

MICROFILM DIVIDER

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



ROLL NUMBER

DESCRIPTION

1138

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Deanna Halloran
Operator's Signature

10/2/03
Date

2003 HOUSE INDUSTRY, BUSINESS AND LABOR

HB 1138

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10/2/03
Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1138

House Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date 1-13-03

Tape Number	Side A	Side B	Meter #
1		X	3543-end
2	X		0-1496
Committee Clerk Signature <i>Beth Leier</i>			

Minutes: **CHAIR KEISER**: Opened hearing on HB 1138

JEFF BITZ (ND Insurance Dpt): (see attached testimony)

CHAIR KEISER: Would you explain 'retention' and the whole process on reinsurance?

JEFF BITZ: The retention is like a deductible.

REP. ECKSTROM: When is the next renewal?

BITZ: Due by 8-1-2003.

REP. ECKSTROM: Are we limiting competition by going through a broker?

BITZ: Think it would broaden our scope of bids by using the broker. We aren't getting the bid right now. The reinsurance market is shrinking with mergers and acquisitions. Reinsurers are reluctant to take on state specialty market.

REP. ECKSTROM: Is the emergency clause necessary?

BITZ: They would appreciate the emergency clause.

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Donna Baller
Operator's Signature

10/2/03
Date

Page 2

House Industry, Business and Labor Committee

Bill/Resolution Number 1138

Hearing Date 1-13-03

REP. KLEIN: Why is the State Mill and Elevator separate? Is it so unique from the other agencies?

BITZ: Mill is always re-insured privately and has just been brought to the attention that since it is a state entity, it must go through the Fire and Tornado Fund.

REP. KLEIN: Is the risk there due to the equipment?

BITZ: Yes.

REP. NOTTESTAD: Does the Mill prefer it to be included in the Fire and Tornado Fund?

BITZ: They requested inclusion to give them the option. The Mill supports the amendment.

REP. NOTTESTAD: If we name individual entities that can go on their own, will it cause others to want to do so as well?

BITZ: Not a problem.

CHAIR KEISER: Disagrees that the bill says the Mill and Elevator can go out on its own. If they want it to be optional, the language will need to be changed. Keiser reads it to say they can not go on their own. Did not understand "reasonable" or "acceptable." Are there any industry averages or ratios that would be applicable in terms of what would be reasonable? Or that the broker would recommend?

BITZ: Not sure he can answer that. (Rep. Kasper explained from a health insurance perspective.)

REP. KASPER: All bids would still have to be approved by the Industrial Commission.

CHAIR KEISER: No confidence in this fiscal note. If you take the Mill and Elevator out, there will be a negative impact on their potential to buy reinsurance. There will be an impact on the general fund, but there is nothing listed on the fiscal note.

BITZ: Currently do not receive a premium from the Mill so there should be no impact.

Page 3

House Industry, Business and Labor Committee

Bill/Resolution Number 1138

Hearing Date 1-13-03

ROLLIN MEHLHOFF (Vaaler Insurance): Recommends going to a true reinsurance concept in the way a treat is organized with a carrier. It's complex, but it is like a "deductible." The Fund will benefit in the area of expertise.

REP. BOE: Is there a risk of "cherry picking" to where there would be some entities left uninsured?

MEHLHOFF: No more so than cherry picking in the rest of the insurance industry.

(See attached memo from Vance Taylor, General Mgr of the Mill)

CHAIR KEISER: Closed hearing on HB 1138

(End at 1496)

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Operator's Signature

1/12/03
Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1138

House Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date 1/15/03

Tape Number	Side A	Side B	Meter #
4	x		23.0-35.0
Committee Clerk Signature <i>Janet Hamner</i>			

Minutes: Chairman Kelser called for committee work on HB 1138.

