

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1303

2001 HOUSE INDUSTRY, BUSINESS AND LABOR

HB 1303

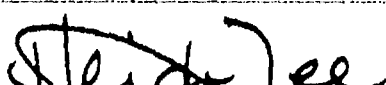
2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1303

House Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date Jan 29, 2001

Tape Number	Side A	Side B	Meter #
1	X		0-30
Committee Clerk Signature 			

Minutes: Chairman R. Berg, Vice-Chair G. Keiser, Rep. M. Ekstrom, Rep. R. Froelich, Rep. G. Froseth, Rep. R. Jensen, Rep. N. Johnson, Rep. J. Kasper, Rep. M. Klein, Rep. Koppang, Rep. D. Lemieux, Rep. B. Pietsch, Rep. D. Ruby, Rep. D. Severson, Rep. E. Thorpe.

Representatives Monson and Nicholas: We introduce this bill and are in support of amendments.

Insurance Commissioner Jim Poolman: This bill allows to open up county mutuals to not have a limited number of counties in which to do business with. Current statute allows for business in 20 counties, this bill opens this up and does not put a limit on the amount of counties in which to do business. Our amendments limit to 30 counties and if the county mutual wants to go further it will be up to the Insurance Commissioner. We'd also like to add reporting conditions to include financial information. We'd also like the Insurance Commission to be able to audit and require a \$50,000 reserve requirement.

R. Froseth: How many county mutuals are there currently?

Poolman: Fifteen.

R. Ekstrom: Why remove statutes territory guidelines?

Poolman: There is no need to examine this since there will no longer be boundaries.

R. Kasper: Why put the limit to 30 counties?

Page 2
House Industry, Business and Labor Committee
Bill/Resolution Number HB 1303
Hearing Date Jan 29, 2001

Poolman: This would allow mergers but still keep control.

David Kronebusch: (920) *ND Assoc. Farm Mutual*
Written Testimony supporting bill

C. Berg: Explain the difference between a typical county mutual and an insurance company.

Kronebusch: A county mutual was basically formed to serve as a unit to spread risk.

Brenda Doll: (1300) *ND Assoc. Farm Mutual Insurance Company*
Written Testimony supporting bill

R. Koppang: Will this inevitably become one?

Doll: Maybe smaller but no less than 4-6.

R. Kasper: Why haven't the rates raised through years?

Page 3

House Industry, Business and Labor Committee

Bill/Resolution Number HB 1303

Hearing Date Jan 29, 2001

Doll: Local customers deserve low insurance.

Barry Townsend: (20.00) *ND Assoc. Farm Mutual Insurance Company*

Written Testimony supporting bill

C. Berg: How do you feel about the 30 counties?

Townsend: I support them.

R. Jensen: What about report quarterly if over 20 counties?

Townsend: That's not a disadvantage.

Bob Olson: (2450) *Mutual Insurance Company*

Written Testimony supporting bill

Pat Ward: (2693) *ND Domestic Insurance* We oppose as written. We will agree as changed with amendments.

Kent Olson: (2754) *NDPIA*

Written Testimony supporting bill

C. Berg: Close hearing on HB 1303. Will return after review of testimonies.


2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1303

House Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date Jan 30, 2001

Tape Number	Side A	Side B	Meter #
3	X		15.6-25.4
Committee Clerk Signature 			

Minutes: Chairman R. Berg, Vice-Chair G. Keiser, Rep. M. Ekstrom, Rep. R. Froelich, Rep. G. Froseth, Rep. R. Jensen, Rep. N. Johnson, Rep. J. Kasper, Rep. M. Klein, Rep. Koppang, Rep. D. Lemieux, Rep. B. Pietsch, Rep. D. Ruby, Rep. D. Severson, Rep. E. Thorpe.

Chairman Berg: Let's take up HB 1303. What are the committees wishes?

Rep Froseth: I move the amendment.

Rep Klein: I second.

Rep Froseth: The bills amendments would remove the county on limit on which the county mutual insurance companies could do business. County mutuals are finding less and less customers in their area and would like to be able to spread their coverage's and their losses.

Rep Pietsch: You could have several county mutuals eligible to do business is the same counties.

Rep Klein: I recommend a do pass as amended.

Rep Koppang: I second.

