

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**NORTH DAKOTA
INSURANCE GUARANTY ASSOCIATION**

BISMARCK, NORTH DAKOTA

**AS OF
DECEMBER 31, 2019**

STATE OF NORTH DAKOTA
INSURANCE DEPARTMENT

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that
I have compared the annexed copy of the Report of Examination of the

North Dakota Insurance Guaranty Association

Bismarck, North Dakota

as of December 31, 2019, with the original on file in this Department and that the same is a correct
transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto

set my hand and affixed my official seal at my

office in the City of Bismarck, this 1st day of

December, 2020.





Jon Godfread
Insurance Commissioner

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	1
STATUS OF PRIOR EXAM FINDINGS	1
STATUS OF PRIOR EXAM FINDINGS	1
HISTORY.....	2
General	2
Board of Directors	2
Officers	3
Committees	3
Corporate Records	3
Plan of Operation.....	3
Board of Directors and Committee Minutes	3
ASSESSMENTS.....	4
ESTATE DISTRIBUTIONS	4
CLAIMS	4
MANAGING SECRETARY	5
TREASURER.....	5
ACCOUNTS AND RECORDS	5
FINANCIAL STATEMENTS.....	6
COMMENTS TO THE FINANCIAL STATEMENTS	13
Cash and Cash Equivalents	13
Bonds & Long Term Certificates	13
FUND BALANCE	13
CONCLUSION.....	14

Bismarck, North Dakota
November 24, 2020

Honorable Jon Godfread
Commissioner of Insurance
North Dakota Insurance Department
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Commissioner:

Pursuant to your instructions and statutory provisions, an examination has been made of the books, records and financial condition of

North Dakota Insurance Guaranty Association

Bismarck, North Dakota

The North Dakota Insurance Guaranty Association, hereinafter referred to as "the Association", was last examined as of December 31, 2014, by representatives of the North Dakota Insurance Department, hereinafter referred to as "the Department".

SCOPE OF EXAMINATION

This examination was a financial examination conducted in accordance with North Dakota Century Code ("N.D.C.C.") §§ 26.1-42.1-11 and 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Association's financial condition, its compliance with statutes, and to review its corporate affairs. This statutory examination covers the period from January 1, 2015, to December 31, 2019, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

STATUS OF PRIOR EXAM FINDINGS

The Association had no exam findings in the previous examination.

STATUS OF PRIOR EXAM FINDINGS

No material subsequent events were noted.

HISTORY

General

The Association was created on July 1, 1971, under the provisions of N.D.C.C. § 26.1-42, as a nonprofit, unincorporated legal entity. N.D.C.C. § 26.1-42 was repealed and reenacted as N.D.C.C. § 26.1-42.1 effective August 1, 1999. The purposes of the Association are: (1) to provide a method of payment for certain claims against insolvent insurance companies, (2) to avoid financial loss to claimants or to policyholders, (3) to assist in the detection and prevention of insurer insolvency, and (4) to provide an association to assess the cost of such protection among insurers.

All insurers, excluding county mutual insurance companies, licensed to transact in this state any kind of insurance for which coverage is provided under N.D.C.C. § 26.1-42.1-01 are members of the Association.

The Association is exempt from federal income taxes under the provisions of the Internal Revenue Code Section 501(c)(6).

Board of Directors

The Plan of Operation provides that the Board shall consist of seven persons who shall be selected by member insurers, subject to the approval of the Commissioner.

The Plan of Operation specifies that the annual meeting of the Board of Directors is to be held on the fourth Tuesday in April of each year unless the Board shall designate some other date. At each annual meeting the Board shall review outstanding contracts with Servicing Facilities, review operating expenses and covered claim costs for the purpose of determining if an assessment or refund of a prior assessment would be appropriate, and review and consider any other matters it may deem appropriate.

Special meetings may be called by the Chairman of the Board and shall be called at the request of any two members of the Board of Directors upon five days written notice mailed to each Board member.

The Board of Directors held an Annual Meeting in compliance with the Plan of Operation in each of the years covered by this statutory examination. There were no special meetings held during the period under examination.

Directors duly elected and serving at December 31, 2019, together with their business affiliations are as follows:

<u>Name</u>	<u>Term Expires</u>	<u>Business Affiliation</u>
William Folendorf	2020	Tri-State Ltd (Retired)
Kristi Schlosser Carlson	2020	Farmers Union
Chris Oen	2020	Nodak Insurance

Rob Hovland	2021	Center Mutual
Tony Burbach	2021	Dakota Fire
Hank Prien	2022	American Family
Dean Richter	2022	State Farm

Officers

Pursuant to the Plan of Operation, the Board shall elect a Chairman and such other officers as may seem to be desirable from among its members. Each officer shall hold office for a period of one year.