Rep. Ekstrom stated that Legislative Council confirmed that this bill gives the State Mill and Elevator the option to go in and out as part of the fund. Secondly, *reasonable* has been changed to *sufficient*. Placing an emergency clause will allow this to go into action immediately. This is because of the State Mill and Elevator and their ability to go out and seek bids. They want us to get the Insurance Commissioner's name of this request.

Rep. Klein moves to approve the amendments, seconded by Rep. Severson. A voice vote adopted the amendments.

Rep. Ekstrom moved a do pass as amended, seconded by Rep. Klein.

For the record, Chairman Kelser expressed his consternation that there is not a fiscal note on this bill, there has to be a fiscal impact. Something has to be gained or lost if they are pulling the State Mill and Elevator out of this. The motion carried, the vote was 13-0-1.

Rep. Klein will carry this bill on the floor.

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Deanna Hall
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1/21/03
Date

FISCAL NOTE
Requested by Legislative Council
01/03/2003

Bill/Resolution No.: HB 1138

1A. State fiscal effect: Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.

	2001-2003 Biennium		2003-2005 Biennium		2005-2007 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

1B. County, city, and school district fiscal effect: Identify the fiscal effect on the appropriate political subdivision.

2001-2003 Biennium			2003-2005 Biennium			2005-2007 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

2. Narrative: Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.

HB 1138 is not expected to have a fiscal impact on the agency appropriation. The bill allows the State Mill and Elevator to procure property insurance other than from the State Fire and Tornado Fund. The Fund has always acted as a "fronting" company in which the State Mill and Elevator's risk was passed on at the first dollar. The Fund has never collected premium or assumed any risk from the elevator. The bill also allows the Fund to procure reinsurance through a broker rather than by advertising. The cost of the broker will be built into the cost of reinsurance and will not have impact on the agency appropriation.

3. State fiscal effect detail: For information shown under state fiscal effect in 1A, please:

A. Revenues: Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.

N/A

B. Expenditures: Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.

N/A

C. Appropriations: Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.

N/A

Name:	Charles E. Johnson	Agency:	Insurance Department
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Operator's Signature

Date

Phone Number: 328-2440

Date Prepared: 01/07/2003

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Deanna Holman
Operator's signature

10/2/03
Date

38117.0101
Title.0200

Adopted by the Industry, Business and Labor
Committee
January 15, 2003

VR
1/16/03

HOUSE AMENDMENTS TO HOUSE BILL NO. 1138 IRL 1-17-03

Page 1, line 2, remove the first "and"

Page 1, line 4, after "reinsurance" insert "; and to declare an emergency"

House Amendment to HB 1138 IRL 1-17-03

Page 2, line 4, replace "reasonable" with "sufficient"

HOUSE AMENDMENTS TO HB 1138 IRL 1-17-03

Page 3, after line 6, insert:

"SECTION 4. EMERGENCY. This Act is declared to be an emergency measure."

Renumber accordingly

Page No. 1

38117.0101

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Deanna G. Ball
Operator's Signature

1/21/03
Date

Date: 1/15/03
Roll Call Vote #: 1

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1138

House Industry, Business & Labor Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 38/17 .0101 / .0200

Action Taken Do Pass - as amended

Motion Made By Eckstrom Seconded By Klein

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Rep.Boe	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Rep. Sevenson, Vice-Chair	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Rep. Ekstrom	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Rep. Dosch	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Rep. Thorpe	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Rep. Froseth	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Rep. Zaiser	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Rep. Johnson	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
Rep. Kasper	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
Rep. Klein	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
Rep. Nottelstad	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
Rep. Ruby	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
Rep. Tieman	<input type="checkbox"/>	<input type="checkbox"/>			

Total (Yes) 13 No 0

Absent 1

Floor Assignment Eckstrom

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

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Dan Hallmark 1/21/03
Operator's Signature Date

REPORT OF STANDING COMMITTEE (410)
January 17, 2003 9:29 a.m.

