NORTH DAKOTA
Insurance Department

TESTIMONY

Jon Godfread, Insurance Commissioner
House Industry, Business and Labor Committee
March 12, 2025

Testimony in Support of Senate Bill 2214

Thank you, Chairman Warrey and Members of the Industry, Business and Labor Committee, for the opportunity to provide testimony in support of Senate Bill 2214, which seeks to merge the North Dakota Securities Department with the North Dakota Insurance Department. This proposed merger is a forward-looking initiative that aligns with best practices from other states and ensures our regulatory framework continues to serve North Dakotans effectively and efficiently.

Overview of Senate Bill 2214

Senate Bill 2214 proposes consolidating the North Dakota Securities Department into the North Dakota Insurance Department.

Section 1: Amendment to Subsection 4 of Section 6-01-07.1

This section updates the entities with which the commissioner may share information and enter into agreements. Specifically, it replaces references to the "office of the securities commissioner" with the "insurance commissioner," reflecting the merger of the two departments.

Section 2: Amendments to Subsections 4 and 5 of Section 10-04-02

Definitions are revised in this section:

- **Subsection 4**: The term "Commissioner" is redefined to mean the "insurance commissioner" instead of the "securities commissioner."
- **Subsection 5**: The term "Department" is redefined to mean the "insurance department" instead of the "securities department."

Section 3: Amendment to Section 10-04-03

This section outlines the administrative changes resulting from the merger:

- The supervision of the state securities department transitions from the securities commissioner to the insurance commissioner.
- The position of the securities commissioner, previously appointed by the governor and confirmed by the senate for a four-year term, is now a position in the Insurance Department.
- Responsibilities previously held by the securities commissioner are transferred to the insurance commissioner, including the use of an official seal and the employment of necessary staff for administration.

Subsequent Sections
The remaining sections of the bill continue the process of updating statutory language to reflect the merger. This includes replacing references to the securities commissioner and securities department with the insurance commissioner and insurance department, respectively, throughout various provisions of the North Dakota Century Code.

In summary, Senate Bill 2214 systematically amends existing statutes to facilitate the integration of the Securities Department into the Insurance Department, thereby centralizing regulatory authority under the insurance commissioner.

This merger aims to enhance consumer protection, streamline operations, and increase responsiveness to evolving market dynamics. It is not a novel concept; numerous states, including South Dakota, have successfully adopted similar measures. These experiences demonstrate that integration creates a more unified and effective regulatory environment without compromising consumer protections.

The North Dakota Insurance Department, led by an elected Commissioner, oversees insurance companies, producers, and consumers, ensuring solvency and market integrity. Similarly, the Securities Department regulates securities markets, professionals, and financial products. With increasing overlap between insurance and securities products, such as annuities and private placements, merging these departments allows us to address these intersections more effectively.

Proven Success: South Dakota's Experience
South Dakota's 2017 merger of its insurance and securities departments provides a compelling example. In a letter submitted by South Dakota's Division of Insurance Director Larry Deiter, he outlines the positive impacts of their consolidation, including increased efficiency, improved consumer protection, and enhanced regulatory capabilities. Their success underscores the feasibility and benefits of such an approach, offering North Dakota a proven roadmap to follow. For your reference, the letter from Director Deiter has been submitted with this testimony, and I encourage you to review it for his detailed perspective.

Benefits of Consolidation

A unified regulatory body ensures consistent oversight across both insurance and securities markets. Specific benefits include:

- **Streamlined Investigations**: Consolidating investigative resources allows for more efficient enforcement actions against bad actors operating across both sectors, thereby improving consumer protections. As noted by Director Deiter, South Dakota's unified approach enabled faster resolutions and reduced bureaucratic inefficiencies.

- **Simplified Licensing**: Financial professionals holding both insurance and securities licenses will benefit from a streamlined licensing process, reducing regulatory burdens and enhancing service delivery. For example, routine inquiries currently handled separately could be addressed more efficiently under a unified framework.

Enhanced Consumer Protection
This consolidation is not about cost savings; it is about ensuring North Dakotans receive the level of protection they deserve from their financial regulators. The Securities Department has struggled for years—whether through mismanagement, lack of enforcement, or outright neglect—and those struggles have directly harmed North Dakota citizens. The unwillingness to acknowledge or correct these long-standing deficiencies has only exacerbated the situation, leaving consumers vulnerable. The transition of the Securities Department to the Insurance Department will finally provide the necessary resources and leadership to correct these deficiencies.

