

2021 HOUSE INDUSTRY, BUSINESS AND LABOR

HB 1086

2021 HOUSE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee

Room JW327C, State Capitol

HB 1086

1/12/2021

Property insured by the state fire and tornado fund

Chairman Lefor opened the (9:55). Members present: Chairman Lefor, Vice Chairman

Keiser, Rep Hagert, Rep Jim Kasper, Rep Scott Louser, Rep Nehring, Rep O'Brien,

Rep Ostlie, Rep Ruby, Rep Schauer, Rep Stemen, Rep Thomas, Rep Adams, Rep P

Anderson

Discussion Topics:

- State Fire and Tornado Fund is the primary insurer for state owned property, political subdivisions & state industries.
- Updates the F&T chapter in response to North Dakota Insurance Reserve Fund (NDIRF)'s expertise insuring state entities.
- Reduces the burden associated with administering F&T Fund & improves coverage of state entities & political subdivisions.

Johannes Palsgraaf~General Counsel-ND Insurance Dept ((9:56): Introduced HB 1086 & submitted # 506.

(10:00) Questions from the committee.

Brennan Quintus~CEO ND Insurance Reserve Fund (10:05): Explains each section. Submitted # 607.

(10:18) Committee questions.

Steve Becker~Becher~Executive Director-Professional Insurance Agents of ND

(10:22): Addresses questions from the committee.

Chairman Lefor: Closes the hearing **(10:24).**

(10:26) Request the bill to be held.

End time (10:32).

Ellen LeTang, Committee Clerk

HOUSE BILL NO. 1086

Presented by: Johannes (Johnny) Palsgraaf
General Counsel
North Dakota Insurance Department

Before: House Industry, Business, and Labor Committee
Representative Mike Lefor, Chairman

Date: January 12, 2021

TESTIMONY

Good morning Chairman Lefor and members of the committee. My name is Johannes (Johnny) Palsgraaf and I am General Counsel for the North Dakota Insurance Department. House bill 1086 was introduced at the request of Insurance Commissioner Jon Godfread.

HB 1086 amends the existing State Fire and Tornado Fund chapter in the insurance code, Title 26.1. For those members of the committee not familiar with the State Fire and Tornado Fund (F&T Fund), the F&T Fund is the primary property insurer for state owned property, political subdivisions and state industries.

In 2019 the Sixty-sixth Legislative Assembly passed SB 2010 which permitted the Commissioner to contract for services of assistance of the North Dakota Insurance Reserve Fund (NDIRF) to administer the F&T Fund. One of the primary reasons for moving the administration of the F&T Fund to NDIRF was to take advantage of NDIRF's expertise in providing insurance to state entities. The Insurance Department anticipated that NDIRF's expertise would enable the Department to identify beneficial changes to the F&T chapter and NDIRF would be better able to make practical suggestions to improve the overall function of the F&T Fund.

HB 1086 updates the F&T chapter in response to NDIRF's experience administering the F&T Fund and NDIRF's expertise insuring state entities. HB 1086 reduces the burden associated with administering the F&T Fund and improves insurance coverage of state entities and political subdivisions as follows:

- Section 1 modifies the definition of "political subdivisions" to allow nonprofit corporations that work with state entities or political subdivisions the option to purchase F&T Fund coverages.
- Section 2 permits the Commissioner to use underwriting guidelines for indirect loss coverage.
- Section 3 ensures that replacement cost appraisals are not required for actual cash value insurance coverages.
- Section 4 removes reference to the outdated "standard fire insurance policy and standard endorsement" and allows for the F&T Fund insurance coverage to be in-line with modern coverages. Additionally, Section 4 permits the F&T Fund to provide coverage on a blanket policy, which both reduces F&T fund administrative burdens for insureds, and NDIRF, and provides more comprehensive coverage for insureds.
- Section 5 removes unnecessary references to Insurance Services Offices, which is a specific insurance services entity, and enables the F&T Fund to use assessment rates based on the actual insured rates.
- Section 6 shifts any interest owed on late premium payments to court judgements, which maintains the interest penalty for delinquent entities and significantly reduces a current administrative burden of collecting and processing de minimis interest amounts.
- Section 7 permits insureds that have current personnel with the knowledge, experience and expertise in repairing and improving state property to use their own personnel to make repairs, which effectually reduces claim costs to the F&T Fund.