13 yea, 0 nay, 2 absent

Carrier Rep Froseth

Date: 1-30-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. HB 1303

House Industry, Business and Labor Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass w/ Amendments

Motion Made By M. Klein Seconded By Koppang

Representatives	Yes	No	Representatives	Yes	No
Chairman- Rick Berg	✓		Rep. Jim Kasper	✓	
Vice-Chairman George Keiser			Rep. Matthew M. Klein	✓	
Rep. Mary Ekstorm	✓		Rep. Myron Koppang	✓	
Rep. Rod Froelich	✓		Rep. Doug Lemieux	✓	
Rep. Glen Froseth	✓		Rep. Bill Pietsch	✓	
Rep. Roxanne Jensen	✓		Rep. Dan Ruby	✓	
Rep. Nancy Johnson	✓		Rep. Dale C. Severson	✓	
			Rep. Elwood Thorpe	✓	

Total (Yes) 13 No 0

Absent 2

Floor Assignment Froseth

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1303: Industry, Business and Labor Committee (Rep. Berg, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends **DO PASS** (13 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1303 was placed on the Sixth order on the calendar.

Page 1, line 1, after "to" insert "create and enact a new section to chapter 26.1-13 of the North Dakota Century Code, relating to county mutual insurance companies; and to"

Page 1, line 8, remove the overstrike over "~~existing in not more than~~", after "twenty" insert "thirty", and remove the overstrike over "~~counties in this state,~~"

Page 1, line 12, after the period insert "A county mutual insurance company organized under this chapter shall maintain a surplus of at least fifty thousand dollars."

Page 1, remove the overstrike over lines 20 through 23

Page 1, line 24, remove the overstrike over "~~merged company,~~" and insert immediately thereafter "Upon a showing of good cause, the territory of operations of the merged company may exceed thirty counties."

Page 2, after line 9, insert:

"SECTION 3. A new section to chapter 26.1-13 of the North Dakota Century Code is created and enacted as follows:

County mutual insurance company - Reports to commissioner. Each county mutual insurance company shall file an annual report with the commissioner no later than March first of each year which must be verified by at least two principal officers of the company and which must cover the preceding calendar year. The commissioner may require additional reports as are deemed necessary and appropriate to enable the commissioner to carry out the commissioner's duties under this chapter. The reports must be on forms prescribed by the commissioner. The commissioner may also require a company that operates in more than twenty counties to file audited financial statements as deemed necessary."

Renumber accordingly

2001 SENATE INDUSTRY, BUSINESS AND LABOR

HB 1303

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1303

Senate Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date March 07, 2001.

Tape Number	Side A	Side B	Meter #
2	x		4.0 to 24.1
	x		42.7 to 43.6
Committee Clerk Signature <i>Louis E. Perez</i>			

Minutes:

The meeting was called to order. All committee members, except Senator Espegard and Senator Krebsbach, present. Hearing was opened on HB 1303 relating to county mutual insurance companies.

Representative Dave Monson, District 10, cosponsor. Section 1 spans the number of cities that city mutuals will be able to sell a product in, from twenty to thirty. Reason: the increase in mergers of county mutuals. As they merge they pick up larger territories and find out they have people they cannot serve because of the twenty county limitation. This will make for stronger, larger companies. Risk will be spread around, the more companies products can be sold in, the safer they are because risks diminish. The new language regarding the surplus will also strengthen these companies, takes a little pressure off the insurance commissioner, will make the companies more solvent. Section 2, page 2, lines 3 and 4 states territory may exceed thirty

Page 2

Senate Industry, Business and Labor Committee

Bill/Resolution Number HB 1303

Hearing Date March 07, 2001.

companies, that is up to the insurance commissioner and subject to negotiation. Section 3 is another effort by the insurance commissioner to maintain stability and solvency.

Jim Poolman, Insurance Commissioner. Distributed "Comparison of Regulatory Requirements for P&C Insurers and County Mutuals" table. Allowing the county mutuals to expand with an agreement of additional reporting is the reason for the amendments. This will also protect consumers.

Brenda Doll, Secretary-Manager of Southwest Mutual Ins. Co. In support. Written testimony attached.

Barry Townsend, ND Assn. of Farm Mutuals, in support. Written testimony attached.

Bob Olson, Grinnell Mutual Reinsurance Co. of Iowa, in support. Written testimony attached.

Gerald Peterson, Pres. Northeast Mutual Ins. Co. In favor. Written testimony attached.

No opposing testimony. Hearing closed.

Tape 2-A- 42.7 to 43.6

Discussion held. **Senator Tollefson**. Motion: do pass. **Senator Mathern**: Second.

Roll call vote: 5 yes; 0 no; 2 absent, not voting. Floor assignment: **Senator Tollefson**.

