

ASSEMBLY BILL NO. 3667

To the General Assembly:

Pursuant to Article V, Section I, Paragraph 14 of the New Jersey Constitution, I herewith return Assembly Bill No. 3667 without my approval.

Assembly Bill No. 3667 would allow a dental service corporation ("DSC") to be or become a subsidiary of a nonprofit holding company or other nonprofit parent that is not a DSC. Under current law, DSCs are organized without capital stock on a not-for-profit basis and are regulated by the Department of Banking and Insurance ("DOBI"), which is charged with ensuring that DSCs operate for the benefit of their subscribers. The mission of each DSC is to maintain and operate a nonprofit dental service plan through which dental care is provided to plan subscribers by dentists who are paid with the premiums collected by the DSC from its plan subscribers.

Current law also sets forth various limitations on investments of insurance companies' capital, surplus, and other funds. These investment restrictions serve to guarantee that no insurance company is placed at a competitive disadvantage, and protect consumers against the risk that, if an insurer were to experience greater-than-expected losses on investments in subsidiaries, the insurer might be unable to pay the claims incurred by its policyholders. While it is impossible for laws and regulations to guarantee the performance of an insurance company's investments, the current statutory restrictions establish strong guardrails that reduce the risk of insolvency and illiquidity and ensure that adequate liquid assets will remain available to pay for the services upon which policyholders rely.

Although Assembly Bill No. 3667 would create a new, abbreviated process for a DSC to change its corporate structure to become a subsidiary of a parent company, a pathway already exists under current law for such a change. A DSC that desires to change its corporate structure in the manner contemplated by this bill could do so by dissolving, transferring its net assets to appropriate charitable or

educational purposes, and reorganizing as another regulated entity with an adequate surplus, such as a dental plan organization, which is authorized to issue stock that can be held by a parent company.

While I am not opposed to the creation of an additional pathway, I am concerned that this bill, as currently drafted, fails to include essential procedural and substantive requirements and standards, oversight, and approvals necessary for the protection of plan subscribers and the State as a whole. For example, similar recent legislation authorizing reorganization of health service corporations included significant transparency, equity, oversight, and approval requirements that are altogether absent from the current bill. Only through such a process can a DSC's subscribers, its regulator, and the public as a whole have confidence that a structural change will advance the DSC's principal mission of providing affordable dental care to its subscribers through innovation and improvement and diversification of the services it provides.

While I support the goals of business innovation and modernization, this bill lacks robust transparency and oversight provisions that have been present in similar legislation to authorize a change to an insurance company's corporate structure, which have served to protect consumers.

Accordingly, I herewith return Assembly Bill No. 3667 without my approval.

[seal]

Respectfully,

/s/ Philip D. Murphy

Governor

Attest:

/s/ Kate E. McDonnell

Chief Counsel to the Governor