Module No: HR-09-0708
Carrier: Ekstrom
Insert LO: 38117.0101 Title: .0200

REPORT OF STANDING COMMITTEE
HB 1138: Industry, Business and Labor Committee (Rep. Kelsor, Chairman)
recommends AMENDMENTS AS FOLLOWS and when so amended, recommends
DO PASS (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1138 was placed
on the Sixth order on the calendar.

Page 1, line 2, remove the first "and"

Page 1, line 4, after "reinsurance" insert "; and to declare an emergency"

Page 2, line 4, replace "reasonable" with "sufficient"

Page 3, after line 6, insert:

"SECTION 4. EMERGENCY. This Act is declared to be an emergency
measure."

Renumber accordingly

2003 SENATE INDUSTRY, BUSINESS AND LABOR

HB 1136

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Deanna Hall
Operator's Signature

10/2/03
Date

2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1138

Senate Industry, Business, and Labor Committee

☐ Conference Committee

Hearing Date 03/04/03

Tape Number	Side A	Side B	Meter #
Tape 1	x		2700-end
Tape 1		x	0-225
Committee Clerk Signature <i>Lizalyn Berkon</i>			

Minutes:

Senator Mutch opens HB 1138. All senators present.

Jeff Blitz: Special Funds Administrator, ND Insurance Department introduces bill (Written testimony attached)

Senator Espgaard: And prior to this taken place how was it handled?

Blitz: I would do an RFC and I would send a RFC with our requirements to all brokers who are licensed in the state of ND as well as every insurance company of record.

Senator Mutch: You don't have the ability in your department?

Blitz: No

Senator Krebsbach: Who proposed the amendments?

Blitz: the House IBL committee

Senator Mutch: What was the dollar amount? Reinsurance?

Blitz: \$1 million per \$110 million

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Deanna Ballman
Operator's Signature

10/2/03
Date

Page 2

Senate Industry, Business, and Labor Committee

Bill/Resolution Number HB 1138

Hearing Date 03/04/03

Senator Krebsbach: What is the fund balance?

Bitz: June 30, 2002, the fund was 13 million 174,879

Senator Krebsbach: Annual claims?

Bitz: approximately 4 million

Bitz continues testimony

Senator Heitkamp : If the books are in good shape after the last few years have done well.

Bitz: I think we are

Jim Poolman: ND insurance commissioner, private entities are different, these questions concern me as well. this particular fund has a 12 million dollar floor. We can't go under 12 million. What the legislature has done if you go much over 12 million and they see that as extra money just sitting there and potential go after those dollars. We would like to remove that floor and allowing use to reserve the funds to the best of our ability.

Senator Mutch: Do you have a million dollar deductible?

Poolman: we had a million dollar retention level and when we went out and bid we couldn't find anyone to take use at the current retention level and the rates tripled for reinsurance. The premium exceeds the deductible.

Senator Heitkamp: A) the stock market sucks and B) there is a disaster in reinsurance

Poolman: Both A&E

Senator Espgaard: It is really caused by all the disaster.

Rolland Melhoff, Vaaler Insurance, we proviso the reinsurance for the Winter Show building in 1997, that was their 1st claim. After that things seemed to happen. When we started providing

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10/2/03
Date

Page 3

Senate Industry, Business, and Labor Committee

Bill/Resolution Number HB 1138

Hearing Date 03/04/03

the coverage in the mid 80's we had several companies we could work with and thankfully we renegotiated the reinsurance before 9/11. They don't understand the concept.

Senator Klein: Do you support this bill?

Melhoff: It would let us negotiate with reinsurance companies. It gives the company a lever.

Karlene Fine, Industrial Commission, provides written testimony and proposed amendments (attached)

Poolman: The insurance department is okay with the amendments.

No opposition

Hearing Closed on HB 1138

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1138

Senate Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date 3-24-03

Tape Number	Side A	Side B	Meter #
1	XXXX		2175-2500
Committee Clerk Signature <i>Lisa Van Berkorn</i>			

Minutes: Chairman Mutch opened the discussion on HB 1138. All Senators were present.

