TESTIMONY
*Jon Godfread, Insurance Commissioner*
Senate Industry and Business Committee
January 28, 2025

**Testimony in Support of Senate Bill 2272**

Good morning, Vice Chairman Boehm and members of the committee, thank you for the opportunity to speak in support of Senate Bill 2272. I'd like to begin by providing some context about how this legislation came to fruition and why it's important for North Dakota's property insurance market.

In recent years, we've seen increased upward pressure on insurance premiums and greater difficulty in maintaining adequate coverage. These challenges have impacted residents and businesses in every community across our state. I know many of you have experienced this firsthand, either through your own insurance needs or through conversations with your constituents.

These difficulties are not unique to North Dakota. Across the nation, insurance markets are struggling due to factors like increased severe weather events, rising claims costs, and reduced participation by insurers. However, North Dakota is in a better position than many other states, and this is exactly why we must take proactive steps to ensure that we remain ahead of these challenges.

In 2024, recognizing the urgency of this issue, I submitted a request to the Emergency Commission for funding to study potential solutions for improving North Dakota's property and casualty insurance market. I felt it was critical to act immediately rather than wait for this legislative session to seek the study, which would have delayed any action until the 70th Legislative Assembly in 2027. I'm grateful that the Emergency Commission and Budget Section agreed with this approach.

Senate Bill 2272 is the first of two legislative proposals resulting from that study. This bill establishes the North Dakota Insurance Incentive Program, a public-private initiative designed to attract new insurers to our market and encourage existing insurers to expand their offerings.

This program is modeled after Louisiana's successful Insure Louisiana Incentive Program, which was implemented in response to a severe property insurance crisis following hurricane-related losses. That program offered matching funds to insurers willing to invest in Louisiana's market, and it has delivered tangible results. In its first year, Louisiana's program facilitated the issuance of over 50,000 new policies, including 24,000 policies for individuals previously relying on the state-run insurer of last resort. Seeing this success, Louisiana allocated additional funding to the program in late 2023.

While North Dakota is not facing a crisis of the same magnitude as Louisiana, we can learn from their experience. Our challenges—severe weather events, limited insurer participation, and rising premiums—make it clear that we should act now to bolster our property insurance market.

**How the Program Works:**
Senate Bill 2272 establishes a fund to provide matching grants to insurance companies willing to allocate capital to write property insurance in North Dakota. Here's how it would work:

- Insurers can apply for grants ranging from $2 million to $10 million.
- The state provides matching funds for the insurer's capital investment on a 1:1 basis, distributed over five years (20% annually).
- To qualify, insurers must meet rigorous eligibility criteria, including:
  - A capital surplus of at least $10 million.
  - A stable financial condition, demonstrated by satisfactory risk-based capital levels.
  - An adequate risk-based reinsurance program.

These safeguards ensure that the program supports financially stable insurers with the capacity to deliver real benefits to North Dakota consumers.

Once approved, participating insurers must use the funds to write property insurance in North Dakota, generating at least $2 in new premiums for every $1 of combined grant and capital investment. This ensures a strong return on public investment while increasing competition and availability in the market.

**Why This Program Matters**
This program addresses one of the root causes of rising premiums and limited coverage—insufficient competition. By lowering barriers to entry and incentivizing insurers to invest in North Dakota, we can:

- Increase market competition, which helps to stabilize and potentially reduce premiums.
- Expand access to coverage, particularly in underserved areas such as rural communities.
- Ensure residents and businesses have reliable options to protect their homes, farms, and other assets.

Importantly, this program is designed with fiscal responsibility in mind. The state's investment is matched dollar-for-dollar by private insurers, leveraging public funds to generate significant market impact.

**Learning from Other States**
As Insurance Commissioner, I've seen how other states have handled similar challenges. Some have enacted well-intentioned but counterproductive measures, such as blanket rate freezes or

mandated claim payments beyond policy terms. These approaches often drive insurers out of the market, exacerbating the very problems they seek to solve.

By contrast, SB 2272 takes a measured, market-based approach. It encourages competition and cooperation between the public and private sectors, fostering a healthier insurance market for the long term.

**Funding Proposal**
At this time, I want to note that the current version of the bill does not include any dollars allocated to the fund, nor does it specify a funding source. Should this committee find that this is a worthy policy goal for North Dakota, we would propose an amendment to address funding.

Specifically, we recommend that the initial funding of $20 million be drawn from the Insurance Tax Distribution Fund, which collects premium taxes paid by consumers. Additionally, we suggest that on an ongoing basis—or at least as long as this program is in effect—any excess dollars from the Insurance Regulatory Trust Fund above the legislatively mandated cap be swept into the Insurance Incentive Fund, up to a $20 million cap. Any funds exceeding this cap would then flow into the General Fund.

These funding sources—derived from taxes paid by consumers and fees and fines paid by the insurance industry—ensure that insurance dollars are reinvested back into the market to benefit North Dakota consumers. This approach would help reduce premiums and increase competition, achieving the goals of this program.