Date: 3/07/01
Roll Call Vote #: 1

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1303

Senate Industry, Business and Labor

Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken To Pass

Motion Made By Sen Tollefson Seconded By Sen Mathern

Senators	Yes	No	Senators	Yes	No
Senator Mutch - Chairman	✓		Senator Every	✓	
Senator Klein - Vice Chairman	✓		Senator Mathern	✓	
Senator Espgaard	A				
Senator Krebsbach	A				
Senator Tollefson	✓				

Total (Yes) 5 No 0

Absent 2

Floor Assignment Sen Tollefson

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
March 7, 2001 1:40 p.m.

Module No: SR-39-5030
Carrier: Tolleson
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1303, as engrossed: Industry, Business and Labor Committee (Sen. Mutch, Chairman) recommends **DO PASS** (5 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). Engrossed HB 1303 was placed on the Fourteenth order on the calendar.

2001 TESTIMONY

HB 1303

TESTIMONY ON HB 1303
BEFORE HOUSE INDUSTRY BUSINESS AND LABOR
57TH SESSION

Chairman: Honorable Representative Rick Berg
Vice Chairman: Honorable Representative George Keiser

Honorable Chairman Berg and Committee members, my name is David Kronebusch and I am here today to testify in favor of House Bill 1303, a bill to remove the limitation on where County Mutual Insurance Companies can do business, in the rural areas only. Currently, County Mutuals are restricted to operate in 20 contiguous counties and only in towns of under 10,000 in population. HB1303 proposes to relax the restriction on the number of counties but does not propose to change the current limitation on cities.

The reason for this proposed change is simple. County Mutuals, like rural school district, rural electric and telephone cooperatives and even implement dealers, all subject to the declining agriculture economy, need to huddle together in these difficult times. In 1991, this Legislature agreed to increase the county limit from fifteen to twenty counties and since that time, we have reduced the number of county mutuals from twenty one to fifteen, with a current consolidation in progress. Accordingly, in nine short years, our numbers have decreased by nearly 40 percent. Each consolidation or merger, was difficult as it meant in most cases reductions in employees and almost always the closing of an office in a small town.

Equally as difficult was the disruption these consolidations and mergers have on the County Mutual Insurance Agent and most importantly, the County Mutual customer when the merged companies stretch beyond twenty counties. In certain situations, mergers and consolidations have either been postponed or avoided all together because of territorial constraints.

This bill is about convenience and flexibility in an ever-changing marketplace. It is about small companies working together in a very tight market with the instinctive motive of self-preservation. It presents no harmful threat to the marketplace and its passage secures the brisk competition that continues to hold property insurance rates in North Dakota among the lowest in our region, all in the face of six of the worst lost years in history.

Other presenters will address the issues of market competition, historical impact and local economic impact, so I will end here for the sake of brevity, with the hope that your entire Committee can send this bill to the House Floor with a 100%, do pass! Thank you so much for the opportunity to be heard and for your consideration. If there are any question, I would be glad to try my best to answer. In the case you would like to hold questions until the final presenter, he will be a able to give those answers as I, although I am at your disposal.

Thank you.

**TESTIMONY ON HB 1303
BEFORE HOUSE INDUSTRY BUSINESS AND LABOR
57TH SESSION – JANUARY 29, 2001**

Chairman: Honorable Representative Rick Berg
Vice Chairman: Honorable Representative George Keiser

Chairman Berg, Members of the Committee, thank you for the opportunity to speak before you today. My name is Brenda Doll, and I serve as Secretary-Manager of Southwest Mutual Insurance Company of New Salem, North Dakota. Southwest Mutual is a county mutual insurance company, which provides property and casualty insurance for 2500 southwestern North Dakota rural and urban customers.

I appear before you today to ask your support for HB 1303, a bill which is intended to relax the current restriction on how many counties a County Mutual Insurance Company can operate in.

County Mutual Insurance Companies have been a valuable part of the landscape in rural North Dakota since before the turn of the century. They provided at cost property insurance to farmers and homeowners in North Dakota towns of under 10,000 in population. Twenty years ago, our State had over thirty county mutual companies collecting break even premiums, and employing hundreds of agents, office personnel and claims adjusters. The companies were founded on a simple

principle of neighbors taking care of neighbors while keeping premiums and control in the local community.

Today, after almost two decades of depressed farm economy resulting in fewer and fewer farms and residents in small towns, we are down to less than fifteen companies. County Mutual Companies are not immune to doing more with less, and just like our rural schools and REC's, we have grown to accept consolidations and mergers as now the rule instead of the exception.

