

Department of Financial Regulation

Michael S. Pieciak, Commissioner

SENATE COMMITTEE ON FINANCE

SEN. ANN CUMMINGS, CHAIRWOMAN
SEN. MARK MACDONALD, VICE CHAIRMAN
JANUARY 11, 2017



Agenda

- Introductions
- Overview of the Department
- Overview of the Divisions
- Overview of DFR's 2017 Priorities
- Questions?



Mike Pieciak Commissioner



Born and raised in Brattleboro, VT

An attorney having practiced in New York City and at Downs Rachlin

Served as deputy commissioner of securities
Feb. 2014 – June 2016

Appointed commissioner in July 2016 and
reappointed January 2017



Dave Provost

Deputy Commissioner of Captives



Born and raised in Burlington, VT

Been involved with captives since 1985, including four years with Chittenden Bank and 12 years in captive management

Joined DFR in 2001, appointed deputy commissioner in 2008



Sandy Bigglestone

Director of Captive Insurance



Frequent speaker on captive insurance and represents Vermont at various conferences around the country

CPA with experience in public accounting, hospital and higher education finance

Certified Financial Examiner, Certified Public Manager and Associate Professional in Insurance Regulation

Employed by the Captive Division since 1997



Bill Carrigan

Deputy Commissioner of Securities



Been in the Securities industry since 1993

Certified Fraud Examiner with a master's degree in forensic studies

Began in the Securities Division in 2007

Appointed deputy commissioner in July 2016 and reappointed in January 2017



Cynthia Stuart

Deputy Commissioner of Banking



Born and raised on a dairy farm in Concord, VT
20 years experience in senior management at
community banks in Vermont and New Hampshire

Serves on Federal Financial Institutions
Examination Council, Conference of State Bank
Supervisors, and National Association of State
Credit Union Supervisors

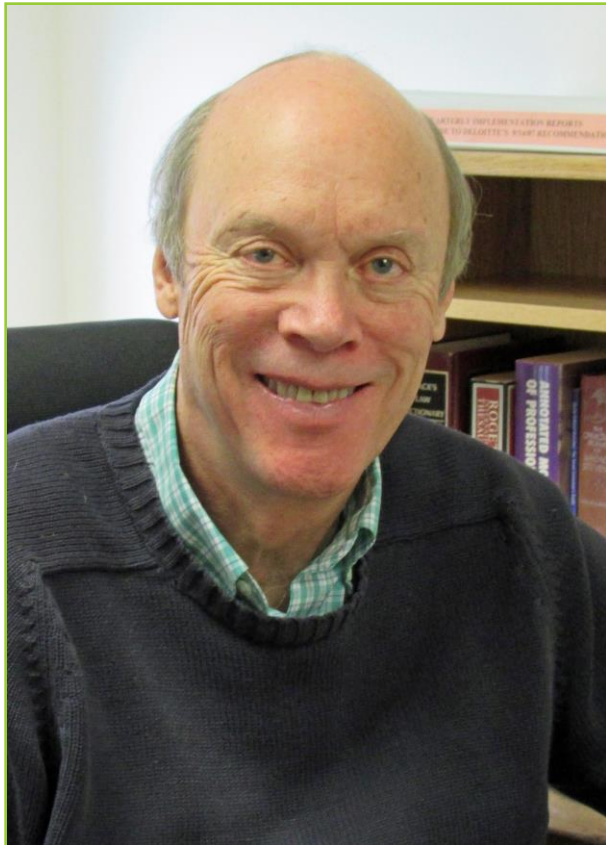
Volunteer on the Vermont Housing Financial Agency
Board of Commissioners, Concord Vermont
Planning & Zoning Board, Concord Vermont School
Board

Served as deputy since January 2015



Phil Keller

Interim Deputy Commissioner of Insurance



Born and raised in Dallas, Texas.

