	3%
All other	9%	8%	7%	7%
New investigations referred	7,025	10,350	10,000	10,000
Pending investigations	5,844	7,650	7,500	7,500
Total investigations	12,869	18,000	17,500	17,500
Supervision and Examination of Financial Institutions				
State Chartered Institutions				
Banks and Savings and Loans	104	102	102	102
Examinations conducted	40	37	48	48
Bank Holding Companies	19	10	13	13
Specialty examinations	39	39	50	39
Office of Insurance Ombudsman				
Insurance consumer complaints				
Received	716	1,939	1,900	2,000
Resolved	652	1,323	1,450	1,700
Inquiries handled	2,007	12,277	10,000	11,000
Funds recovered on behalf of consumers	\$2,127,114	\$6,517,158	\$2,500,000	\$2,500,000
PERSONNEL DATA				
Affirmative Action Data				
Male Minority	45	48	50	51
Male Minority %	8.7	10.0	10.5	10.0
Female Minority	89	94	95	96
Female Minority %	17.3	19.6	20.0	18.8
Total Minority	134	142	145	147
Total Minority %	26.0	29.6	30.5	28.8

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	Actual FY 2002	Actual FY 2003	Revised FY 2004	Budget Estimate FY 2005
Position Data				
Filled Positions by Funding Source				
State Supported	510	476	472	506
All Other	5	3	4	4
Total Positions	515	479	476	510
Filled Positions by Program Class				
Consumer Protection Services and Solvency Regulation	209	201	201	221
Actuarial Services	63	68	68	79
Regulation of the Real Estate Industry	46	44	43	46
Public Affairs, Legislative and Regulatory Services	28	24	25	27
Unsatisfied Claims	22	21	17	---
Insurance Fraud Prevention	32	27	28	30
Supervision and Examination of Financial Institutions	46	40	39	46
Administration and Support Services	69	54	55	61
Total Positions	515	479	476	510

Notes:

- Actual payroll counts are reported for fiscal years 2002 and 2003 as of December and revised fiscal year 2004 as of September. The Budget Estimate for fiscal year 2005 reflects the number of positions funded.
- (a) Pursuant to P.L.2003, c.89, the administration of the Unsatisfied Claims and Judgment Fund was transferred to the New Jersey Property Liability Insurance Guaranty Association in Fiscal 2004.
- (b) The Department of Banking and Insurance Anti-Fraud Compliance Section merged with the Market Conduct Section. FY 2003 actuals, FY 2004 Revised, and FY 2005 Budget estimate represent market conduct examinations with an anti-fraud component. Auto and health audits are no longer necessary.

APPROPRIATIONS DATA
(thousands of dollars)

Year Ending June 30, 2003					Year Ending June 30, 2005				
Orig. & (S)Supplemental	Reapp. & (R)Recpts.	Transfers & (E)Emergencies	Total Available	Total Expended	Prog. Class.	2004 Adjusted Approp.	Requested	Recommended	
DIRECT STATE SERVICES									
Distribution by Fund and Program									
15,845	226	29	16,100	14,895					
					01	15,992	15,992	15,992	
5,511	7	---	5,518	5,242	02	5,748	5,820	5,820	
3,004	114	---	3,118	3,060	03	3,151	3,151	3,151	
1,743	---	-15	1,728	1,643	04	1,844	1,844	1,844	
1,910	5	---	1,915	1,781	05	1,958	---	---	
32,152	17	---	32,169	31,452	06	31,976	31,976	31,976	
3,837	2,313	-375	5,775	3,319	07	3,600	3,600	3,600	
---	1,283	---	1,283	170	08	---	---	---	
4,121	86	361	4,568	4,448	99	4,320	4,320	4,320	
68,123	4,051	---	72,174	66,010		68,589 ^(a)	66,703	66,703	
Distribution by Fund and Object									
Personal Services:									
30,186	---	-550	29,636	28,215		30,909	29,532	29,532	
30,186	---	-550	29,636	28,215		30,909	29,532	29,532	
342	---	79	421	351		342	317	317	

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Year Ending June 30, 2003					Year Ending June 30, 2005				
Orig. & (S)Supplemental	Reapp. & (R)Recpts.	Transfers & (E)Emergencies	Total Available	Expended	Prog. Class.	2004 Adjusted Approp.	Requested	Recommended	
DIRECT STATE SERVICES									
5,635	---	520	6,155	5,592		5,468	5,009	5,009	
208	---	21	229	207		208	203	203	
Special Purpose:									
---	41	---	41	27	01	---	---	---	
Domestic Fraternal Societies									
---	45	---	185	---	01	---	---	---	
Public Adjusters Licensing									
801	---	---	801	582	01	711	711	711	
Ombudsman Program									
600	---	---	600	457	02	600	600	600	
Actuarial Services									
29,877	---	---	29,877	29,771	06	29,877	29,877	29,877	
Insurance Fraud Prosecution Services									
---	250	-156	2,157	---	07	---	---	---	
Supervision and Examination of Financial Institutions									
---	1,283	---	1,283	170	08	---	---	---	
Pinelands Development Credit Bank									
30	---	---	30	17	99	30	30	30	
Affirmative Action and Equal Employment Opportunity									
444	229	86	759	621		444	424	424	
Additions, Improvements and Equipment									
68,123	4,051	---	72,174	66,010		68,589	66,703	66,703	
Grand Total State Appropriation									
OTHER RELATED APPROPRIATIONS									
All Other Funds									
---	1,950	---	4,144	2,322	01	7,887	7,887	7,887	
Consumer Protection Services and Solvency Regulation									
---	130	---	182	34	03	51	51	51	
Regulation of the Real Estate Industry									
---	---	---	---	---	07	250	400	400	
Supervision and Examination of Financial Institutions									
68,123	4,305	21	4,326	2,356		8,188	8,338	8,338	
Total All Other Funds									
68,123	8,356	21	76,500	68,366		76,777	75,041	75,041	
GRAND TOTAL ALL FUNDS									

Notes -- Direct State Services - General Fund

(a) The fiscal year 2004 appropriation has been adjusted for the allocation of salary program in accordance with the provisions of P.L.2003, c.122 (Fiscal Year 2004 Appropriation Act).

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, 2004 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.

Receipts in excess of anticipated revenues from examination and licensing fees, bank assessments, fines and penalties, and the unexpended balances as of June 30, 2004, not to exceed \$400,000, 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 P.L.1985, c.310 (C.13:18A-30 et. seq.) shall be appropriated to the Pineland Development Credit Bank for the same purpose.

The unexpended balance as of June 30, 2004 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.).

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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.).

There is appropriated such sums as are necessary to fund the administrative costs of the New Jersey Hospital Care Payment Commission pursuant to the hospital care payment act, P.L.2003, c. 112, subject to the approval of the Director or the Division of Budget and Accounting.