HB 1303 is about making the process less complicated and certainly less expensive and inconvenient for everyone. It is easily predicted that by 2010 there may be as few as five or six county mutuals left in our State. When two companies do find themselves in the untenable situation where consolidation makes the only sense, current statutory limitations on twenty counties turn agents and insureds into casualties.

This bill does not breach the limitation for our Companies to stay out of towns of 10,000 and higher population, the only foreseeable place where any "new" business will be found in the next decade. Accordingly, competition for new business remains the same under this bill. On farms the players will not change, nor will the opportunity for growth. It is,

and has been for years, a matter of the current companies pirating each other's business. And, while that sounds undesirable, the next affect has been the maintaining of very favorable rates in the face of six years of extremely high property losses. For instance, in 1996 an eight foot two by four sold for under ninety cents and a two hundred forty pound square of shingles sold for under \$20.00. Today, that same two by four sells for \$1.90 and the same square of shingles sells for over \$40.00. Insurance rates in 1976, for dwelling coverage, were at about the \$4.00 per hundred rate, the same rate as today!

HB 1303 will very simply help smaller companies find inventive ways to keep their doors open. This bill is good for consumers, good for agents, good for local communities, and good for North Dakota. We hope each of you will give this a do pass.

Thank you.

TESTIMONY
INDUSTRY, BUSINESS AND LABOR COMMITTEE
57TH Legislative Session

Chairman: Honorable Representative Rick Berg
Vice Chairman: Honorable Representative George Keiser

Chairman Berg, distinguished members of the Committee, my name is Barry Townsend and I am here today to speak in support of HB1303. The bill, which give county mutual insurance companies the authority to operate in all counties in our State, is a bill of necessity because of declining farm numbers and a half dozen years of higher than average weather related losses. The bill does not present threats to North Dakota consumers, because the State Insurance Department still must approve the number and counties, in which we can operate. And, the individual company reserves present an inherent control over temptation for a county mutual to "oversell" its ability to service policyholders. Further, the bill does not present unfair market advantages for this group of companies as is evidenced by the last nine years of market performance.

The following statistics represent the actual reported premium collected by the major North Dakota domestic mutual property companies, as found in the North Dakota Statistical report, prepared by the State Insurance Department. This short study includes companies who are stakeholders on the landscape of our State and therefore it is particularly relevant for you to resist laws that could create market disadvantages.

Several sessions ago, the Legislature allowed County Mutuals to increase territory operations from fifteen to twenty counties. That increase, approved in 1991, was based on very similar reasoning as is now being presented, only the urgency is greater. Based on

premium collection of this group on companies before, and now almost nine years later, it is evident if the increase caused an undesirable, or negative result for our competitors

Collected Premium 1992 To 1999, Fire, Farm Multi-Peril and Home Multi-Peril

<u>Company</u>	<u>1992 Collected Premium</u>	<u>1999 Collected Premium</u>	<u>% Change</u>
Nodak Mut.	\$9,439,379.00	\$13,835,668.00	+46%
Farmers Union	\$8,258,314.00	\$12,464,230.00	+50%
Center Mutual	\$1,888,142.00	\$ 3,064,853.00	+62%
Dakota Fire	\$1,058,411.00	\$ 2,860,916.00	+170%
All County			
Mutuals	<u>\$6,667,483.00</u>	<u>\$ 8,543,228.00</u>	<u>+28</u>
Total	\$27,310,729.00	\$40,768,895.00	(average) +49%
County Mutual			
Market Share	24%	21%	-3%

As we can see, the increase from fifteen to twenty counties did not result in the deterioration of the market share for county mutual competitors. In fact, since the change, county mutual companies have lost 3% of their former market share in this small group of companies. It appears to be somewhat a misnomer that increased territory equates to increased market share or that county mutual are more of a threat to competition as a group than as an individual company.

As has always been the case, market share is driven by price or rates, agency participation, marketing and underwriting, none of which will be drastically altered by the passage of HB1303.

Accordingly, we hope you can support the bill with a unanimous Do Pass!

Thank you. If there are questions, I would be glad to respond.

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1303

Page 1, line 1, after "to" insert "create and enact a new section to chapter 26.1-13, relating to county mutual insurance companies, and to"

Page 1, after line 3, insert the following:

"SECTION 1. A new section to chapter 26.1-13 of the North Dakota Century Code is created and enacted as follows:

County mutual insurance company - Reports to commissioner. Every county mutual insurance company shall annually, on or before March first, file a report verified by at least two principal officers of the company with the commissioner covering the preceding calendar year. The commissioner may require additional reports as are deemed necessary and appropriate to enable the commissioner to carry out the commissioner's duties under this chapter. The reports must be on forms prescribed by the commissioner. The commissioner may also require a company that operates in more than twenty counties to file audited financial statements as deemed necessary.