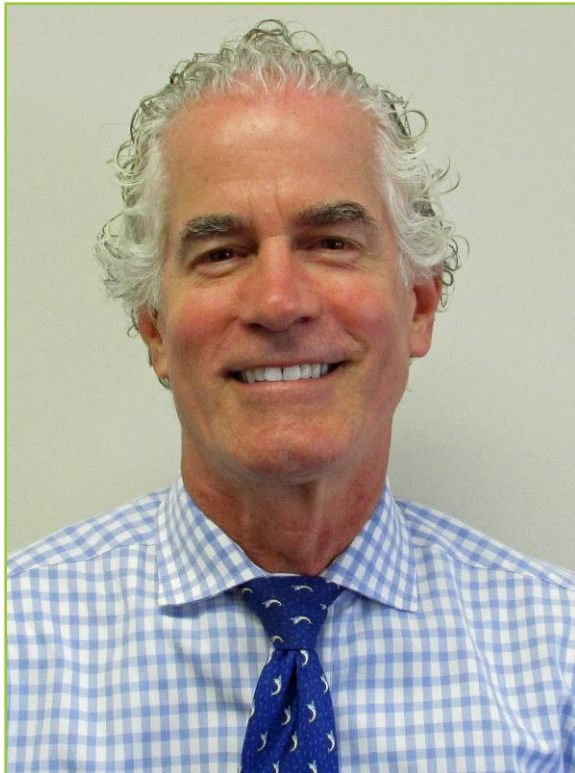
Graduated from Bennington College and Hastings College of the Law

Deputy state's attorney Washington County for eight years

Employed at DFR since 1996, serving in a variety of capacities including enforcement attorney for the Insurance Division, acting deputy for Insurance and deputy commissioner of Securities



Scot Kline General Counsel



Chief of Environmental Protection Division at
Attorney General's Office

General counsel at Agency of Natural
Resources; law firm private practice; and
Chittenden County State's Attorney

Joined DFR as General Counsel in Fall 2016



Overview of the Department

The Department's true strength is its people.

The Department ranked number one for two years running for overall job satisfaction among state agencies and departments.

- 2015 – 93.3% satisfied with job, #1 department/agency in state government
- 2014 – 93.6% satisfied with job, #1 department/agency in state government

111 employees

FY 2017 budget – \$14,727,063

FY 2016 Contribution to General Fund – \$86,727,149

Regulators who are Accessible, Responsive, Fair yet Tough



Overview of the Department

Why are financial services regulated?

Why Does DFR Exist?

Societal Importance

Ensuring confidence in the economy and fueling growth

Ensuring stability within the financial system

Deterring Financial Crimes

Individual Importance

Protecting one's life savings deposited in a bank

Protecting one's retirement savings invested through a firm

Protecting one's dependents in the event of an untimely death



Overview of the Department

Banking

- Federal Reserve (Fed)
- Federal Deposit Insurance Corporation (FDIC)
- Office of the Comptroller of the Currency (OCC)
- National Credit Union Administration (NCUA)
- Consumer Financial Protection Bureau (CFPB)

- State Bank Regulators

Securities

- Securities and Exchange Commission (SEC)
- Financial Industry Regulatory Authority (FINRA)
- Commodity Futures Trading Commission (CFTC)
- Securities Investor Protection Corporation (SIPC)