Officers serving at December 31, 2019, were as follows:

<u>Name</u>	<u>Title</u>
Rob Hovland	Chairman
William Folendorf	Treasurer
Kristi Schlosser Carlson	Secretary

Committees

An Investment Committee held 67 meetings during the period under review. Members of the Investment Committee as of December 31, 2019, were as follows:

Rob Hovland
William Folendorf
Jeff Cahill

The minutes disclose that the Investment Committee gave prior approval for all investments acquired during the period under review.

Corporate Records

Plan of Operation

The Plan of Operation was amended in 2016 to incorporate the Association's Investment Policy statement as Exhibit 1. No other amendments were made during the period under review.

Board of Directors and Committee Minutes

The minutes of the Board of Directors and Investment Committee for the period under examination were read.

The minutes of the various meetings indicate that meetings were well attended and held in accordance with the Plan of Operation.

ASSESSMENTS

N.D.C.C. § 26.1-42.1-05 provides the Association with authority to assess member insurers amounts necessary to pay covered claims of insolvent insurers, the expenses of handling covered claims subsequent to insolvency and other expenses authorized by N.D.C.C. § 26.1-42.1. Each member insurer assessment must be in the proportion that the net direct written premiums of the member insurer for the preceding calendar year bears to the net direct written premiums of all member insurers for the preceding calendar year. A member insurer may not be assessed in any one year an amount greater than two percent of that member insurer's net direct written premiums for the calendar year preceding the assessment.

The Association did not make any assessments during the period under examination. The Association used funds from its operating expense account for the payments of claims and expenses for insurers determined to be insolvent during the period under examination.

ESTATE DISTRIBUTIONS

The Association has a priority claim over general creditors of an insolvent insurer. The amount of the priority claims is equal to the claims paid by the Association pursuant to the Act. Net distributions received from liquidators totaled \$194,709 during the period under review.

CLAIMS

N.D.C.C. § 26.1-42.1-02(5) defines a covered claim to mean an unpaid claim, including one for unearned premiums, within the coverage of an insurance policy issued by an insurer if the insurer becomes insolvent after August 1, 1999. The claimant or insured must be a resident of this state at the time of the insured event or the insured property must be permanently located in this state. Under N.D.C.C. § 26.1-42.1-05(1) the Association is obligated to pay as follows:

1. An amount not exceeding \$10,000 per policy for a covered claim for the return of unearned premium.
2. An amount not exceeding \$300,000 per claim for all other covered claims.

Claim settlement proposals of \$50,000 or more are required to have Board of Director approval.

The following is a schedule of loss and loss adjustment expense payments and unearned premium payments by insolvency for the period under examination:

Insolvency	Claims	Adjusting	Unearned Premiums	Total
Lumberman's Insurance Company	\$ 0	\$ 53.34	\$ 0	\$ 53.34
Total	\$ 0	\$ 53.34	\$ 0	\$ 53.34

The following schedule discloses the estimated reserves established by the Association at December 31, 2019, for all pending claims:

Insolvency	Loss Reserve	LAE Reserve	Total
Home Insurance Company	\$63,384	\$21,000	\$84,384
Ulico Insurance	1,500	0	1,500
Red Rock Insurance Company	1	0	1
Totals	\$64,885	\$21,000	\$85,885

MANAGING SECRETARY

The Plan of Operation provides that the Association may engage a Managing Secretary to carry out directives established by the Board of Directors.

The minutes show that the Board entered into a contract with a Managing Secretary, Jeff Cahill, during each of the years under review. All of the contracts had a term of one year. The agreement in effect at December 31, 2019, took effect on June 1, 2019, and was renewed at the May 6, 2019, annual meeting.

TREASURER

The Plan of Operation, Section 3, provides that the Board may employ such person, firms or corporations to perform such administrative functions as are necessary for the Board's performance of the duties imposed on the Association.

The minutes show that the Board entered into a contract with the Treasurer, William Folendorf, during each of the years under review. All of the contracts had a term of one year. The agreement in effect at December 31, 2019, took effect on June 1, 2019, and was renewed at the May 6, 2019, annual meeting.

ACCOUNTS AND RECORDS

The Association prepares its financial statements on the modified cash-basis of accounting which uses both cash-basis and accrual basis accounting.

The records of the Association consist of a general ledger, corporate records, and subsidiary records necessary for the preparation of the financial statements and supplementary data. Certain accounting records are manually maintained; however, the Association purchased the Western Guaranty Fund Services (WGFS) software in 2019 to manage claims and generate accounting reports. The Association moved to WGFS from Information Systems Unlimited effective July 1, 2019.