This bill contains an emergency clause and effective date clause to sync up the effective date of the bill with the current renewal term of insurance coverage provided to state entities and political subdivisions by the F&T Fund.

In conclusion, these F&T Fund updates reduce some of the administrative burden of managing the fund and allow for enhancements to F&T Fund insurance coverage to better serve the insurance purposes of state entities and political subdivisions. I respectfully request a “do pass” recommendation from this committee on HB 1086 and I am happy to take any questions.

Prepared by the North Dakota
Insurance Department
January 12, 2021

PROPOSED AMENDMENTS TO BILL NO. 1086

Page 1, line 20, after "The coverage provided by the fund" replace "may" with "shall"

2021 HOUSE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee
Room JW327C, State Capitol

HB 1086
1/13/2021

Property insured by the state fire and tornado fund
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(9:04) Chairman Lefor opened the work session.

Representatives	Attendance
Chairman Lefor	P
Vice Chairman Keiser	P
Rep Hagert	P
Rep Jim Kasper	P
Rep Scott Louser	P
Rep Nehring	P
Rep O'Brien	P
Rep Ostlie	P
Rep Ruby	P
Rep Schauer	P
Rep Stemen	P
Rep Thomas	P
Rep Adams	P
Rep P Anderson	P

Discussion Topics

- Committee work.

Chairman Lefor closed the work session due to the amendment not finished.

(9::05) End time.

Ellen LeTang, Committee Clerk

2021 HOUSE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee Room JW327C, State Capitol

HB 1086
1/20/2021

Property insured by the state fire and tornado fund

(2:16) Chairman Lefor opened the work session.

Representatives	Attendance
Chairman Lefor	P
Vice Chairman Keiser	P
Rep Hagert	P
Rep Jim Kasper	A
Rep Scott Louser	P
Rep Nehring	P
Rep O'Brien	P
Rep Ostlie	P
Rep Ruby	P
Rep Schauer	P
Rep Stemen	P
Rep Thomas	P
Rep Adams	P
Rep P Anderson	P

Discussion Topics:

- Coverage extension to state non-profits
- Amendment

John Arnold~Deputy Insurance Commissioner-ND Insurance Dept amendment. Attachment #1916.

Rep Schauer moved the amendment from Deputy Insurance Commissioner 21.8050.01001.

Rep Hagert second.

Voice vote Motion carried.

Rep O'Brien moved a Do Pass as Amended.

Rep Adams second.

Representatives	Vote
Chairman Lefor	Y
Vice Chairman Keiser	Y
Rep Hagert	Y
Rep Jim Kasper	A
Rep Scott Louser	Y
Rep Nehring	Y
Rep O'Brien	Y
Rep Ostlie	Y
Rep Ruby	Y
Rep Schauer	Y
Rep Stemen	Y
Rep Thomas	Y
Rep Adams	Y
Rep P Anderson	Y

Vote roll call taken Motion carried 13-0-1 & Rep O'Brien is the carrier.

Vice Chairman Keiser requested to hold the bill.

(2:23) End time

Ellen LeTang, Committee Clerk

January 25, 2021

QJ
1/25/21

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1086

Page 1, line 1, remove "subsection 5 of section 26.1-22-01 and"

Page 1, remove lines 6 through 14

Page 1, line 20, replace "may" with "shall"

Page 2, line 12, after "or" insert "may insure"

Page 2, line 13, remove the overstrike over "~~subject to the restrictions~~"

Page 2, line 14, after the third overstruck comma insert "and exclusions deemed necessary by the commissioner."