Should the committee be interested, we would be happy to draft this proposed amendment or work with Legislative Council on the language. However, as the bill stands before you today, there is no funding allocated for the program. We wanted to first have the policy discussion before delving into the financial aspects.

The North Dakota Insurance Incentive Program is a forward-thinking solution that seeks to prevent the further deterioration of our state's property insurance market. By proactively addressing issues of affordability and availability, this program helps us avoid the potential for a hard market in North Dakota—a situation where premiums skyrocket and coverage options diminish.

If left unaddressed, a worsening insurance market could lead us to a critical availability crisis, where certain areas of the state may struggle to find any insurance at all. The alternative to a competitive private market would be the establishment of a FAIR (Fair Access to Insurance Requirements) Plan or similar government-sponsored insurance program. FAIR Plans, which have been implemented in states facing extreme market challenges, are far from ideal.

**The Drawbacks of FAIR Plans:**

1. **Costly for Consumers**: Coverage under a FAIR Plan is often significantly more expensive than private market insurance. This places a heavy financial burden on policyholders, many of whom are already struggling with rising costs.
2. **Financial Strain on the State**: FAIR Plans require substantial government involvement and funding, adding a significant and recurring financial burden to the state's budget. North Dakota would have to divert resources away from other priorities to maintain such a program.
3. **Limited Coverage Options**: FAIR Plans are typically designed to provide bare-bones coverage, focusing on the most basic risks. This leaves consumers without access to more comprehensive or tailored insurance products that meet their unique needs.
4. **Stifles Market Innovation**: By creating a government-backed alternative, FAIR Plans can discourage private insurers from entering or remaining in the market, further reducing competition and choice for consumers.
5. **Reactive, Not Proactive**: FAIR Plans are often implemented as a last resort, only after a market has already collapsed. They do nothing to address the underlying issues that led to the crisis, leaving the state in a perpetual cycle of high costs and limited availability.

The North Dakota Insurance Incentive Program offers a much better alternative. Instead of waiting for a crisis to unfold, this program takes proactive steps to attract private insurers, foster competition, and stabilize the market before it reaches a breaking point. By offering targeted incentives, we create an environment where insurers are motivated to invest in North Dakota, develop innovative products, and provide affordable coverage options for consumers and businesses alike.

Unlike a FAIR Plan, which is a costly reaction to market failure, the Insurance Incentive Program is a cost-effective, preventative measure. It leverages private investment, ensures accountability through performance-based grants, and focuses on building a sustainable, competitive market. This approach not only avoids placing additional financial strain on the state but also protects consumers from the high costs and limited options associated with government-sponsored insurance programs.

We hope to avoid ever requiring a FAIR Plan in North Dakota, and we can achieve this by developing a highly competitive and robust insurance market. Senate Bill 2272 positions us to do just that. By passing this legislation, we can safeguard our property insurance market, ensure its availability and affordability, and protect North Dakota consumers from the costly consequences of market failure.

Thank you for your time and consideration. I'm happy to answer any questions you may have.

**NORTH DAKOTA**
Insurance Department

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# Fact Sheet: Senate Bill 2272, creation of the **North Dakota Insurance Incentive Program**

The **North Dakota Insurance Incentive Program** aims to improve the availability and affordability of property insurance across the state. The program encourages greater investment in the local insurance market by providing matching capital fund grants to qualified insurers. This initiative is particularly helpful in North Dakota, where challenges like severe weather and limited insurer participation can make securing affordable coverage difficult. By attracting more insurers and boosting competition, **the program helps ensure residents and businesses have access to reliable property insurance options.**

## Program Administration

- Administered by the Insurance Commissioner.
- Continuing appropriation, with initial funding from the Insurance Tax Distribution Fund.
- Grants to insurance companies to expand insurance accessibility and/or affordability.
- Matching grants to insurance companies to expand insurance accessibility and/or affordability.
- Initial grants range from $2 million to $10 million.
- Matching grants to insurance companies to expand insurance accessibility and/or affordability.
- At least 20% of total funds are allocated to **domestic insurers**.
- If funds remain after initial grant rounds, second and third rounds may be issued.
- Insurers receiving previous grants may reapply, up to the $10 million cap per round.
- The Insurance Commissioner will respond to all applications.
- Unused funds will revert to the General Fund if not used.

## Grant Eligibility

- Insurers must have a capital surplus exceeding $10 million
- Must demonstrate satisfactory prior experience in property insurance
- New insurers are eligible if management has relevant experience
- Insurers must commit at least $2 million in capital
- Insurers must write property insurance in North Dakota with premiums **at least twice the amount** of the combined grant and capital

## Example

ABC Insurance Company is seeking to expand its coverage in North Dakota to give rural consumers more options. ABC Insurance commits **$5 million in capital**. The state matches this with a **$5 million grant**, with $1 million dispursed each year for five years.

The insurer creates a new insurance product tailored for rural homeowners, including coverage for wind and hail risks.

The insurer writes $20 million in new premiums (double the combined $10 million from the insurer's capital and the matching grant), providing affordable policies to homeowners who previously struggled to find coverage.