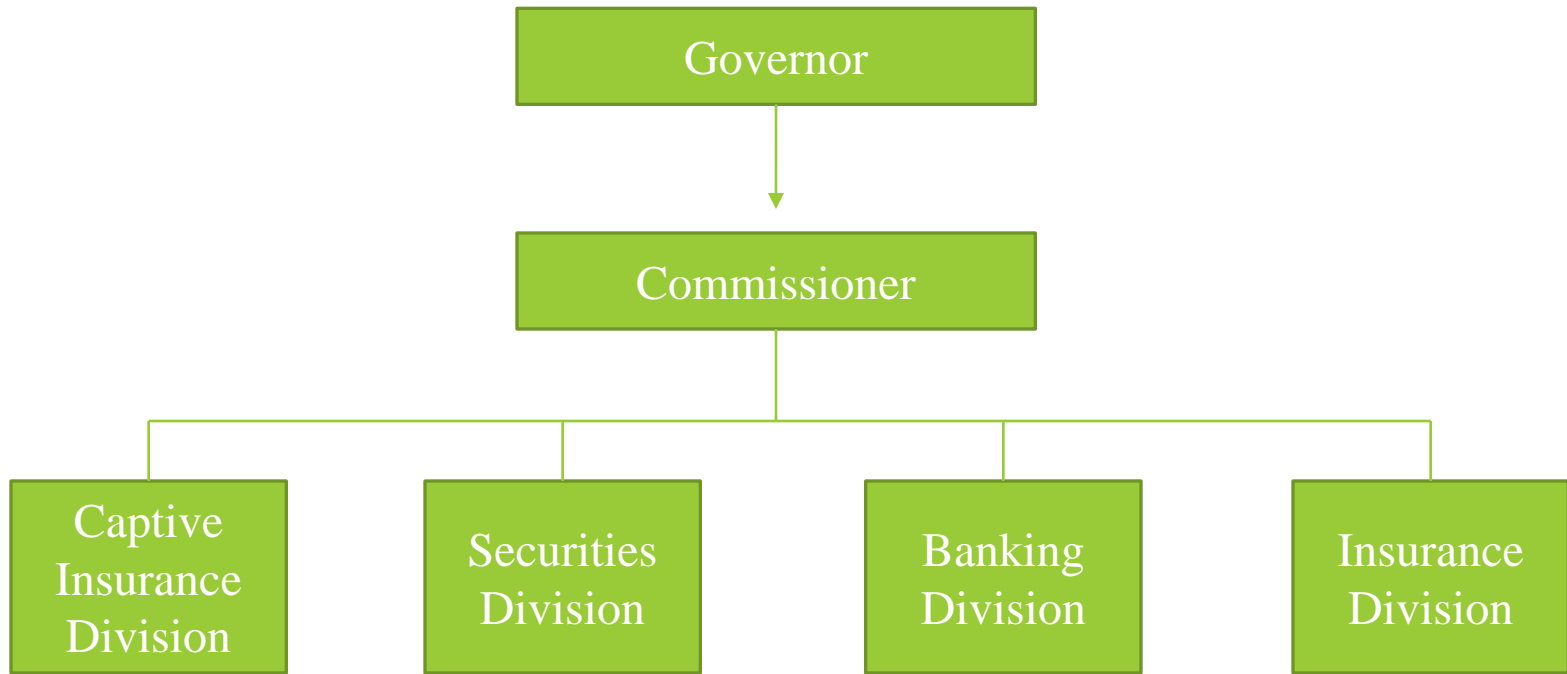
- State Securities Regulators

Insurance

- State Insurance Regulators



Overview of the Divisions



Captive Insurance Division (2016) “The Gold Standard”

Vermont: Number 1 Worldwide by Premium

Home to 18 of Dow 30 and 48 of Fortune 100

Licensed 26 New Captives in 2016

Captive Review: Dave Provost Most Influential

Most Efficient Examinations by Premium

Awarded Top U.S. Domicile of the Year

Awarded Non-EU Captive Domicile of the Year

Dave Provost – Named to Captive Hall of Fame

Captive Insurance Division

Captive Insurance Division works to maintain a regulatory system that attracts quality business to Vermont, promotes Vermont's reputation in the industry, and ensures the solvency of captive insurers while recognizing the special purpose for which they were created.

The Division pursues this mission by:

- Attracting and licensing quality programs whose primary purpose is risk management or risk financing
- Performing ongoing financial surveillance
- Performing periodic financial examinations
- Implementing and enforcing laws and regulations
- Developing effective and reasonable policies and procedures



Captive Insurance Division

Corporate form of Self Insurance – usually a subsidiary corporation established to provide insurance to the parent company and its affiliates.