Page 1, line 8, remove the overstrike from "~~residing in not more than twenty counties in this state;~~" and replace "twenty" with "thirty"

Page 1, line 12, after the period insert "A county mutual insurance company organized under this chapter must maintain a surplus of at least fifty thousand dollars."

Page 1, remove the overstrike from lines 20 through 23

Page 1, line 24, remove the overstrike from "~~merged company;~~" and after the period insert "Upon a showing of good cause, the territory of operations of the merged company may exceed thirty counties."

Renumber accordingly

NORTH DAKOTA DEPARTMENT OF INSURANCE

Comparison of Regulatory Requirements for P&C Insurers and County Mutuals

	P&C Insurers	County Mutuals	Additional Requirements Under Amended HB 1303
Minimum Capital and Surplus	\$1,000,000	None	\$75,000
Risk Based Capital	Yes	No	
Risk Limitation	10% of capital & surplus	Larger of: 10% of admitted assets or \$30,000	
Guaranty Association Membership	Yes	No	
Assessment of Policyholders	No	Yes	
Actuarial Opinion	Yes	No	
Audited Financial Statements	Yes	No	Only if requested by the Commissioner when deemed necessary from a company operating in more than 20 counties
Rate and Form Filings	Yes	Homeowners only*	
NAIC Annual Statement and Supplements	Yes	Simplified statement only	
NAIC Quarterly Statements	Yes	No	Simplified statement only

* 26.1-25-02(2) exempts county mutuals from rate filing requirements except for property located within incorporated cities having a population of less than 10,000.

H.B. 1303
Bob Olson

TESTIMONY
HOUSE, INDUSTRY, BUSINESS AND LABOR COMMITTEE
57th Legislative Session

Chairman: Honorable Representative Rick Berg
Vice Chairman: Honorable Representative George Keiser

Chairman Berg, members of the Committee, my name is Bob Olson. I live here in Bismarck and am a life long resident of ND. I represent Grinnell Mutual Reinsurance Company of Grinnell, Iowa. Grinnell is the Reinsurance Company for all fifteen remaining County Mutual Companies in North Dakota, where reinsurance is a Statutory requirement necessary for Mutual companies to operate.

Our Company collected approximately fourteen million dollars in reinsurance premium from ND County Mutuals since 1990 and have paid in excess of fifteen million dollars back to them in claim payments for that same period. This represents over a 100% loss ratio for the last 10 years.

We are here today with two short messages. First, we believe in the County Mutual system in North Dakota and remain committed to working with all the Mutual members, even in the face of the last ten years which have been very difficult for all parties. Even though our Company has lost money, we believe many of the County Mutuals are making necessary improvements in their operation, planning and forecasting and have reasonable potential to be profitable. Accordingly, we are here for the long haul, conditioned on a solid plan that includes the will and the ability, to change with the market.

Our second message is, we believe HB 1303 represents a series of small open doors which when opened, will enable your ND mutuals to react effectively to the market challenges today, and into the future.

These Mutual companies continue to fill a critical niche in North Dakota and are in a current concerted effort to retool their control systems, including but not limited to computer systems, better underwriting criteria and better agency relations and marketing. They are working hard to analyze risk and wherever possible are cutting operating costs. They know full well this is a difficult business, in difficult times, but remain committed to servicing their policyholders and agents.

This bill puts a helping hand forward from the State Legislature at a time when the small Mutual insurance company is accepting the challenge of "reinventing" themselves for the next decade. Joint ventures, cooperative management agreements, resource sharing, consolidations and outsourcing are becoming words and concepts of necessity these days. HB1303 is a key component to opening discussions for working partnerships and bringing together parties who would now be safe from giving up territory which has been in the company portfolio for nearly a century. Recent mergers have required Mutuals to withdraw from areas when they went over the 20 county limit. This means that ND consumers were displaced....forced into the open market....and consequently had fewer choices for buying insurance. I don't think this is what the Insurance Department wants or what the ND Legislature wants in the marketplace.

Thank you for the opportunity to speak with you today. Your interest and consideration is appreciated and important to all of us.

We urge a do pass from your Committee.

I would be glad to answer any questions you may have.

