

Vermont Department of Financial Regulation

Proposed Budget Information Fiscal Year 2020

Michael S. Pieciak, Commissioner
David F. Provost, Deputy Commissioner of Captive Insurance
Christina Rouleau, Deputy Commissioner of Insurance
William R. Carrigan, Deputy Commissioner of Securities
Molly Dillon, Deputy Commissioner of Banking

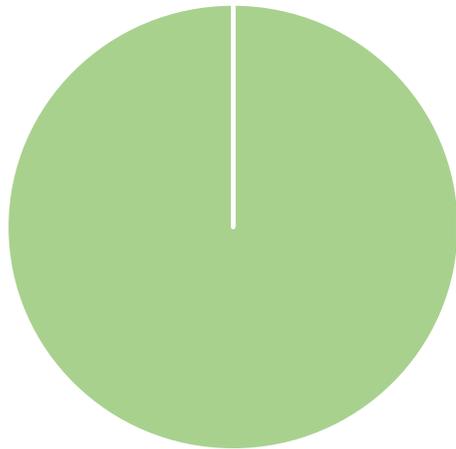


**Department of Financial Regulation
FY 2020 Governor's Recommended
Budget**

FY 2020 SUMMARY & HIGHLIGHTS

**Governor's Recommended Budget
FY 2020 (\$ millions)**

ISF, \$15.6, 100%



Strong leadership team in place to maintain Department's reputation for excellence

Employees: engaged/experienced/proactive

National recognition for the strength of our insurance and captive insurance divisions

Maintained staffing levels despite workload increase through cost effective IT solutions

Projected revenue for FY2019 will be more than in the Department's history

Reduction of two positions in FY2020

No new funding requests in FY2020

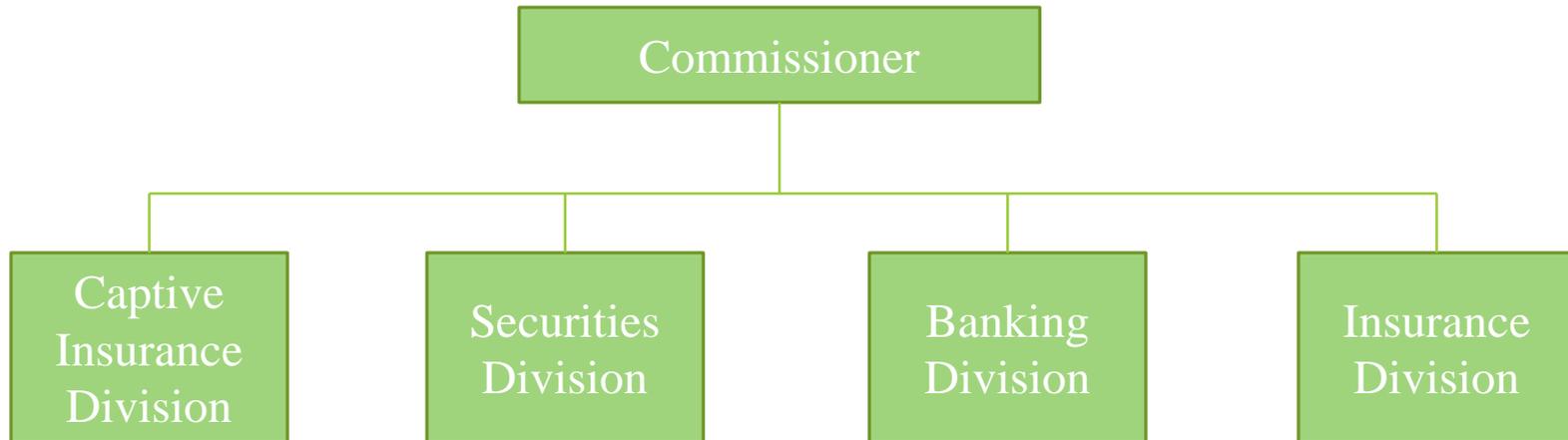
3.79% budget increase due to contractual obligations

Fiscal Year 2020
Department Strategic Overview

Department of Financial Regulation (DFR)

DFR Mission and Overview

Facilitate strong, stable and competitive financial markets within the state while protecting the financial welfare of Vermont consumers and investors.