A captive insurance company represents an option for many corporations and groups that want to take financial control and manage risks by underwriting their own insurance rather than paying premiums to third-party insurers.

Some of the advantages of going captive are:

- Coverage tailored to meet your needs
- Funding and underwriting flexibility
- Incentives for loss control
- Greater control over claims
- Reduced operating costs
- Improved cash flow
- Increased coverage and capacity
- Direct access to wholesale reinsurance markets



Captive Insurance Division

Strong Completion from other Captive Insurance domiciles

- More than 30 other states now have captive laws led by Utah, Hawaii, South Carolina, Kentucky, Arizona, Nevada, D.C.
- Dozens of offshore domiciles including Bermuda and the Cayman Islands

Why Choose Vermont?

- Regulatory “Gold Standard” – Accessible, Responsive, Fair yet Tough
- Professional Industry – captive managers, attorneys, accountants, the Vermont Captive Insurance Association (VCIA)
- Strong support from the Vermont Legislature and Governor – regardless of party
- Vermont’s captive laws remain cutting edge and ever improving



Captive Insurance Division

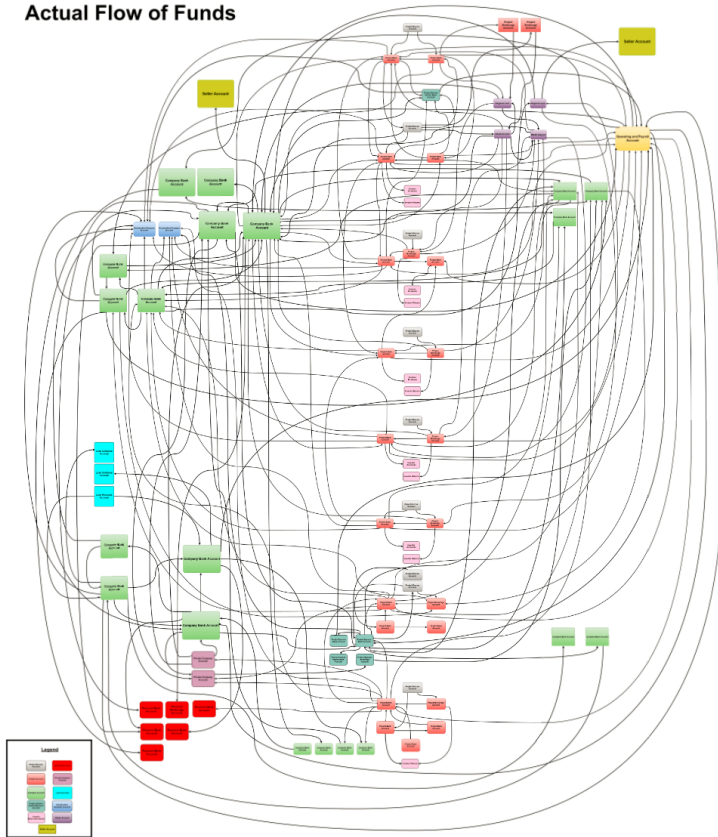
The Captive Insurance industry greatly benefits Vermont's economy:

- Estimated the Captive industry supports over 1,400 jobs in Vermont
- Captive jobs are well paying professional jobs
- Over 600 captive companies required to hold at least one board meeting in Vermont annually
- VCIA's annual conference attracts over 1,000 attendees to Vermont



Securities Division (2016)

Actual Flow of Funds



- Jay Peak: Largest alleged fraud in Vermont history
- Raymond James Settlement: Largest civil settlement in Department history
- Implemented desk examination program
- Successfully implemented division's first IT project in 15 years



Securities Division

Administers Vermont's "Blue Sky Laws" by

- protecting the Vermont investing public from fraud; and
- promoting the development of Vermont's capital markets.

Functions of the Securities Division

- Corporation Finance
- Broker Dealer and Investment Advisory Registration
- Examinations
- Enforcement Actions
- Vermont Regional Center EB-5 Compliance
- Investor Education





“Get a Scoop of the Action!”

