

**FISCAL YEAR 2014 BUDGET AND FINANCIAL PLAN HEARING
FOR THE DEPARTMENT OF INSURANCE, SECURITIES AND
BANKING**

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



**April 25, 2013
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 William P. White, the commissioner of the Department of Insurance, Securities and Banking. I am pleased to testify today on Mayor Gray's fiscal year 2014 budget and can assure you the department's proposed budget fully meets our funding needs and the goals of the city administration.

To support the continued growth of the District of Columbia, Mayor Gray's fiscal year 2014 budget submission focuses on three priorities: (1) growing and diversifying the District's economy; (2) educating our children and preparing our workforce for the challenges a more diverse economy will bring; and (3) improving the quality of life for all residents. Our department's work reinforces those priorities.

OVERVIEW

The department formed in 2004 from the merger of the Department of Banking and Financial Institutions and the Department of Insurance and Securities Regulation. The department regulates insurance, securities, banking and other financial services. Its mission is to first protect residents from fraud through firm but fair regulation; and second, to attract financial-service businesses to the District.

The department's proposed fiscal year 2014 budget is \$21,661,575, a 3.8-percent increase from last year's \$20,860,023. Funding comes from \$2,414,015 in federal grants, \$462,003 in private grants and \$18,785,557 in special purpose revenue funds. The proposed 2014 budget supports 125.6 full-time positions, the same as in 2013.

When I appeared last year, I was realigning the department's structure. As I reported to you in February at the performance oversight hearing, the realignment is complete. The new structure makes us more efficient and provides the basis for responding to the new regulatory environment brought about by federal legislation resulting from the recent recession.

Previously our bureaus (insurance, securities, banking and risk finance) operated independently. By bringing them under one group with its own deputy commissioner for market operations, we are leveraging the combined expertise and resources of their staffs. Similarly, by putting consumer protection, enforcement and market examinations under one group under another deputy commissioner, we can more proactively protect consumers. The integration of our operating sections improves communication across the organization, making us far more effective and efficient. This is critical to meeting the regulatory challenges of our ever-more complex financial-services markets.

Now, I will provide an overview of how we fund the department. Our largest source is the Special Purpose Revenue “O” funds we generate from insurance assessments, premium taxes, licensing, registration, filing and other fees. Then there is \$3 million from federal and private grants. Each bureau receives funding as follows:

- The **Insurance Bureau’s** budget comes from an assessment on insurers and health maintenance organizations. The Insurance Regulatory Trust Fund determines this rate based on costs of regulation and examination.

The bureau monitors the solvency of insurance companies operating in the District, licenses insurance companies, agents and brokers and approves policy forms and premium rates. It monitors underwriting, policyholder services, claims, marketing and how insurers handle complaints. The bureau oversees 1,300 insurance companies operating in the District.

- The **Securities Bureau’s** budget comes from registration fees from the sale of securities offerings and from licensing securities brokers, dealers and investment advisers operating in the District.

This bureau ensures securities professionals comply with the law and that public securities offerings get full disclosure. Last fiscal year, this bureau licensed more than 130,000 securities professionals, almost 2,000 firms, processed 53

registrations of securities offerings and over 24,000 mutual funds and private-securities-offering notice filings.

- The **Banking Bureau's** budget comes from assessment fees on the two District-chartered banks and licensing fees and assessments for non-depository financial institutions. Currently, the Department licenses and supervises approximately 830 mortgage lenders and brokers; 1,970 mortgage originators; 110 check cashers; 58 money transmitters; 35 consumer-sales finance companies, and seven money lenders.
- The **Risk Finance Bureau** collects premium taxes and charges fees to captive insurance companies and risk-retention groups. There are 117 active captives in the District.

The department generates revenue for the District and does not use taxpayer dollars. In fiscal year 2012, every dollar of our budget spent generated almost \$7 in revenue for the District. Our fiscal year 2013 budget is just shy of \$18 million (not including federal and private grants). We expect to generate revenue of about \$120 million in both fiscal years 2013 and 2014.

FEDERAL LEGISLATION AND THE DEPARTMENT'S RESPONSE

When I reported to you last year, I mentioned the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 and the Patient Protection and

Affordable Care Act of 2010 would affect the agency. While the budget increases we needed to address these mandates have leveled off, the health-care and financial-services reforms required by Dodd-Frank, the health reform law and other federal legislation remain a part of our work.

The fiscal year 2013 budget gave us 11 more federal- and private-grant-funded employees to help us enact these federal mandates, positions that will continue into this next fiscal year.

The federal legislation has provided for new programs and services for District consumers and small businesses. Here are a couple of examples.

A \$3.8 million federal three-year grant is funding our health-insurance rate-review program. The department reviews health-insurance rate increases or decreases, and decides whether to approve or reject them. This results in more transparency for consumers. The filings are public and can be found on our website.

Another example is the District's Health Benefit Exchange. The department helped develop the exchange, a crucial part of the health-care-reform law's intention to make insurance more affordable by making prices more transparent and hence cheaper. When the exchange is running in January 2014, we will also be responsible for regulating it.

Additionally, the department was awarded a \$13.2 million federal grant for the State Small Business Credit Initiative resulting from the Small Business Jobs Act of 2010. The program provides collateral to banks so they can lend to small businesses. Recently, the lenders enrolled in the program closed their first three loans and we expect more to come soon.

MARKET CHALLENGES AND CONSUMER PROTECTION

I will now talk briefly about market challenges and consumer protection. The 2008 financial crash and resulting recession demonstrated that the regulation of financial services must change. Regulators need to find ways to avoid another crash, and to keep a tight rein on our financial institutions without limiting growth. But most importantly, they must better protect consumers against fraud. We are focused on becoming ever more proactive and more sophisticated in our approach to stopping financial crime in the District.

We have realigned our resources to identify and take action against unlawful activity in two ways. The best way to prevent financial crime is to ensure every person is an educated consumer trained to spot and avoid fraud. So we have stepped up our outreach and education in the community, especially to the elderly, who are too often victims of financial fraud. And of course we are still policing the markets: We investigate and help prosecute those who defraud District residents.

NON-PERSONAL SERVICES

Let me say a few words about the non-personal services side of the budget. The department continues to conserve costs and find ways to be more efficient. We now do online the majority of our processing and issuing of licenses to insurance producers, investment advisers, broker-dealers, mortgage brokers and lenders, and also regulatory filings. This cuts costs and staff time.

Additionally, for fiscal year 2014, our rent will fall 6.9 percent, equating to \$129,207 in savings. The agency is also proposing a reduction of \$35,286 in office support.

CONCLUSION

Over the next year, the department will continue to regulate financial services fairly and efficiently and increase enforcement to protect consumers from fraud. We will also create conditions that attract and retain national and international financial-service businesses to the District of Columbia. 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. In addition to our efforts in health care and financial-services reform, we are providing foreclosure mediation and supporting economic development through increased lending to small businesses.

In conclusion, the department is prepared to meet the challenges of the financial markets and is well-positioned to deal with future developments in financial-services regulation. We are encouraged by our accomplishments thus far in fiscal year 2013, 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.