Renumber accordingly

REPORT OF STANDING COMMITTEE

HB 1086: Industry, Business and Labor Committee (Rep. Lefor, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1086 was placed on the Sixth order on the calendar.

Page 1, line 1, remove "subsection 5 of section 26.1-22-01 and"

Page 1, remove lines 6 through 14

Page 1, line 20, replace "may" with "shall"

Page 2, line 12, after "or" insert "may insure"

Page 2, line 13, remove the overstrike over "~~subject to the restrictions~~"

Page 2, line 14, after the third overstruck comma insert "and exclusions deemed necessary by the commissioner."

Renumber accordingly

Prepared by the North Dakota
Insurance Department
January 18, 2021

PROPOSED AMENDMENTS TO BILL NO. 1086

Page 1, line 1, remove “subsection 5 of section 26.1-22-01 and”

Page 1, remove lines 6 through 14

Page 1, line 20, replace “may” with “shall”

Page 2, line 12, after “or” insert “may insure”

Page 2, line 13, remove overstrike from “subject to the restrictions”

Page 2, line 13, after “restrictions” insert “and exclusions deemed necessary by the commissioner,”

Renumber accordingly

2021 SENATE INDUSTRY, BUSINESS AND LABOR

HB 1086

2021 SENATE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee Fort Union Room, State Capitol

HB 1086
2/16/2021

relating to property insured by the state fire and tornado fund

Chair Klein opened the hearing at 9:45 a.m. All members were present. Senators Klein, Larsen, Burckhard, Kreun, Vedaa, and Marcellais.

Discussion Topics:

- State owned property
- Commercial buildings

Johannes Palsgraaf, General Counsel for ND Insurance Department introduced bill, testified in favor, and submitted testimony #6616 [9:45].

Brennan Quintus, CEO ND Insurance Reserve Fund testified in favor and submitted testimony #6719 [9:50].

Senator Vedaa moved a DO PASS [9:59].

Senator Kreun seconded the motion [9:59].
[9:59]

Senators	Vote
Senator Jerry Klein	Y
Senator Doug Larsen	Y
Senator Randy A. Burckhard	Y
Senator Curt Kreun	Y
Senator Richard Marcellais	Y
Senator Shawn Vedaa	Y

Motion passed: 6-0-0

Senator Kreun will carry the bill [10:00].

Chair Klein ended the hearing at 10:00 a.m.

Isabella Grotberg, Committee Clerk

REPORT OF STANDING COMMITTEE

HB 1086, as engrossed: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends **DO PASS** (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1086 was placed on the Fourteenth order on the calendar.

HOUSE BILL NO. 1086

Presented by: Johannes (Johnny) Palsgraaf
General Counsel
North Dakota Insurance Department

Before: Senate Industry, Business, and Labor Committee
Senator Jerry Klein, Chairman

Date: February 16, 2021

TESTIMONY

Good morning Chairman Klein and members of the committee. My name is Johannes (Johnny) Palsgraaf and I am General Counsel for the North Dakota Insurance Department. House bill 1086 was introduced at the request of Insurance Commissioner Jon Godfread.

HB 1086 amends the existing State Fire and Tornado Fund chapter in the insurance code, Title 26.1. For those members of the committee not familiar with the State Fire and Tornado Fund (F&T Fund), the F&T Fund is the primary property insurer for state owned property, political subdivisions and state industries.

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- Section 4 removes unnecessary references to the Insurance Services Offices, which is a specific insurance services entity, and enables the F&T Fund to use assessment rates based on the actual insured rates.
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better serve the insurance purposes of state entities and political subdivisions. I respectfully request a “do pass” recommendation from this committee on HB 1086 and I am happy to take any questions.

Testimony to the
Senate Industry, Business, and Labor Committee
2/16/21

Prepared by Brennan Quintus, CEO
North Dakota Insurance Reserve Fund

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 (NDIRF).

The NDIRF 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 NDIRF through their purchase of coverage. In addition, the NDIRF 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 NDIRF 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 NDIRF 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.