1303

NORTH DAKOTA DEPARTMENT OF INSURANCE

Comparison of Regulatory Requirements for
P&C Insurers and County Mutuals

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Minimum Capital & Surplus	\$1,000,000	None	\$50,000
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Risk limitation	10% of capital & surplus	Larger of: 10% of admitted assets or \$30,000	
Guaranty Association membership	Yes	No	
Assessment of policyholders	No	Yes	
Actuarial opinion	Yes	No	
Audited financial statements	Yes	No	Only if requested by the Commissioner when deemed necessary from a company operating in more than 20 counties
Rate and form filings	Yes	Homeowners only.*	
NAIC Annual Statement and supplements	Yes	Simplified statement only	
NAIC Quarterly Statements	Yes	No	Simplified statement only

* 26.1-25-02(2) exempts county mutuals from rate filing requirements except for property located within incorporated cities having a population of less than 10,000.

TESTIMONY
INDUSTRY, BUSINESS AND LABOR COMMITTEE
57th Legislative Session

Chairman: Honorable Senator Duane Mutch
Vice-Chairman: Honorable Senator Jerry Klein

Chairman Mutch, distinguished members of the Committee, my name is Barry Townsend and I am here today to speak in support of HB 1303. The bill, which gives County Mutual Insurance Companies the authority to operate in ³⁰all counties in our State, is a bill of necessity because of declining farm numbers and a half dozen years of higher than average weather related losses. The bill does not present threats to North Dakota consumers, because the State Insurance Department still must approve the number and counties, in which we operate. And, the individual company reserves present an inherent control over temptation for a county mutual to "oversell" its ability to service policyholders. Further, the bill does not present unfair market advantages for this group of companies as is evidenced by the last nine years of market performance.

The following statistics represent the actual reported premium collected by the major North Dakota domestic mutual property companies, as found in the North Dakota Statistical report, prepared by the State Insurance Department. This short study includes companies who are stakeholders on the landscape of our State and therefore it is particularly relevant for you to resist laws that could create market disadvantages.

Several sessions ago, the Legislature allowed County Mutuals to increase territory operations from fifteen to twenty counties. That increase, approved in 1991, was based

on very similar reasoning as is now being presented, only the urgency is greater. Based on premium collection of this group on companies before, and now almost nine years later, it is evident if the increase caused an undesirable, or negative result for our competitors.

Collected Premium 1992 to 1999, Fire, Farm Multi-peril, and Home Multi-peril

Company	1992 Collected Premium	1999 Collected Premium	% Change
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Total	\$27,310,729.00	\$ 40,768,895.00 (average)	+49%

County Mutual Market Share	24%	21%	-3%
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As we can see, the increase from fifteen to twenty counties did not result in the deterioration of the market share for county mutuals competitors. In fact, since the change, county mutual companies have lost 3% of their former market share in this group of companies. It appears to be somewhat a misnomer that the increased territory equates to increased market share or that county mutuals are more of a threat to competition as a group than as an individual company.

As has always been the case, market share is driven by price or rates, agency participation, marketing and underwriting, none of which will be drastically altered by the passage of ^HSB1303.

I fully support the amendments the State Insurance Department has attached to this bill.

Accordingly, we hope you can support the bill with a unanimous Do Pass!

Thank you. If there are questions, I would be glad to respond.

TESTIMONY
NORTH DAKOTA STATE SENATE
INDUSTRY, BUSINESS AND LABOR

CHAIRMAN: HONORABLE SENATOR DUANE MUTCH, CHAIRMAN
VICE CHAIRMAN: HONORABLE SENATOR JERRY KLFIN

Chairman Mutch, members of the Committee, my name is Gerald Peterson. I am the President of Northeast Mutual Insurance Company of Cando. Our Company was formed in 1999 from the merging of Cavalier County Mutual formerly located in Osnabrock, Pembina County Mutual formerly located in Cavalier and Towner County Mutual of Cando. I speak today in support of HB1303.

To successfully merge several companies at one time required a great deal of give and take from all of the three companies Boards of Directors, agents and the mutual members who own the Company. Our merger and any successful one has to be motivated by a belief that the joining parties will be better off together, versus continuing to operate individually and that giving up individual identity and power, is offset by mutual benefit. Anything that can be done to make such transitions less painful and inconvenient for consumers, makes good sense and good public policy.

HB1303 does that, and it is very much a consumer bill because it encourages small companies to come together sooner, before resources are strained and desperation sets in. The result is much better planning where everyone involved has better choices, none of which cuts out members who really want to stay in. I hope that you can agree and I thank you for the opportunity to speak with you today.