Fiscal Year 2020
 Department Strategic Overview

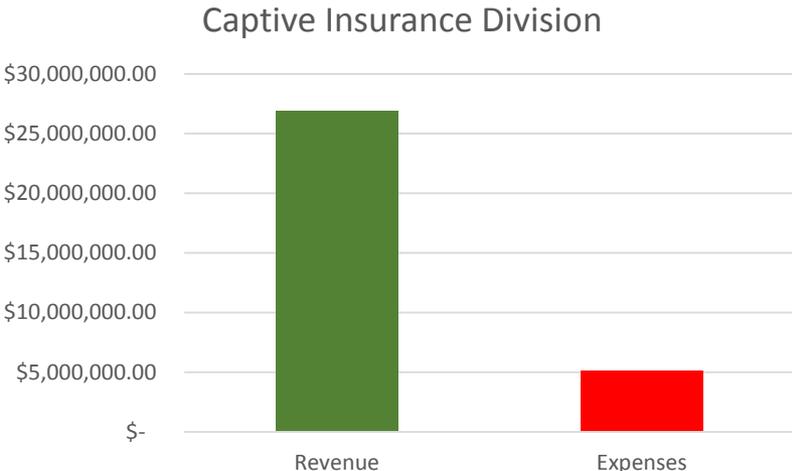
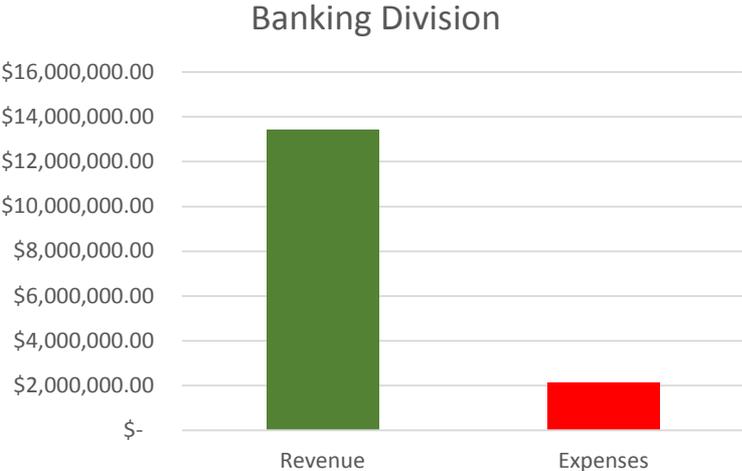
Department of Financial Regulation (DFR)

Department Head Count

| Vermont Department of Financial Regulation | | |
|--|-----------------|---------|
| Division | Total Positions | |
| | FY2019 | FY 2020 |
| Administration Division | | |
| Commissioner's Office | 9 | 8 |
| General Counsel's Office | 9 | 9 |
| Banking Division | | |
| | 16 | 16 |
| Captive Insurance Division | | |
| | 33 | 33 |
| Insurance Division | | |
| | 30 | 29 |
| Securities Division | | |
| | 8 | 8 |
| Total | 105 | 103 |

Fiscal Year 2020
Department Strategic Overview

Budget vs. Revenues FY19



Fiscal Year 2020
Department Strategic Overview

Budget vs. Revenues FY19



Department of Financial Regulation (DFR)

Captive Insurance Division

(1) maintain and continually improve a regulatory system to attract premier companies to Vermont; (2) promote Vermont's "gold standard" reputation; and (3) ensure solvency of captive insurers while recognizing their special purpose



\$24 million premium tax
\$2.9 million exam and registration fees



25 new captive formations in 2018
Including 20th Century Fox from New York
First Affiliate Reinsurance Company



19 approved captive managers
566 active captive insurers
1,400+ jobs supported in Vermont