HB 1138 relates to buildings insured by the state fire and tornado fund and excess loss reinsurance.

Senator Klein moved the amendments presented by Carlene Fine. Senator Espegard seconded.

Senator Heltkamp: Wasn't the difference between the two that they felt they were not insuring, but felt the bill made it so they never could. Now with this amendment, they have a choice.

Senator Krebsbach: They do not want to be prohibited from using the state fire and tornado fund.

Roll Call Vote: 7 yes. 0 no. 0 absent.

Senator Espegard moved a DO PASS AS AMENDED. Senator Heltkamp seconded.

Roll Call Vote: 7 yes. 0 no. 0 absent.

Carrier: Senator Espegard

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Dorinda Hallmark
Operator's Signature

10/2/03
Date

38117.0201
Title.0300

Adopted by the Industry, Business and Labor
Committee
March 24, 2003

JB
3-24-03

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1138

Page 1, line 2, after "26.1-22-05" insert ", 26.1-22-10,"

Page 1, line 4, after "fund" insert ", optional coverage for the state mill and elevator association,"

Page 1, line 10, after "association" insert "if the association exercises the option provided in section 26.1-22-10"

Page 1, after line 21, insert:

"SECTION 2. AMENDMENT. Section 26.1-22-10 of the North Dakota Century Code is amended and reenacted as follows:

26.1-22-10. Commissioner to provide insurance on all buildings. Upon application the commissioner shall provide for insurance against loss by fire, lightning, inherent explosion, windstorm, cyclone, tornado and hail, explosions, riot attending a strike, aircraft, smoke, vehicles, or any other risks of direct physical loss, all in the manner and subject to the restrictions of the standard fire insurance policy and standard endorsement, and no other hazards, in the fund, on all buildings owned by the state, state industries, political subdivisions, international peace gardens, and winter shows, and the fixtures and permanent contents in such buildings, to the extent of not to exceed the insurable value of such property, as the value is agreed to between the commissioner and the officer or board having control of such property, or, in case of disagreement, by approval through arbitration.

All buildings and the contents of the buildings owned by the state mill and elevator association, in lieu of coverage under this chapter, may, at the option of the industrial commission, be insured by private insurance companies licensed to do business in this state, against at least all the types of hazards insured against by the fund. If the industrial commission exercises the option provided in this section, the commission shall seek competitive sealed bids, shall invite the fund to submit a bid, and may reject any or all bids received.

All public buildings owned by a political subdivision, in lieu of coverage provided for in this section, may at the option of the governing body of the political subdivision be insured on the basis of competitive sealed bids, through the fund which must be invited to submit a sealed bid or private insurance companies licensed to do business in this state, against damage resulting from hazards, which include those types of hazards that may be insured against by the fund. The governing body may reject any or all such bids.

All public libraries owned by the state or political subdivisions may, in addition to the coverage provided for in this section, be covered against damage through vandalism. If this coverage cannot be extended to the public libraries situated within this state, the libraries may contract for this coverage with private insurance companies; provided, that this coverage meets the recommendations of the insurance code of the American library association."

Renumber accordingly

Date: 3-24-03
Roll Call Vote #: 1

2003 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

Senate 1138 Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Adopt Amendments from Karlene Fine

Motion Made By Klein Seconded By Espgaard

Senators	Yes	No	Senators	Yes	No
Senator Mutch	X				
Senator Klein	X				
Senator Krebsbach	X				
Senator Nething	X				
Senator Heitkamp	X				
Senator Every	X				
Senator Espgaard	X				

Total (Yes) ~~XXXXXXXXXXXX~~ 7 No ~~XXXXXXXXXXXX~~ 0

Absent 0

Floor Assignment ~~XXXXXXXXXXXX~~

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

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Operator's Signature Deanna Hall Date 10/2/03