H.B. 1303
Bob Olson

TESTIMONY
SENATE, INDUSTRY, BUSINESS AND LABOR COMMITTEE
57th Legislative Session

Chairman: Honorable Senator Duane Mutch
Vice Chairman: Honorable Senator Jerry Klein

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Our Company collected approximately fourteen million dollars in reinsurance premium from ND County Mutuals since 1990 and has paid in excess of fifteen million dollars back to them in claim payments for that same period. This represents over a 100% loss ratio for the last 10 years.

We are here today with two short messages. First, we believe in the County Mutual system in North Dakota and remain committed to working with all the Mutual members, even in the face of the last ten years which have been very difficult for all parties. Even though our Company has lost money, we believe many of the County Mutuals are making necessary improvements in their operation, planning and forecasting and have reasonable potential to be profitable. Accordingly, we are here for the long haul, conditioned on a solid plan that includes the will and the ability, to change with the market.

Our second message is, we believe HB 1303 represents a series of small open doors which when opened, will enable your ND mutuals to react effectively to the market challenges today, and into the future.

These Mutual companies continue to fill a critical niche in North Dakota and are in a current concerted effort to retool their control systems, including but not limited to computer systems, better underwriting criteria and better agency relations and marketing. They are working hard to analyze risk and wherever possible are cutting operating costs. They know full well that this is a difficult business, in difficult times, but remain committed to servicing their policyholders and agents.

This bill puts a helping hand forward from the State Legislature at a time when the small Mutual insurance company is accepting the challenge of "reinventing" themselves for the next decade. Joint ventures, cooperative management agreements, resource sharing, consolidations and outsourcing are becoming words and concepts of necessity these days. HB1303 is a key component to opening discussions for working partnerships and bringing together parties who, with the passage of this bill, will not have to give up territory (counties) which has been in the company portfolio for nearly a century. Recent mergers have required Mutuals to withdraw from areas when they went over the 20 county limit. This means that ND consumers were displaced... forced into the open market...and consequently had fewer choices for buying insurance. I don't think this is what the Insurance Department or what the ND Legislature wants in the marketplace.

The more insurance companies, the better the competition, thus better for the ND consumer.

Thank you for the opportunity to speak with you today. We urge a do pass from your Committee.

I would be glad to answer any questions you may have.

**TESTIMONY ON HB 1303
BEFORE SENATE INDUSTRY BUSINESS AND LABOR
57TH SESSION – MARCH 7, 2001**

Chairman, Members of the Committee, thank you for the opportunity to before you today. My name is Brenda Doll, and I serve as Secretary-Manager of Southwest Mutual Insurance Company of New Salem, North Dakota. Southwest Mutual is a county mutual insurance company, which provides property and casualty insurance for 2500 southwestern North Dakota rural and urban customers. I appear before you today to ask your support for HB 1303, a bill which is intended to relax the current restriction on how many counties a County Mutual Insurance Company can operate in.

County Mutual Insurance Companies have been a valuable part of the landscape in rural North Dakota since before the turn of the century. They provided at cost property insurance to farmers and homeowners in North Dakota towns of under 10,000 in population. Twenty years ago, our State had over thirty county mutual companies collecting break even premiums, and employing hundreds of agents, office personnel and claims adjusters. The companies were founded on a simple

principle of neighbors taking care of neighbors while keeping premiums and control in the local community.

Today, after almost two decades of depressed farm economy resulting in fewer and fewer farms and residents in small towns, we are down to less than fifteen companies. County Mutual Companies are not immune to doing more with less, and just like our rural schools and REC's, we have grown to accept consolidations and mergers as now the rule instead of the exception.

HB 1303 is about making the process less complicated and certainly less expensive and inconvenient for everyone. It is easily predicted that by 2010 there may be as few as five or six county mutuals left in our State. When two companies do find themselves in the untenable situation where consolidation makes the only sense, current statutory limitations on twenty counties turn agents and insureds into casualties.

This bill does not breach the limitation for our Companies to stay out of towns of 10,000 and higher population, the only foreseeable place where any "new" business will be found in the next decade. Accordingly, competition for new business remains the same under this bill. On farms the players will not change, nor will the opportunity for growth. It is,

and has been for years, a matter of the current companies pirating each other's business. And, while that sounds undesirable, the next affect has been the maintaining of very favorable rates in the face of six years of extremely high property losses. For instance, in 1996 an eight foot two by four sold for under ninety cents and a two hundred forty pound square of shingles sold for under \$20.00. Today, that same two by four sells for \$1.90 and the same square of shingles sells for over \$40.00. Insurance rates in 1976, for dwelling coverage, were at about the \$4.00 per hundred rate, the same rate as today!