A unified regulatory body will ensure consistent oversight across both insurance and securities markets. Specific benefits include:

- **Stronger Investigations and Enforcement**: Consolidating investigative resources will allow for more efficient enforcement actions against bad actors operating in both sectors. As seen in other states, including South Dakota, a unified approach enables faster resolutions and reduces bureaucratic inefficiencies that currently hinder North Dakota's ability to respond to fraud and misconduct.
- **Proactive Regulation**: Unlike the Securities Department, which has been reactive—if not outright negligent—the Insurance Department has a strong track record of enforcing laws and protecting consumers. For example, 47 states have already implemented the Annuity Suitability Law, significantly improving consumer protections in the annuity space. The 16 states that have combined securities and insurance oversight are far ahead in enforcement and consumer protection efforts in this area. Meanwhile, North Dakota's Securities Department has failed to act, leaving gaps in consumer protection.
- **Guarding Against Federal Overreach**: Under the Biden Administration, the federal government has attempted multiple times to preempt state-based regulation in financial markets. A stronger, more competent state securities regulator housed within the Insurance Department will be better positioned to maintain North Dakota's sovereignty in financial regulation and prevent federal overreach.

The bottom line: securities regulation is a small piece of the broader financial services market, and much of that oversight falls under the SEC. However, what remains at the state level is crucial to protecting North Dakotans. Over the past decade, the Securities Department's leadership and operational deficiencies have led to significant losses for

North Dakota consumers. This consolidation is a response to those failures, ensuring accountability and effectiveness moving forward.

Operational Efficiencies Without Sacrificing Consumer Protection

While some may worry that merging two departments could dilute focus or expertise, the opposite is true. Combining the Securities Department into the Insurance Department will eliminate redundancies and maximize resources in ways that actually improve consumer protection.

- **Cross-Training and Workforce Development**: Investigators, examiners, and licensing personnel will be able to handle issues across both insurance and securities, reducing duplication and fostering collaboration. South Dakota has already demonstrated how cross-training can lead to a more capable regulatory team.
- **Unified Licensing and Compliance Monitoring**: Financial professionals holding both insurance and securities licenses will benefit from a streamlined licensing process, reducing regulatory burdens while maintaining high compliance standards.
- **Stronger Data and Intelligence Sharing**: The Insurance Department already has extensive access to regulatory databases from entities like the Financial Industry Regulatory Authority (FINRA), the U.S. Securities and Exchange Commission (SEC), and the National Association of Insurance Commissioners (NAIC). Bringing securities regulation under the Insurance Department will ensure seamless data-sharing and a more robust regulatory infrastructure.

This transition is long overdue. While it will take time to fully correct the deep-seated issues in the Securities Department, the risk of delay means further damage to North Dakota citizens. The Insurance Department will not be perfect—but our track record speaks for itself. We have a history of prudent, reasonable consumer protection regulation.

Proven Leadership in Efficient and Effective Government

North Dakotans expect government agencies to be good stewards of taxpayer dollars while still delivering high-quality services. The Insurance Department has a proven history of achieving both.

- **Track Record of Fiscal Responsibility**:
    - When I took office eight years ago, the Insurance Department had 49.5 FTEs.
    - Today, we are at 47 FTEs—even after taking on an additional 10 FTEs from the Fire Marshal last session.
    - Despite these added responsibilities, our operating line is up only 4% over the past eight years.
    - We consistently review and cut excess while ensuring we have the resources needed to do our job effectively.

- **Contrast with the Securities Department**: The Securities Department, in contrast, has failed to implement even the most basic programs designed to protect consumers. A prime example is the Restitution Assistance Fund, established by the 68th Legislative Assembly. Despite its passage and clear legislative intent, no administrative rules have been drafted, no proposed legislation has been developed, and no progress has been made toward implementing the fund. This was a fund brought forth by Securities Department leadership approved by this body, with the expectation of making North Dakotans whole when they are harmed by securities fraud, and yet no meaningful steps have been taken by the department to implement this fund. This is an example has left vulnerable adults without the support they were promised.

The reality is that this merger is not about saving money—it's about fixing a broken system. North Dakotans deserve a regulatory body that enforces the law, protects consumers, and operates efficiently. That is what we have delivered in the Insurance Department, and it is what we will bring to the Securities Department.