Date: 3-24-03
Roll Call Vote #: 2

2003 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

Senate _____ Committee _____

☐ Check here for Conference Committee

Legislative Council Amendment Number 1138

Action Taken

Do Pass As Amended

Motion Made By

Espegard

Seconded By

Heitkamp

Senators	Yes	No	Senators	Yes	No
Senator Mutch	X				
Senator Klein	X				
Senator Krebsbach	X				
Senator Nething	X				
Senator Heitkamp	X				
Senator Every	X				
Senator Espegard	X				

Total (Yes) 11 No 0

Absent 0

Floor Assignment

Espegard

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

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Operator's Signature

Deanna G. Bell

Date

10/2/03

REPORT OF STANDING COMMITTEE (410)
March 25, 2003 2:13 p.m.

Module No: SR-53-5699
Carrier: Espegard
Insert LC: 38117.0201 Title: .0300

REPORT OF STANDING COMMITTEE

HB 1138, as engrossed: Industry, Business and Labor Committee (Sen. Mutch, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1138 was placed on the Sixth order on the calendar.

Page 1, line 2, after "26.1-22-05" Insert ", 26.1-22-10,"

Page 1, line 4, after "fund" Insert ", optional coverage for the state mill and elevator association,"

Page 1, line 10, after "association" Insert "If the association exercises the option provided in section 26.1-22-10"

Page 1, after line 21, insert:

"SECTION 2. AMENDMENT. Section 26.1-22-10 of the North Dakota Century Code is amended and reenacted as follows:

26.1-22-10. Commissioner to provide insurance on all buildings. Upon application the commissioner shall provide for insurance against loss by fire, lightning, inherent explosion, windstorm, cyclone, tornado and hail, explosions, riot attending a strike, aircraft, smoke, vehicles, or any other risks of direct physical loss, all in the manner and subject to the restrictions of the standard fire insurance policy and standard endorsement, and no other hazards, in the fund, on all buildings owned by the state, state industries, political subdivisions, international peace gardens, and winter shows, and the fixtures and permanent contents in such buildings, to the extent of not to exceed the insurable value of such property, as the value is agreed to between the commissioner and the officer or board having control of such property, or, in case of disagreement, by approval through arbitration.

All buildings and the contents of the buildings owned by the state mill and elevator association, in lieu of coverage under this chapter, may, at the option of the industrial commission, be insured by private insurance companies licensed to do business in this state, against at least all the types of hazards insured against by the fund. If the industrial commission exercises the option provided in this section, the commission shall seek competitive sealed bids, shall invite the fund to submit a bid, and may reject any or all bids received.

All public buildings owned by a political subdivision, in lieu of coverage provided for in this section, may at the option of the governing body of the political subdivision be insured on the basis of competitive sealed bids, through the fund which must be invited to submit a sealed bid or private insurance companies licensed to do business in this state, against damage resulting from hazards, which include those types of hazards that may be insured against by the fund. The governing body may reject any or all such bids.

All public libraries owned by the state or political subdivisions may, in addition to the coverage provided for in this section, be covered against damage through vandalism. If this coverage cannot be extended to the public libraries situated within this state, the libraries may contract for this coverage with private insurance companies; provided, that this coverage meets the recommendations of the insurance code of the American library association."

Renumber accordingly

(2) DESK, (3) COMM

Page No. 1

SR-53-5699

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10/2/03

2003 TESTIMONY

HB 1138

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Dorinda Halliwell
Operator's Signature

10/2/03
Date

HOUSE BILL NO. 1138

Presented by: Jeff Blitz
Special Funds Administrator
North Dakota Insurance Department

Before: Industry, Business and Labor Committee
Representative George Kelser, Chairman

Date: January 13, 2002

TESTIMONY

Mr. Chairman and members of the committee:

Good morning, my name is Jeff Blitz and I am the Administrator of the North Dakota State Fire and Tornado Fund (Fund) administered by the Insurance Department. The Fund provides property insurance coverage for the state and its political subdivisions. I appear in support of House Bill No. 1138.