HB 1303 will very simply help smaller companies find inventive ways to keep their doors open. This bill is good for consumers, good for agents, good for local communities, and good for North Dakota. We hope each of you will give this a do pass.

Thank you.

Stage Definitions

EARLY STAGE FINANCING

Seed Financing:

This stage is a relatively small amount of capital provided to an inventor or entrepreneur to prove a concept and to qualify for start-up capital. This may involve product development and market research as well as building a management team and developing a business plan, if the initial steps are successful.

Start-Up Financing:

This stage provides financing to companies completing development and initial marketing. Companies may be in the process of organizing or they may already be in business for one year or less, but have not sold their products commercially. Usually such firms will have made market studies, assembled the key management, developed a business plan, and are ready to do business.

First-Stage Financing

This stage provides financing to companies that have expended their initial capital, often in developing and market testing a prototype, and require funds to initiate full-scale manufacturing and sales.

EXPANSION FINANCING

Second-Stage Financing

This stage is working capital for the initial expansion of a company that is producing and shipping, and has growing accounts receivables and inventories. Although the company has made progress, it may not yet be showing a profit.

Third-Stage Financing

This stage provides major expansion of a company whose sales volume is increasing and that is breaking even or profitable. These funds are used for further plant expansion, marketing, working capital, or development of an improved product.

LATER STAGE FINANCING

Bridge Financing

This stage is needed at times when a company plans to go public within six months to a year. Often bridge financing is structured so that it can be repaid from the proceeds of a public underwriting. It can also involve restructuring of major stockholder positions through secondary transactions. Restructuring is undertaken if there are early investors who want to reduce or liquidate their positions, or if management has changed and the stockholdings of the former management, their relatives and associates are being bought out to relieve a potential oversupply when public.

Open Market

This stage involves acquiring securities of companies whose common shares trade publicly.

ACQUISITION/BUYOUT

Acquisition Financing

This stage provides funds to finance the acquiring of another company. Venture Economics tracks these deals when calculating venture capital disbursements in situations where the funding is by a venture capital firm, but not when it is by a buyout firm.

Management/Leveraged Buyout

These funds enable an operating management group to acquire a product line or business, at any stage of development, from either a public or private company. Often these companies are closely held or family owned. Management/leveraged buyouts usually involve revitalizing an operation, with entrepreneurial management acquiring a significant equity interest. Venture Economics tracks these deals when calculating venture capital disbursements in situations where the funding is by a venture capital firm, but not when it is by a buyout firm.

Funding Programs Available to Businesses According to Their Development Stage*
(Also Proposed ND Legislation Creating New Funding Programs - Bill # Listed)
January 26, 2001

Seed Financing	Start-up Financing	First Stage Financing	Second Stage Financing	Third Stage Financing	Bridge Financing	Open Market Financing	Acquisition Financing	MBOL/BO Financing
Angel Investors	CDC 504 Program	ND Dev. Fund (Debt & Equity)	ND Dev. Fund (Debt & Equity)	SBIC-Small Business Investment Center	SBIC	Public Funding	Venture Capital Firm	Venture Capital Firm
APL/C(Agriculture Products Utilization Commission)	Micro Loan Program	Regional Councils	Regional Councils	Financial Institutions (BND)	Renaissance Fund		Buyout Firm	Buyout Firm
ND Entrepreneur Seed Fund (H51040)	USDA IRP Loan Program	Renaissance Fund	Renaissance Fund	ND Dev. Fund (Debt & Equity)	ND Dev. Fund (Debt & Equity)		ND Dev. Fund (Debt & Equity)	SBIC
BPL/C (Bus. Products Util. Comm. HB1414)	Local Dev. Corp. Grant/Loan/Equity (ex: Star Fund, Magic Fund, Growth Fund)	BND-Small Business Loan Program	CDC 504 Program	Regional Councils	Regional Councils		SBIC	
	BND Start-up Entrepreneur Program	BND - Business Dev. Loan Program	USDA IRP Program	Investment Bankers			Regional Councils	
	ND Dev. Fund (Debt & Equity)	Local Development Corporation	Micro Loan Program	Local Dev. Corp.			Renaissance Fund	
	Regional Councils	Micro Loan Program	Local Dev. Corp.	CDC 504 Program			Financial Institutions	