Learning from Other States' Success

North Dakota is not the first state to take this step, and the states that have done so are significantly ahead in consumer protection and enforcement efforts.

- South Dakota, our neighboring state, has successfully combined securities and insurance under a single department, creating a more effective regulatory environment.
- Other states that have consolidated these functions have reported greater enforcement capabilities, stronger consumer protections, and improved regulatory efficiency.

Governor Armstrong recognized the serious issues within North Dakota's Securities Department and initiated this conversation because action is needed this session. For over a decade, mismanagement, negligence, and an unwillingness to address fundamental problems have resulted in real harm to North Dakota consumers.

Support from the Governor's Office

While this merger would reduce the Governor's number of cabinet appointments, Governor Armstrong supports this transition due to its clear benefits. As you all know, Governor Armstrong has no difficulty articulating his positions, so I will let him speak for himself on this matter. However, his support reflects the administration's recognition of the value this move brings to our state.

The integration of the North Dakota Securities Department into the North Dakota Insurance Department represents a strategic and necessary step to modernize our regulatory framework. By consolidating oversight of these two interconnected sectors, we can:

- Enhance consumer protections.
- Realize operational efficiencies.
- Respond effectively to market innovations.
- Provide comprehensive consumer education.

The Insurance Department has a long and proven track record of efficient, consumer-focused regulation. We are not perfect, but we have demonstrated a commitment to prudent oversight, operational efficiency, and strong consumer protections. The Securities Department, unfortunately, has not.

By following the example of successful states—particularly South Dakota—we can improve enforcement, enhance consumer protection, and bring much-needed accountability to securities regulation in North Dakota. The risk of inaction is simply too great.

I respectfully urge the Committee to support Senate Bill 2214. Thank you for your time and consideration. I am happy to answer any questions you may have.

FACT SHEET

Senate Bill 2214
Moving the Securities Department to the North Dakota Insurance Department

Senate Bill 2214, as introduced, would merge the North Dakota Securities Department with the Insurance Department and transfer the necessary authorities to the Insurance Commissioner. Both departments share a commitment to safeguarding the financial well-being of North Dakotans. This merger would modernize operations, align overlapping responsibilities, and create a streamlined approach to financial regulation.

Why Merge?

- Streamlined operations
- Enhanced consumer protections
- Cost savings & efficiency
- Unified regulatory framework
- Legal & law enforcement resources
- Successes in other states

Insurance Department

Regulates insurance agents & companies

Oversees life, health, auto & property policies

Handle claims disputes & policyholder complaints

Shared

Consumer Protection

Financial fraud investigation

Public education & awareness

Promoting financial stability

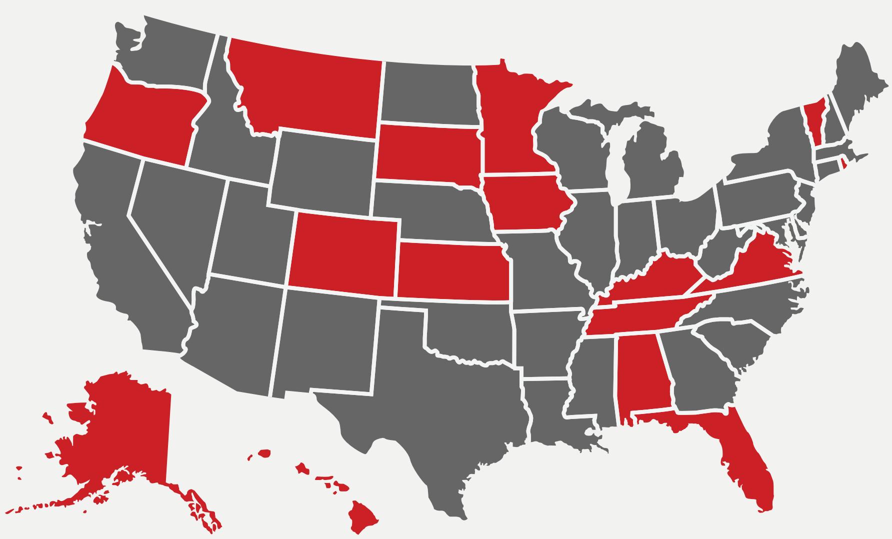
Professional licensing

Securities Department

Regulates securities brokers, dealers & investment advisers

Oversees the sale of stocks, bonds & other investment products

Provide investor education & protection



In the U.S., at least **16 states** have their securities regulatory agency under the same umbrella as their insurance department.