#1 domicile in the world by premium volume
Award top US domicile 4 of last 6 years
2018 Individual Honors

Fiscal Year 2020
Department Strategic Overview

Department of Financial Regulation (DFR)

Insurance Division

(1) maintain affordable and available insurance for Vermonters; (2) ensure insurers meet their promises; (3) facilitate reasonable and orderly competition; and (4) to protect Vermonters from unfair and unlawful business practices



21 Vermont domiciled insurance companies
Paid \$35 million in premium tax in FY18



Last five years consumer services received:
17,381 inquires & 2,301 complaints
\$1,544,600 back to Vermonters



210 Vermont insurance agencies & 3,383 agents
3,398 foreign agencies & 124,643 foreign agents



Last five years market conduct investigations:
\$1.3 million in penalties
Over \$8 million back to Vermonters

Fiscal Year 2020
Department Strategic Overview

Department of Financial Regulation (DFR)

Securities Division

Administer Vermont's "Blue Sky Laws" to (1) protect Vermonters from fraud; and (2) promote the development of Vermont's capital markets



1,256 BD Firms & 105,096 BD Agents
998 IA Firms & 1,521 IA Representatives



Last five years investigations leading to:
\$2,327,043 in penalties
\$5,119,887 in restitution



Annual desk examination for all IA Firms
96% compliant with new cyber insurance
requirement



Jay Peak Settlement - \$150 million
Paid \$8.9 million to vendors and contractors
\$19 million to complete Jay Peak Projects

Fiscal Year 2020
Department Strategic Overview

Department of Financial Regulation (DFR)

Banking Division

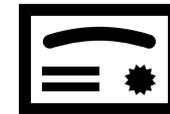
(1) promote the safety, soundness, and stability of Vermont's Banks, Credit Union and Licensees; (2) encourage competition and availability of financial services; and (3) provide consumer protection and education



6 state chartered banks
3 state trust companies



13 state chartered
credit unions



260 companies hold 1,675 licenses
2,537 individuals hold licenses



Last five years consumer services received:
6,604 inquires & 1,100 complaints
\$353,966 back to Vermonters



Completed 91 examinations in 2018
10 CUs, 3 Trusts Co., 78 licensees

Fiscal Year 2019
Department Strategic Overview

Department of Financial Regulation (DFR)

FY 2019 Goal: Continued focus on cybersecurity

Host cybersecurity roundtable and evaluate regulatory takeaways

- *May 16, 2018 Industry First Roundtable on Cybersecurity*

Implement Department-wide cybersecurity training program for Department employees

- *September 17, 2018 DFR Annual Department Meeting*

Perform phishing email tests on Department employees with necessary follow-up training; goal -75% success rate

- *Work on implementation continues*

FY 2019 Goal: Improved communication with consumers and industry

Redevelop department website for easier navigation

- *Continuous improvements to website based on data analytics and planned migration to state platform in 2019*

Build out social media communications –25% increase in followers

- *Increased twitter followers by 242%, Facebook likes by 19%*

Develop consistent communication channel for our regulated industries and interested parties

- *Developed 1000+ industry distribution list – provide quarterly industry newsletter through Constant Contact*

FY 2019 Goal: Continued focus on developments in Financial Technology (fintech)

- *January 15, 2019 – Blockchain Study to legislature*
- *January 11, 2019 – MOU with Vermont Secretary of State on Blockchain Pilot Program*
- *Planned introduction during 2019 legislative session of Insurtech Regulatory Sandbox*

Department of Financial Regulation (DFR)

FY2019 Captive Insurance Division Goals

FY 2019 Goal:

Conduct efficient, timely and effective examinations and surveillance of licensed captives and their parent companies. Continue implementation of reduced examination program and examination report for pure captives; Re-design and fully document procedures for pure captive surveillance (financial monitoring); Continually amend examination processes and statutes/regulations to conform to NAIC standards.