2000 through 2014: 14 Offerings

2014 through 2016: 15 Offerings



Securities Division

Vermont Crowdfunding

Vermont Evaporator
Company



Raised
\$22,000
To Date

SAP!



Raised
\$78,300

Gringo Jack's



Raised
\$44,000
To Date

More robust compliance program for current and future EB-5 projects

DFR has conducted 16 compliance meetings with EB-5 projects since partnering with ACCD

Drafting EB-5 Rules to formalize DFR's compliance program in conjunction with ACCD:

1. Third Party Funds Administrator
2. Third Party Construction Supervisor / Clerk of the Works
3. Third Party Audit



Securities Division

Jay Peak / Burke

- Burke Hotel Opened in September 2016 – ahead of budget projections
- Jay Peak has lower expenses and higher revenue than any point in its recent history
- The federal receiver Mike Goldberg has begun the process to get unpaid subcontractors payments
- State and Federal cases are proceeding



Securities Division

Broker-Dealers

- 1,291 broker-dealer firms registered, 4 domiciled in Vermont
- 100,118 broker-dealer agents registered, 802 domiciled here
- 420 registered broker-dealer branch offices in Vermont

Investment Advisors

- 1,034 investment advisor firms registered
- 966 SEC registered, 22 domiciled in Vermont
- 68 state registered, 43 domiciled in Vermont
- 1,393 investment advisor representatives registered
- 607 are domiciled in Vermont
- 4 state regulated investment advisor branch offices in Vermont



Banking Division (2016)



- Vermont's last statewide state chartered bank announces sale to Community Bank System
- \$304 million sales price
- Shareholder and regulator approval needed
- Expected to close during the second quarter of 2017



Banking Division

Banking Division activities are organized around three broad program areas:

- **Regulatory and Consumer Affairs**
 - Charters Vermont financial institutions, credit unions and trust companies
 - Licenses entities engaged in the business of lending, mortgage brokering, loan securing, debt adjustment, sales finance, money services, check cashing, and currency exchange
- **Examinations**
 - 3,267 regulated entities
- **Enforcement**
 - Investigates consumer complaints
 - 1,685 complaints or inquires in 2016



Banking Division

Number of Vermont State Chartered Banks

1925: 59 state chartered banks

1955: 37 state chartered banks

1995: 17 state chartered banks

2017: 7 state chartered banks

Number of Vermont State Chartered Credit Unions

1953: 50 state chartered credit unions

1968: 72 state chartered credit unions

2000: 38 state chartered credit unions

2017: 15 state chartered credit unions



Banking Division

State Licenses	1998	2008	2016
Licensed Lenders	315	318	693
Mortgage Brokers	62	212	242
Mortgage Loan Originators	0	0	1,790
Loan Services	0	0	238
Sales Finance Companies	32	101	202
Debt Adjuster	5	24	27
Money Transmitters	0	16	71
Check Cashers	0	2	4
Development Credit Corporation	1	1	1
	415	674	3,268