"Writing eight years after the merger and having been here the full duration, I would recommend merging these agencies again without a second thought. At a broad level, insurance and securities regulation affect the same types of financial professionals who are distributing products and services to consumers."

Larry Deiter, Director
Division of Insurance
South Dakota Department of Labor and Regulation

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January 27, 2025

SENT ELECTRONICALLY

Honorable Insurance Commissioner Jon Godfread
600 E Boulevard Ave
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Re: Merger of Insurance and Securities Operations in South Dakota

Commissioner Godfread,

The South Dakota Division of Insurance is pleased to share its experience from merging the former South Dakota Division of Securities into its operations in January 2017.[1] Writing eight years after the merger and having been here the full duration, I would recommend merging these agencies again without a second thought. At a broad level, insurance and securities regulation affect the same types of financial professionals who are distributing products and services to consumers. From life and annuity products, health care, property insurance, and investment products, the regulatory protections offered by each area are analogous on many levels. Observations we have noted from our experiences merging these two regulatory entities include but are not limited to:

Consumer Protection. Individuals operating as securities brokers are often licensed as insurance producers, as well. By administering market oversight in one Division, we have created a more consistent approach in handling complaints, investigations, examinations, and enforcement actions by the State. Since the 2017 merger, the South Dakota Division of Insurance has conducted numerous investigations and examinations of individuals who are cross-licensed. Those efforts would have been complicated by unnecessary interaction with another agency, requiring further meetings, coordination, and bureaucracy. Duplicative efforts are inefficient and increase cost. We have had no difficulty applying both the Insurance Code and the Uniform Securities Act to resolve files with existing skill and expertise. An efficient review of an individual's comprehensive conduct with consumers in the market is the end result. This cohesive approach has better served the public by providing protection and quickly removing bad actors.

Operational Efficiency. When merging, we found many parallel administrative processes between the license types. Both sets of licensees take examinations, complete applications for review, pay license fees, provide criminal background information, receive review by the regulator, pay taxes, and receive continuing education. Aside from nuances in the regulation, these functions are largely the same. We have continuously found ways to streamline processes, integrate solutions, and combine data systems across license types. This has led to cross-training staff on many topics to support these markets.

[1] Executive Order 2017-02.

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Innovation. A variety of new products blur the lines between insurance and securities, often causing decreased speed-to-market deployment by industry. Instead of multiple agencies and wrangling about which regulation to apply, a single Division is better positioned to respond to new and innovative product offerings. Working collaboratively allows innovative products to receive expedited review, providing the public with greater options and a consistent regulatory approach.

As discussed, South Dakota has experienced positive advantages to merging its Insurance and Securities Divisions. Around a dozen states have combined their insurance and securities departments in a growing national trend for efficient and effective regulation of these related financial services markets.

If you have additional questions regarding South Dakota's experience since the 2017 merger, I would be happy to provide more detailed information. Thanks!

Sincerely,

Larry Deiter, Director
South Dakota Division of Insurance
Department of Labor & Regulation

State vs. Federal Securities Regulation: Who is Responsible for What?

Securities regulation in the United States is a dual system, with oversight responsibilities split between state securities regulators and the U.S. Securities and Exchange Commission (SEC). Each has distinct roles in protecting investors, maintaining market integrity, and enforcing securities laws.

Federal Regulation – The Role of the SEC

The SEC is the primary federal regulator of the securities industry, overseeing national markets, larger financial institutions, and broad investor protections. Its responsibilities include:

Oversight of National Markets & Large Firms

- **Public Companies & Securities Offerings**: The SEC regulates publicly traded companies, ensuring compliance with reporting requirements under the Securities Act of 1933 and the Securities Exchange Act of 1934.
- **Stock Exchanges & Self-Regulatory Organizations (SROs)**: The SEC oversees major trading platforms like the New York Stock Exchange (NYSE), Nasdaq, and Financial Industry Regulatory Authority (FINRA).
- **Large Investment Firms & Asset Managers**: The SEC supervises major investment firms, including hedge funds, mutual funds, and investment advisors with $100 million+ in assets under management.

Enforcement of Federal Securities Laws

- **Insider Trading & Market Manipulation**: Investigates cases of fraud, including insider trading, Ponzi schemes, and misleading financial statements.
- **SEC Civil Enforcement Actions**: The SEC can bring lawsuits and impose fines, bans, and criminal referrals in cases of major financial fraud.

