

TESTIMONY SB 2305

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Before: House Industry, Business, and Labor Committee
Representative Scott Louser, Chairman

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Good afternoon, Chairman Louser and members of the committee, my name is Johannes (“Johnny”) Palsgraaf, and I am general counsel for the North Dakota Insurance Department. I am here today testifying in support of senate bill 2305.

SB 2305 does two things. It eliminates a diligent search certified statement that surplus lines insurance producers are required to submit every time a policy is placed with a surplus lines insurance company. It also permits the surplus lines insurance producer to skip the diligent search requirement when an insurance producer refers the insured to a surplus lines producer to place the insurance with a surplus lines insurance company.

For those members of the committee that are unfamiliar with surplus lines insurance, I will provide a brief explanation. Surplus lines insurance is generally for meeting insurance needs that are not generally available from the commonly known insurance companies. The commonly known Insurance companies are the insurers that normally insure your vehicle, home, health, life, or small business. These commonly known insurance companies are called “admitted insurance companies” because they are officially admitted to do business in North Dakota. Surplus lines companies insure the less common risks and usually sell policies to more sophisticated purchasers. Surplus lines companies are also known as non-admitted insurance companies because they do not possess an official certificate of authority to do business in North Dakota.

When an insurance producer is assisting an insurance consumer and the insurance producer is unable to find insurance coverage from one of the common insurance

companies, aka admitted insurers, the insurance producer will refer the insurance consumer to a surplus lines insurance producer. Under the current law the surplus lines producer is required to confirm the insurance is unavailable from the admitted insurance companies and sign a statement certifying under penalty of law that a diligent search of the admitted market was completed. The certified statement is then submitted to the insurance department.

SB 2305, if passed, will no longer require surplus lines producers to sign and submit a certified statement of a diligent search of the admitted market to the Insurance Department. The Insurance Department is not concerned about eliminating this requirement. I have been with the Insurance Department for over ten years, and within my time with the Insurance Department the last ten years the Insurance there has not been a need to use this form to enforce compliance with the law requiring a diligent search of the admitted market.

SB 2305, if passed, will also eliminate the diligent search requirement when the surplus lines producer receives a referral from an insurance producer. This is more of a policy change from the current law. Because this is a policy change, the Insurance Department leaves it up to this committee and the insurance industry to decide whether to adopt this change.

Thank you for this opportunity to testify, and I will stand for any questions from the committee.