The Fund provides coverage for 1,089 policyholders representing approximately \$5.3 billion in total property values. The property insurance is broken down as follows:

Building Property	8,784 buildings
Personal Property	6,545 locations
Outdoor Property	2,910 locations
Trailer Property	29 mobile homes

The Fund in its current fiscal year will receive in premium approximately \$3.9 million.

Mother nature has not been kind to North Dakota for the last 4-5 years, pretty much dating back to 1997, and the insurance industry as a whole has suffered great losses not only in North Dakota but nationwide, not to mention the horrible act of September 11, 2001. All of this has resulted in the hardening of the insurance market, the loss of capacity, and the

skyrocketing cost of insurance. The Fund has not been immune to this hardening market. The Fund has seen its reinsurance rates increase from approximately \$260,000 per year the last blennium (1999 through 2000) with a \$1 million retention to approximately \$1 million for the current blennium (2001 through 2002) with a \$2 million retention.

The Fund has also experienced an increase in its loss exposure over the last 4-5 years in which reinsurance has been penetrated. What I refer to here when I say penetrated is that the Fund has made claims against its reinsurer for losses that exceed the retention level that being \$1 million and \$2 million, respectively.

Following is a list of losses just dating back to 1999 that have penetrated reinsurance:

- | | | | |
|----|---------------------------|-----------|---|
| 1. | Center Public School | 1999 | \$2.6 million |
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| 3. | NDSU (still pending) | June 2000 | Approximate exposure -
\$2.9 million |
| 4. | Bismarck/Mandan hailstorm | June 2001 | \$3.3 million |

Section 1 - Amendment

This section allows the State Mill and Elevator Association (Association) the ability to purchase property insurance in the private sector. The Fund has always acted as a "fronting" company where the Association's risk was passed on at the first dollar and the Fund was a named insured on the Association's property insurance policy. The Fund collected no premium and assumed no risk. This arrangement has made it difficult for the Association to purchase commercial property insurance. Many insurance carriers have been reluctant to write coverage and list the Fund as an additional insured. This change will make it easier for the Association to find insurance coverage.

Section 2 - Amendment

This section allows the Insurance Commissioner greater flexibility in purchasing reinsurance for the Fund. It allows the Fund to:

- Purchase different reinsurance contracts for different classes of risk.
- Retain different levels of risk for the different reinsurance contracts.
- Purchase different insurance coverage limits for the different classes of risk.
- Purchase reinsurance annually or renegotiate reinsurance terms annually. The Fund is finding that it is practically impossible to secure a two-year commitment on a reinsurance contract. Requiring a two-year commitment limits the number of reinsurance carriers that will provide the Fund with a quote.

This section also allows the Fund to assess the reinsurance premium for different classes of insureds back to those classes that benefit. Currently the reinsurance premium is paid out of the Fund surplus and generally assessed back to the policyholders in general rather than to specific classes of policyholders. This change will allow the Fund to more directly assess the cost of reinsurance to those insureds that require the reinsurance.

This section eliminates the requirement that the Fund publish a notice that the Fund is accepting bids for reinsurance. It also eliminates the requirement that the Fund mail a notice to each insurance company licensed to write fire insurance in the state. Fire insurance companies licensed to do business in the state have not been contacting the Fund concerning reinsurance. Most do not have the capacity to underwrite the Fund's reinsurance requirements, that being no less than \$100 million per occurrence. If they do, they work directly with a broker or agent licensed to do business within the state. Going forward the Fund will work with a broker to solicit reinsurance bids.

Section 3 - New

This new section gives the Commissioner the ability to contract with an insurance broker to assist in procuring excess loss reinsurance. The broker will solicit bids from reinsurers. This process will be more effective than having the Fund solicit reinsurance directly from the insurance industry.

In the last three bienniums in which the Fund has bid out its reinsurance requirements, only one reinsurance proposal was received.