Measuring Success:

- **Goal to complete and issue exam within 180 days**
 - *Improved 288 days (2010) to 165 days (2018)*
- **Goal to complete 100 examinations**
 - *Completed 103 examinations in 2018*
- **Goal to decrease examination costs**
 - *Examination costs have decreased over past 5 years*
 - *Provide the most cost-efficient examinations in nation by premium volume*

Risk Retention Group (22% decrease)

2012: Average exam 424 hours at a cost of \$43,500

2017: Average exam 329 hours at a cost of \$36,200

Pure Captive (16% decrease)

2012: Average exam 135 hours at a cost of \$11,500

2017: Average exam 114 hours at a cost of \$11,000

Fiscal Year 2020
Department Strategic Overview

Department of Financial Regulation (DFR)

FY2019 Insurance Division Goals

FY 2019 Goal:

Ensure Vermonters Have Access to High Quality Insurance Products

Measuring Success:

- **1st least expensive – personal auto insurance (via Insure.com)**
- **5th least expensive – personal auto insurance (via NAIC)**
 - *Maintained competitive positioning*
- **11th least expensive – homeowners' insurance (via NAIC)**
 - *Maintained competitive positioning*
- **A+ awarded Vermont insurance regulation – R Street Institute**
 - *Only state to receive A+ in 2018, 2017 & 2016*
 - *Fifth straight year to receiving highest score in the country*

FY 2019 Goal:

Focus on the cost of workers' compensation insurance in Vermont.

Measuring Success:

- Work to enact recommendations from Department's workers' compensation study for high-risk employers: *Combined class codes and implementing worksite safety program*
- 10% decrease in lost cost for high-risk class codes identified in report –logging, sawmills and log haulers: *15.6% in lost cost and 14.7% decrease in assigned risk marketplace*
- Decrease in overall lost cost for Vermont from improved workplace safety efforts: *\$30 savings in premiums last two years*

Fiscal Year 2020
Department Strategic Overview

Department of Financial Regulation (DFR)

FY2019 Securities Division Goals

FY 2019 Goal:

Expand on the success of the desk examination program and develop three-year examination cycle.

FY 2019 Goal:

Securities Division Database (SDD) enhancements to improve efficiencies

Measuring Success:

- Utilize annual desk examination to set priorities for on-site examinations: *Annual desk examination complete and examination priorities set*
- Complete 10 examinations of state based investment adviser firms: *2 examinations in process for FY2019*
- Coordinate with SEC and FINRA to conduct at least one joint examination in Vermont: *Discussions on going to schedule exam*

Measuring Success:

Expand the type of filings that can be received to the Securities Database through EFD: *One of 16 States for expansion to UITs*

Expanding EFD to UITs and mutual funds expected to save an additional 8-14 hours of staff time per week: *Expanded to UITs and ready for mutual funds in late 2019*

Redeploy staff time on more critical areas: in-depth review of problem BD firms and brokers: *Re-aligned staff position to focus on bad actors in broker-dealer space*

Department of Financial Regulation (DFR)

2019 Banking Division Goals

FY 2019 Goal:

Increase the use of technology in the processing and filing with in the Regulatory area

FY 2019 Goal:

Review the Examination process, components and begin pre-accreditation paperwork.

Measuring Success:

- One of only eleven states to utilize the National Multi-State Licensing System (NMLS) across all license categories
 - Maintained current staffing while seeing 484% increase in filings for a savings of appx. \$170,000
 - Lead State working on a program to streamline the 50 State licensing process. Will manage second pilot of the process to be completed by March.

Measuring Success:

- Analyzed division reorganization – determined it involved more cost than benefit
- Improved exam efficiencies leading to a reduction in travel expenses reduced to 11%
- Completed pre-accreditation requirements

Department of Financial Regulation (DFR)

- Cybersecurity:
 - DFR Cybersecurity Taskforce
 - Industry Cybersecurity Roundtable
- Financial Technology:
 - Chairing NASAA Fintech Committee
 - Serving on NAIC Innovation and Technology Task Force
- Elder Financial Abuse
- Changes to Federal Health Care Laws
- Captive Insurance and Department Bill