Interstate & Global Securities Activities

- The SEC regulates interstate securities transactions and securities fraud cases with national or international scope.
- Works with foreign regulators in cases involving cross-border fraud.

State Securities Regulation – The Role of State Agencies

Each U.S. state has its own securities regulator, typically housed in an independent securities commission, the attorney general's office, or a department like the North Dakota Insurance Department (if merged). State securities regulation is focused on local investor protection and smaller securities transactions.

Primary Responsibilities of State Securities Regulators

- **Licensing & Registration**

- **Broker-Dealers & Investment Advisers**: State regulators oversee small and mid-sized investment advisers (under $100M in AUM), as well as individual brokers operating within the state.
- **Securities Offerings**: States regulate the registration of certain securities offerings, particularly those that are not federally preempted (e.g., intrastate offerings).
- **Blue Sky Laws**: Each state enforces its own "Blue Sky Laws," which are designed to prevent fraud in securities transactions at the state level.

- **Enforcement & Fraud Prevention**
  - **Ponzi Schemes & Local Fraud Cases**: State regulators handle cases involving fraud within their jurisdiction, including scams targeting elderly and vulnerable investors.
  - **Consumer Complaints & Investigations**: State securities regulators investigate investor complaints and have the power to fine, suspend, or revoke licenses for bad actors.
  - **Coordination with Prosecutors**: State agencies work with state attorneys general and local law enforcement to pursue criminal charges against fraudsters.
- **Investor Education & Protection**
  - States have a key role in educating the public on securities fraud, investment risks, and financial literacy.
  - Programs such as fraud prevention initiatives for seniors and first-time investors often originate at the state level.
- **Coordination with the SEC & Federal Regulators**
  - States share enforcement authority with the SEC and often bring parallel enforcement actions.
  - In some cases, states take action faster than the SEC, especially for scams affecting local investors before they gain national attention.

The Overlap & Differences: SEC vs. State Regulators

Function	SEC (Federal)	State Securities Regulator
Oversight of Public Companies	Regulates all publicly traded companies	No authority over public companies
Stock Exchanges & Large Firms	Oversees national markets & SROs (NYSE, Nasdaq, FINRA)	No authority over national stock exchanges
Licensing & Registration	Regulates large investment firms (AUM $100M+)	Registers small/mid-sized investment advisers and brokers
Securities Offerings	Oversees IPOs & national securities offerings	Regulates intrastate securities offerings
Enforcement & Fraud Prevention	Handles major fraud cases, insider trading, Ponzi schemes	Investigates local fraud, scams, and Ponzi schemes

Consumer Protection & Education	National financial education initiatives	Local investor education & fraud prevention programs
Coordination & Joint Actions	Works with states, DOJ, and international regulators	Cooperates with SEC on cases with state implications

Why States Matter: The Case for Strong State Securities Regulation

While the SEC handles national and large-scale cases, state securities regulators often act as the first line of defense for local investors. The North Dakota Securities Department's failure to effectively regulate securities has left consumers vulnerable, which is why consolidation into the Insurance Department is necessary.

Key Examples of Why State Regulation Matters

1. **The Annuity Suitability Law & State Leadership**
    - States that have combined securities and insurance regulation (like South Dakota) have been much more proactive in protecting investors in this area.
2. **State-Level Fraud Enforcement is More Responsive**
    - Many Ponzi schemes and fraudulent investment schemes start small and target local investors before they gain national attention.
3. **Preventing Federal Preemption of State Authority**
    - If North Dakota does not step up its securities enforcement efforts, it risks losing state authority over key areas of financial regulation.

Why This Transition is Necessary

- The SEC does not handle local enforcement—that's the role of the state regulator.
- The Securities Department has failed to meet its responsibilities. This lack of action has resulted in consumer harm, delayed enforcement, and regulatory gaps.
- Other states that have merged securities with insurance regulation have seen stronger consumer protections, improved enforcement, and better operational efficiencies.

By bringing securities regulation under the Insurance Department, we can:

- Ensure proper enforcement of securities laws and prevent further financial harm to North Dakotans.
- Hold bad actors accountable more quickly before frauds escalate.
- Modernize North Dakota's regulatory approach to align with best practices seen in states like South Dakota and others that have successfully merged their regulatory functions.

This is not about cost savings—it's about fixing a broken system before more North Dakota investors are harmed. The time to act is now.