The Commissioner believes that by working with one insurance broker to find a reinsurer, the Fund can actively work with the broker to provide the potential reinsurers with the necessary information that will procure the best price for reinsurance for the Fund and thereby reduce the premium paid for the reinsurance.

The Fund asks for a yes vote for House Bill No. 1138 as this will give the State Mill and Elevator Association the flexibility it needs to pursue insurance on its own thereby simplifying its insurance procurement process. It will also give the Fund the flexibility it needs to pursue reinsurance at the lowest and best possible cost.

I will be happy to answer any questions that you may have.



13.3

MEMORANDUM

TO: Industry, Business and Labor Committee
FROM: Vance Taylor, President & General Manager
DATE: January 11, 2003
RE: HB 1138

Mr. Chairman and Committee Members

The North Dakota Mill and Elevator Association supports this bill provided that it is the Mill with the approval of the Industrial Commission that has the authority to go to the private sector to obtain insurance coverage. However, we do not want to be prohibited from using the Fire and Tornado Fund for our insurance coverage.

The Mill has a good working relationship with the Fire and Tornado Fund. Currently we work with them to find reinsurance carriers for the Mill. The Fire and Tornado Fund is the primary insurer for the Mill.

There are not too many insurance companies interested in insuring grain elevators or flour mills due to the inherent dangers of the industry. Last summer we were able to find three groups that had an interest in insuring the State Mill. Upon learning that they would be providing reinsurance and not be the primary insurance carrier, two of the groups declined to bid on the coverage. In discussion with them, they informed us that they would be interested if they were the primary carrier and not a reinsurance carrier. They indicated that agreements they had with their reinsurance carriers required them to be the primary carrier and since the Fire and Tornado Fund is the primary insurance carrier, they could not carry our insurance.

However, we do not want to be prohibited from using the Fire and Tornado Fund. Our concerns are that if the insurance coverage becomes difficult to obtain or cost prohibitive, we may need to rely on the Fire and Tornado Fund for insurance coverage.

This bill will give the Mill a larger number of insurance companies from which to receive bids. This should lead to a reduction in our insurance costs.

Thank you for your consideration.

Danna Baller
Operator's Signature

1/12/03
Date



INDUSTRIAL COMMISSION OF NORTH DAKOTA

John Hoeven
Governor

Wayne Stenehjem
Attorney General

Roger Johnson
Commissioner of Agriculture

Testimony on Engrossed House Bill No. 1138
Senate Industry, Business and Labor Committee
Tuesday, March 4, 2003

Mr. Chairman and members of the Senate Industry, Business and Labor Committee, my name is Karlene Fine, Executive Director and Secretary for the Industrial Commission of North Dakota. I appear before you today on behalf of the Industrial Commission and Vance Taylor, President and General Manager of the North Dakota Mill.

The Commission and Mill management are in support of this change in the law as long as the decision of whether or not the Fire and Tornado Fund will provide the insurance coverage for the Mill is made by the Industrial Commission.

The Mill has a good working relationship with the Fire and Tornado Fund. Currently we work with them to find reinsurance carriers for the Mill. The Fire and Tornado Fund is the primary insurer for the Mill.

We are supportive of the flexibility this legislation would provide because in the Mill's recent history there have been instances when an insurance firm wanted to bid on providing insurance coverage for the Mill, but when finding out they would not be the primary insurer, the insurance firm was unable to submit a bid. If the Fire and Tornado Fund and State Mill are given this flexibility we believe we will have more firms willing to submit bids and, hopefully, this will result in a reduction in the Mill's insurance costs.

The State Mill does not want to be prohibited, however, from using the Fire and Tornado Fund. To make sure that flexibility remains in place the Mill's attorney has drafted the attached amendment to Engrossed House Bill No. 1138. This amendment specifically outlines that it is an option for the Industrial Commission's determination of whether the State Mill should be insured by a private insurance company.

The amendment has been drafted with the language being very similar to what the Legislature has already adopted for political subdivisions.

