

**FISCAL YEAR 2015 BUDGET AND FINANCIAL PLAN HEARING  
FOR THE DEPARTMENT OF INSURANCE, SECURITIES AND  
BANKING**

**TESTIMONY OF  
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OF THE  
DEPARTMENT OF INSURANCE, SECURITIES AND BANKING  
BEFORE  
THE COUNCIL OF THE DISTRICT OF COLUMBIA  
COMMITTEE ON BUSINESS, CONSUMER AND REGULATORY  
AFFAIRS**



**May 5, 2014  
1350 PENNSYLVANIA AVENUE, N.W.  
ROOM 500  
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 interim commissioner of the Department of Insurance, Securities and Banking. I am pleased to testify today on the budget for fiscal year 2015.

To support the continued growth of the District of Columbia, Mayor Gray's Fiscal Year 2015 Budget submission focuses on three priorities: (1) growing and diversifying the economy; (2) educating our children and preparing our workforce for a new economy; and (3) improving the quality of life for all residents.

Our work supports the Mayor's budget priorities. Financial and insurance matters touch every District resident in some way either directly or indirectly. The proposed fiscal year 2015 budget allows the department to continue its important work as the city's financial services regulator and consumer advocate.

The department regulates insurance, securities, banking and other financial services in the District. Our work centers on three main goals for the District: one, ensuring the safety and soundness of the financial services companies operating here; two, preventing financial fraud; and three, providing an equitable business environment that retains and attracts financial-service businesses.

The department generates revenue through assessments, premium taxes, licensing fees, and fines. As an enterprise agency, the department makes an annual

net contribution to the District's General Fund. In fiscal year 2013, the department made a \$107 million contribution to the general fund. For that year, every dollar of our budget generated \$5 in revenue. Over the last three fiscal years, on average we contributed \$107 million annually to the general fund.

The department's proposed fiscal year 2015 budget is \$22,117,944, a modest 2.1-percent increase from our current fiscal year 2014 budget. The proposed fiscal year 2015 budget supports 136.6 full-time positions, reflecting an increase of 11 FTEs over current year. These additional FTEs will support our work across agency functions, mostly related to examination, market analysis and compliance functions.

As the Committee knows, today's financial services environment has deepened in complexity providing new challenges for regulators. Technology and innovation has pushed financial institutions into new product areas as they grow in assets and become more global in scope. Significant federal legislation, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the Patient Protection and Affordable Care Act of 2010, also continue to impact our agency responsibilities. Also, making sure we have enough staff to fulfill our consumer protection and enforcement role is of utmost importance. All of these factors affect our job as regulators and the additional FTEs will help us respond appropriately agency-wide.

I would also like to note that the fiscal year 2013 budget provided eight federal grant-funded employees to support federal mandates, and three private grant-funded employees to run the foreclosure mediation program. While the federal funding will end at the conclusion of this fiscal year, we have determined that the important work performed by these employees must be continued; as such, for proposed fiscal year 2015 budget, these employees will be funded by our agency's "O" type funds.

To add some perspective to our budget and operations, I will provide a brief recap of the proposed fiscal year 2015 budget for each of our operational areas, starting with insurance. Our insurance bureau's budget is about \$2.9 million dollars. This bureau monitors the solvency of the more than 1,300 insurance companies operating in the District and the nearly 67,000 licensed insurance agents and brokers. This bureau also approves policy forms and premium rates for insurance products sold in the District. Our risk finance bureau, the smallest of our four bureaus, has a budget of \$500,000. It oversees District-based captive insurance companies and risk-retention groups. Next, the proposed fiscal year 2015 budget for our securities bureau is \$1.5 million dollars; this bureau ensures securities professionals comply with the District's securities laws. It licenses approximately 130,000 securities professionals and reviews about 24,000 mutual fund filings annually. Our banking bureau has a \$3 million dollar budget; it

regulates District-chartered banks and non-depository financial institutions, inclusive of over 800 mortgage lenders and brokers, 2,000 mortgage loan originators, 110 check cashers, and 58 money transmitters.

On the consumer protection side of our ledger, the budget is \$1.1 million dollars for enforcement activities, such as investigations of financial fraud. In addition, about \$1.8 million dollars supports our consumer complaint resolution efforts for District residents and \$3.2 million dollars supports our market examination functions. As you can see, our budget reflects the robust and dynamic nature of our regulatory activities across the financial services sector.

I will now briefly touch on our current work and priorities going forward. As the Committee knows, the department has had a significant role in implementing the Affordable Care Act in the District. Specifically, the department was instrumental in working with the District's Health Benefit Exchange to get DC Health Link up and running. Our work with the exchange continues as we prepare for open enrollment this fall. We are now preparing to review and approve of rates for plans that will be offered in calendar year 2015 on DC Health Link.

In addition to our efforts in health care and financial services reform, we are providing foreclosure mediation and prevention by augmenting and increasing our efforts through the award of a contract to the Housing Counseling Services to

provide support for D.C. area homeowners facing foreclosure. We are also supporting economic development by administering the programs under the State Small Business Credit Initiative. The federal program facilitates lending to small businesses by providing collateral support for loans made by local financial institutions. To date, the program has provided \$2.4 million of collateral support to leverage \$6.1 million in new loans to three District businesses. Another one of our economic development efforts is to promulgate rules, consistent with the federal JOBS Act of 2012, to permit District-based businesses to raise “Crowd Funded” funds for District only intra-state offerings. These rules are working their way through the respective review and approval process. We hope to have them published soon.

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. The department also works to create conditions that attract and retain national and international financial-service businesses to the District. We will strive to serve both individual and business consumers, and to make the District a good place to do business through fair and firm regulation.

## **CONCLUSION**

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 2014, and look forward to improving our capabilities into next year.

Thank you, Chairman Orange and members of the committee, for your attention. I will be glad to answer any questions.