

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF INSURANCE, SECURITIES AND BANKING (DISB)**



Fiscal Year 2016 Budget Oversight Hearing

Testimony of
Chester A. McPherson
Acting Commissioner

Before the

Committee on Business, Consumer and Regulatory Affairs

Council of the District of Columbia

April 30, 2015
Room 412
John A. Wilson Building
1350 Pennsylvania Avenue, NW
Washington, D.C. 20004



Good morning Chairman Orange, members and staff of the Committee on Business, Consumer and Regulatory Affairs. I am Chester A. McPherson, the acting commissioner of the Department of Insurance, Securities and Banking. I am pleased to testify before you today on Mayor Bowser’s Fiscal Year 2016 Budget, entitled “Pathways to the Middle Class.” As Mayor Bowser recently testified before the Council, each agency plays a critical part in ensuring that District residents in all 8 Wards have the education, economic opportunity, public safety, neighborhoods, environment, and infrastructure they need to reach the middle class. Mayor Bowser’s Fiscal Year 2016 Budget submission will ensure that our agency and the entire government have the necessary staff and resources to help meet these ambitious goals.

This budget is the product of an unprecedented amount of outreach. The Mayor held three budget engagement forums attended by hundreds of residents who described how they would allocate an imaginary \$100 towards key issues facing the District. The Mayor’s budget staff also met with Councilmembers and their staff to incorporate their priorities in the budget. Finally, the Mayor and her senior leadership met with numerous community groups as part of the development of this budget. All of this work on the front end gave us a much better budget as a result and we will continue that kind of outreach, transparency, and accountability—including these hearings led by the Council—to fine tune and implement the Fiscal Year 2016 budget.

Our work supports the Mayor’s budget priorities – in fact, financial and insurance matters touch every District resident in some way either directly or indirectly. Our proposed fiscal year 2016 budget allows the department to continue its important work to regulate the city’s financial services market; support the city’s economic development goals; and provide an equitable and attractive financial services market in the District.



The department's proposed fiscal year 2016 budget is \$25,820,775, a 16.7 percent increase from our current fiscal year 2015 budget. The proposed fiscal year 2016 budget supports 149.6 full-time positions. Ninety-nine percent of our budget is special purpose "O" type funds and the remaining one percent is Intra-District funds.

Before I talk about our priorities, I will take a moment to brief the committee on the variances that account for the increases, starting with personal services.

I. Personal services

The proposed fiscal year 2016 budget supports an increase of 13 FTEs over current year. This \$2,264,837 increase includes the 13 FTEs that were transferred from the Office of the Attorney General and the associated projected salary steps and fringe benefit costs for the entire agency.

II. Nonpersonal services

The proposed fiscal year 2016 budget includes an increase of \$665,575 in nonpersonal services to support a variety of new initiatives and priorities including, but not limited to:

- New information technology hardware and software;
- Mobile application development for the agency;
- A District-wide survey to determine the reasons why certain District residents are unbanked or underbanked (which I will discuss further in my testimony); and
- Youth financial education programs within our Bank on DC program.

DISB's budget proposal also includes a budget authority request in nonpersonal services of \$2 million to support one of our ongoing priority programs, the State Small Business Credit Initiative (SSBCI). This federally funded program from the U.S. Treasury facilitates lending to District small businesses by providing innovative finance alternatives such as collateral support or



co-investments in loans made by local financial institutions. Thus far, this program has utilized some \$4 million of federal funds to leverage \$10.97 million in private sector capital to District small businesses. The District recently received an additional \$4.2 million in funding from Treasury to support two new SSBCI options, the District of Columbia Loan Participation and Innovative Finance Programs.

In addition to the priorities described earlier, let me now touch briefly on other priorities for this fiscal year. As the Committee knows, the department has had a significant role in implementing the Affordable Care Act in the District and working with the District's Health Benefit Exchange Authority. We are currently preparing for the rate review process for 2016 plans to be offered on DC Health Link, a process that begins now and continues over the summer.

Recently, the *Washington Business Journal* reported that DC Health Link consumers saw some of the smallest premium increases in the region, according to a report done by the Robert Wood Johnson Foundation. In fact, the District kept rates lower than the national average by 2.6 percent. I am pleased to see that the rates approved by DISB for the products offered and sold on DC Health Link rank among the best in the country in terms of cost and value. DISB is committed to and will continue our focus on maintaining the affordability of health insurance in the District through our comprehensive rate review process.

In addition to our efforts in health care reform, we are augmenting our foreclosure mediation and prevention efforts through a contract with Housing Counseling Services. This support includes free housing counseling and legal aid for D.C. area homeowners facing foreclosure. We are also supporting economic development by administering the programs under the State Small Business Credit Initiative and through our new crowdfunding securities regulations to facilitate capital raising alternatives for District small businesses.



Another one of our ongoing priorities is attracting more banking business to the District. We recognize that one barrier to this is that our banking bureau is not accredited. DISB submitted its accreditation application to the Conference of State Bank Supervisors on April 3, and CSBS will begin its review on May 11. Similar to how colleges and hospitals strive to be accredited, the department wants that same recognition for achieving a standard of excellence for its bank regulatory program. This is a high priority for the banking bureau and we are moving full steam ahead. Further, the banking bureau is working on modernizing its banking code which will help attract financial services to the District. By modernizing the banking code, the department is also enhancing consumer protection for District residents, a mission-critical DISB responsibility.

The department also works to create conditions that attract and retain national and international financial-service businesses to the District. One of the efforts related to this goal is enhancing the District's position as one of the nation's most attractive locations to charter a captive insurance company. To this end, we assembled a working group of DISB staff and captive insurance industry representatives to make legislative, marketing, policy and operational recommendations for the growth of our captive domicile.

As mentioned earlier as part of our proposed budget increase, the department is working on a District-wide survey to determine the reasons why certain District residents are unbanked or underbanked. DISB will use the results of the survey to focus the efforts of the agency's Bank on DC program. Specifically, DISB will identify and implement programs that will assist the unbanked and underbanked by giving them access to wider choices of banking options at more affordable prices. DISB also intends to use the survey in its efforts to increase the retention rate of residents that participate in the Bank on DC program.



We also continue to focus on preventing financial fraud in the District both through enforcement and through public education on how to avoid becoming a victim, especially for our city's aging population. DISB is in the early stages of developing an agency elder abuse prevention initiative to increase our awareness of elder abuse issues across our three operating bureaus. The goal of this initiative is to enhance our consumer protection, enforcement and education efforts for the benefit of the District's seniors. DISB knows that as seniors age, their cognitive abilities decline. Unfortunately, this makes them ideal victims for unscrupulous financial advisers, insurance agents and others who frequently prey on seniors. This effort also aligns with and complements our ongoing financial education efforts and periodic campaigns to enhance the financial capabilities of residents and D.C. government employees.

Briefly, some of our other fiscal year priorities include updating the agency's continuity of operations and disaster recovery plan and improving mobile access to the DISB website to meet the changes in how consumers are viewing online information.

The resources allocated to the agency in the Mayor's proposed Fiscal Year 2016 budget will be critical in achieving our mission and helping to grow and preserve the middle class. The Council and this Committee, led by you Chairman Orange, have been key allies in this effort and I appreciate your continued efforts to ensure we operate efficiently and effectively.

In conclusion, the department is prepared to meet the challenges of the financial markets and is well-positioned to address future developments in financial-services regulation. We are encouraged by our accomplishments thus far in fiscal year 2015, and look forward to improving our capabilities into next year. Thank you for the opportunity to testify today and I look forward to answering any questions the Committee may have.

