

Testimony to the
Senate Industry, Business, and Labor Committee

2/16/21

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RE: Engrossed House Bill No. 1086

Chairman Klein and members of the Senate Industry, Business, and Labor Committee, my name is Brennan Quintus, and I am the CEO of the North Dakota Insurance Reserve Fund (NDRF).

The NDRF is a self-insurance pool that offers liability, automobile, and equipment risk coverage to North Dakota political subdivisions. Over 2,550 local government entities participate in the NDRF through their purchase of coverage. In addition, the NDRF contracts with the North Dakota Insurance Department to administer the State Fire and Tornado Fund ("Fund"), which provides property insurance coverage to North Dakota's state agencies and political subdivisions, and the State Bonding Fund, which provides fidelity risk coverage to North Dakota's state agencies and political subdivisions.

The NDRF worked with the Insurance Department on Engrossed House Bill 1086 and we respectfully request that the committee provide a do pass recommendation.

The purpose of Engrossed House Bill 1086 is to provide for a more efficient operation of the Fund by amending Chapter 26.1-22 of the North Dakota Century Code to include recommended changes from NDRF staff based on our administration of the Fund over the past year and half. Below I will briefly describe the proposed changes and the practical impact those changes would have on the administration of the Fund.

- Section 1 allows for the Commissioner to develop underwriting guidelines for the indirect loss coverage that is provided to Fund members. Indirect loss coverage is coverage for those expenses that an insured might incur after a loss beyond the damage to the property, such as loss of income or extra expense. Currently, Fund members can choose to obtain coverage for indirect losses but underwriting the amount of coverage provided by the Fund is not provided for in law. This section allows the Commissioner to adopt guidelines regarding indirect loss coverage to protect the Fund and its members from excessive indirect loss coverage being provided to Fund members.
- Depending on various property characteristics, the Fund will insure property at actual cash value or replacement cost. Section 2 removes the requirement that a replacement cost estimate be provided for property that is insured at actual cash value. Rather than providing a replacement cost estimate on every property, administration of the Fund will be more efficient if a replacement cost estimate is only required for property insured at

replacement cost. State agencies and political subdivisions insuring property at actual cash value would still have the opportunity to work with NDIRF staff to ensure their property is insured at a level they are comfortable with.

- Section 3 removes restrictions on coverage offered by the Fund. Currently, the Fund is required to provide coverage for certain perils and is limited to providing coverage in the manner and subject to the restrictions of the standard fire insurance policy. It is in the best interest of Fund members to provide coverage beyond what is included in a standard fire insurance policy because a standard fire insurance policy is likely not the best coverage solution for state agencies and political subdivisions.

In addition, Section 3 allows for the Fund to insure both personal property and buildings on a blanket basis, easing the administrative burden for all involved.

- Section 4 removes references to the Insurance Services Office (ISO) as the sole provider of rates for the Fund. While it might be possible that the Fund would continue to rely on ISO rates, having rating flexibility is in the best interest of the Fund and its members.
- Section 5 removes the requirement that premiums owed by Fund members over 60 days past due are charged 6% interest. The NDIRF has encountered scenarios where the interest owed is less than \$1 and the administrative expense to collect the interest exceeds the amount collected. However, under Section 5, language is added to require 6% interest on any amounts collected under an enforcement judgement, as provided for under N.D.C.C. § 26.1-22-15.
- Section 6 removes the requirement that independent contractors perform the repair or replacement of buildings covered by the Fund. In some situations, state agency or political subdivision staff can perform the repairs necessary after a loss at a lower cost than if performed by a contractor. This would allow cost savings to the Fund and, ultimately, to North Dakota taxpayers.

Thank you for the opportunity to provide testimony, Chairman Klein and members of the Senate Industry, Business, and Labor Committee. I am happy to answer any questions the Committee might have.