Thank you for your consideration of these amendments for Engrossed House Bill No. 1138.

Karlene K. Fine, Executive Director and Secretary
State Capitol, 14th Floor - 600 E Boulevard Ave Dept 405 - Bismarck, ND 58505-0840
E-Mail: kfine@state.nd.us
Phone: (701) 328-3722 FAX: (701) 328-2820
"Your Gateway to North Dakota": discovernd.com

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Dorena G. Baller
Operator's Signature

10/2/03
Date

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1138

Page 1, line 2, after "26.1-22-05" Insert ", 26.1-22-10,"

Page 1, line 4, after "fund" insert ", optional coverage for the state mill and elevator association,"

Page 1, line 10, after "association" Insert "if it exercises the option provided in section 26.1-22-10"

Page 1, after line 21, Insert:

"SECTION 2. AMENDMENT. Section 26.1-22-10 of the North Dakota Century Code is amended and reenacted as follows:

26.1-22-10. Commissioner to provide insurance on all buildings. Upon application the commissioner shall provide for insurance against loss by fire, lightning, inherent explosion, windstorm, cyclone, tornado and hail, explosions, riot attending a strike, aircraft, smoke, vehicles, or any other risks of direct physical loss, all in the manner and subject to the restrictions of the standard fire insurance policy and standard endorsement, and no other hazards, in the fund, on all buildings owned by the state, state industries, political subdivisions, international peace gardens, and winter shows, and the fixtures and permanent contents in such buildings, to the extent of not to exceed the insurable value of such property, as the value is agreed to between the commissioner and the officer or board having control of such property, or, in case of disagreement, by approval through arbitration.

All buildings and their contents owned by the state mill and elevator association, in lieu of coverage under this chapter, may, at the option of the industrial commission, be insured by private insurance companies licensed to do business in this state, against at least all the types of hazards insured against by the fund. If the industrial commission exercises the option provided in this section, it shall seek competitive sealed bids, shall invite the fund to submit a bid, and may reject any or all bids received.

All public buildings owned by a political subdivision, in lieu of coverage provided for in this section, may at the option of the governing body of the political subdivision be insured on the basis of competitive sealed bids, through the fund which must be invited to submit a sealed bid or private insurance companies licensed to do business in this state, against damage resulting from hazards, which include those types of hazards that may be insured against by the fund. The governing body may reject any or all such bids.

All public libraries owned by the state or political subdivisions may, in addition to the coverage provided for in this section, be covered against damage through vandalism. If this coverage cannot be extended to the public libraries situated within this state, the libraries may contract for this coverage with private insurance companies; provided, that this coverage meets the recommendations of the insurance code of the American library association."

Renumber accordingly

ENGROSSED HOUSE BILL NO. 1138

Presented by: Jeff Blitz
Special Funds Administrator
North Dakota Insurance Department

Before: Industry, Business and Labor Committee
Senator Duane Mutch, Chairman

Date: March 4, 2002

TESTIMONY

Mr. Chairman and members of the committee:

Good morning, my name is Jeff Blitz and I am the Administrator of the North Dakota State Fire and Tornado Fund (Fund) administered by the Insurance Department. The Fund provides property insurance coverage for the state and its political subdivisions. I appear in support of Engrossed House Bill No. 1138.

The Fund provides coverage for 1,089 policyholders representing approximately \$5.3 billion in total property values. The property insurance is broken down as follows:

Building Property	8,784 buildings
Personal Property	6,545 locations
Outdoor Property	2,910 locations
Trailer Property	29 mobile homes

The Fund ... its current fiscal year will receive in premium approximately \$3.9 million.

Mother nature has not been kind to North Dakota for the last 4-5 years, pretty much dating back to 1997, and the insurance industry as a whole has suffered great losses not only in North Dakota but nationwide, not to mention the horrible act of September 11, 2001. All of this has resulted in the hardening of the insurance market, the loss of capacity, and the

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