Banking Division – Foreclosure Statistics

New Foreclosure Filings by County
Compiled by the Vermont Banking Division

Updated 12/23/2016

Year to Date 2016																	
	Jan	Feb	Mar	Q1	Apr	May	J	Q2	July	Aug	Sept	Q3	Oct	Nov	Dec	Q4	Total
Addison	3	2	3	8	3	2	2	7	2	4	2	8	4	0		4	27
Bennington	3	9	4	16	5	4	9	18	6	5	6	17	7	8		15	66
Caledonia	6	4	7	17	3	7	4	14	3	3	7	13	2	3		5	49
Chittenden	8	9	8	25	11	8	13	32	2	5	1	8	15	7		22	87
Essex	0	1	1	2	4	1	1	6	0	1	0	1	2	1		3	12
Franklin	7	11	6	24	4	4	5	13	1	5	3	9	8	7		15	61
Grand Isle	0	1	1	2	0	2	0	2	0	1	1	2	0	0		0	6
Lamoille	1	2	6	9	4	1	4	9	2	3	1	6	3	2		5	29
Orange	1	2	0	3	2	1	2	5	0	5	2	7	4	5		9	24
Orleans	2	3	5	10	2	3	1	6	1	7	1	9	2	4		6	31
Rutland	4	12	14	30	11	11	8	30	6	6	8	20	8	3		11	91
Washington	8	6	9	23	5	5	6	16	6	6	7	19	0	6		6	64
Windham	9	9	1	19	2	7	7	16	8	9	5	22	5	5		10	67
Windsor	8	10	11	29	26	13	7	46	7	5	6	18	6	6		12	105
Grand Total	60	81	76	217	82	69	69	220	44	65	50	159	66	57	0	123	719
January 2015 through December 2015																	
	Jan	Feb	Mar	Q1	Apr	May	June	Q2	July	Aug	Sept	Q3	Oct	Nov	Dec	Q4	Total
Addison	8	7	5	20	4	1	4	9	3	5	5	13	5	1	3	9	51
Bennington	9	10	10	29	15	4	8	27	8	5	11	24	8	6	11	25	105
Caledonia	5	4	8	17	9	4	4	17	2	6	5	13	6	5	7	18	65
Chittenden	10	8	16	34	24	11	8	43	14	10	8	32	12	8	9	29	138
Essex	3	1	2	6	1	0	1	2	1	1	0	2	2	2	0	4	14
Franklin	5	8	9	22	13	13	9	35	6	7	7	20	11	8	15	34	111
Grand Isle	1	1	2	4	0	3	1	4	0	1	0	1	1	1	2	4	13
Lamoille	4	5	1	10	7	3	10	20	4	10	2	16	6	3	7	16	62
Orange	8	4	5	17	1	3	5	9	5	2	2	9	8	0	5	13	48
Orleans	9	4	4	17	4	1	5	10	3	4	5	12	9	4	4	17	56
Rutland	14	12	12	38	18	11	9	38	13	3	18	34	13	8	11	32	142
Washington	10	7	10	27	13	10	8	31	12	11	15	38	11	6	12	29	125
Windham	5	4	9	18	18	3	4	25	2	8	12	22	8	8	8	24	89
Windsor	15	13	9	37	14	7	7	28	6	8	21	35	11	8	8	27	127
Grand Total	106	88	102	296	141	74	83	298	79	81	111	271	111	68	102	281	1146



37%




63%



Insurance Division (2016)

R Street Institute State Regulation Report Card

VERMONT	2015 Grade	2016 Grade
	A	A+
	Score	Rank
	80.9	1
Strengths:	Low politicization, ahead on financial exams, competitive auto insurance market, competitive home insurance market, no significant residual markets, underwriting freedom	
Weaknesses	Large runoff liabilities, high tax and fee burden.	

- The report found Vermont had the best insurance regulatory environment in the U.S., receiving the only A-plus score and improving from its A grade last year.
- Third straight year Vermont ranked number 1



Insurance Division

The Insurance Division regulates persons and companies engaged in providing insurance to Vermont consumers.

- Conducts financial examinations
- Conducts market conduct examinations and engage in consumer complaint resolution
- Approves rates and forms of insurance products
- Licenses insurance agents and provide educational requirements
- Provides consumer outreach and education



Insurance Division

- 1,390 – Companies registered in Vermont
- 10 – Vermont domestic entities
- 122,177 – Insurance agents licensed in Vermont
- 25,694 – New insurance agent licenses in 2016
- 4,089 – Consumer complaints/inquiries year end 2016
- \$460,317 – Recovered for consumers for year end 2016
- \$465,748 – Market conduct enforcement actions for year end 2016



Overview of DFR's 2017 Priorities

- Economic Development through Regulatory Innovation
- Senior Safe: Protecting our most vulnerable
- Cybersecurity: Educating and protecting our small businesses
- DFR Operations: How can we most efficiently and effectively do our jobs