FINANCIAL STATEMENTS

The financial statements section includes the following:

Statement of Assets, Liabilities and Fund Balance, December 31, 2019

Statement of Activities and Changes in Fund Balance for Year 2019

Statement of Activities and Changes in Fund Balance - Inception through December 31, 2019, Broken Down by Insolvency

These financial statements are based on the statutory financial statements filed by the Company with the North Dakota Insurance Department and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered and integral part of the financial statements.

**North Dakota Insurance Guaranty Association
Statement of Assets, Liabilities, and Fund Balance
December 31, 2019**

Assets:	
Cash and Cash Equivalents	\$ 121,427
Long Term Certificates	<u>6,452,019</u>
Total Assets	<u>\$ 6,573,446</u>
Liabilities and Fund Balance:	
Fund Balance	<u>\$ 6,573,446</u>
Total Liabilities and Capital	<u>\$ 6,573,446</u>

**North Dakota Insurance Guaranty Association
Statement of Activities and Changes in Fund Balance
for the Year Ended December 31, 2019**

Revenue:

Interest Income	\$ 138,490
Bond Amortization	158,052
Profit of Loss on Investments	(50)
Liquidation Refunds	93,651
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Total Revenue	\$ 390,143

Expense:

Legal Expense	\$ 2,508
Travel	2,032
Insurance Expense	11,905
Outside Services, ISU	735
Membership Fees	37,464
Supplies & Equipment	575
Postage & Express	404
Telephone & Internet	3,448
Rent	1,632
Managing Secretary Fee	41,500
Accounting Fees	22,425
Audit Examination Expense	6,950
Investment Expense	70
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Total Expense	\$ 131,648

Fund Balance, Beginning of the Year	6,314,951
Net Income	258,495
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Fund Balance, End of the Year	<u>\$ 6,573,446</u>

**North Dakota Insurance Guaranty Association
Statement of Activities and Changes in Fund Balance
Inception through December 31, 2019**

	Manchester Ins. Co.	Reserve Ins. Co.	Proprietors Ins. Co.	Security Casualty Ins.	Excalibur Ins. Co.	Aspen Ins. Co.	S&H Ins. Co.	Ideal Ins. Co.	Early American Ins.	Union Indemnity
Revenue										
Assessments	\$1,792	\$11,508			\$17,800	\$28,576	\$13,151	\$483,857	\$309,730	\$24,727
Interest Income					371	1,360	4,520	35,570	27,832	1,577
Liquidation Refunds	1,003	7,833	\$833	\$5,090	11,311	16,182	4,400	258,005	259,668	2,006
Total Revenue	\$2,795	\$19,341	\$833	\$5,090	\$29,482	\$46,118	\$22,071	\$777,432	\$597,230	\$28,310
Expense										
Claims		\$ 2,616		\$3,735	\$13,407	\$ 6,640	\$ 3,204	\$412,183	\$184,430	\$ 757
Adjusting Paid		5,921	\$171	1,006	2,141	1,978	19	176,348	68,962	105
Unearned Premiums	\$2,728		599			6,866	972	4,340		5,192
Operating Expenses	201	631	63	350	253	698	205	15,233	5,455	116
Refund of Assessments										
Total Expense	\$2,929	\$ 9,168	\$833	\$5,091	\$15,801	\$16,182	\$ 4,400	\$608,104	\$258,847	\$ 6,170
Fund Balance	\$ (134)	\$10,173	\$ 0	\$ (1)	\$13,681	\$29,936	\$17,671	\$169,328	\$338,383	\$22,140

**North Dakota Insurance Guaranty Association
Statement of Activities and Changes in Fund Balance
Inception through December 31, 2019**

	American Fidelity	Iowa National	Great Global	Glacier Ins. Co.	Carriers Ins. Co.	Transit Casualty	Midland Ins. Co.	Allied Fidelity	Integrity Ins. Co.	Mission National
Revenue										
Assessments	\$237,377	\$ 842,479	\$1,086,195	\$723,724	\$198,937	\$125,932	\$ 12,980	\$ 79,880	\$61,907	\$ 99,861
Interest Income	9,310	279,397	26,588	30,945	4,816	5,962	661	204	1,858	4,559
Liquidation Refunds	65,686	1,453,551	1,145,707	252,844	250,264	297,255	8,965	79,335	73,528	36,543
Total Revenue	\$312,373	\$2,575,427	\$2,258,490	\$1,007,513	\$454,017	\$429,149	\$ 22,606	\$159,419	\$137,293	\$140,963
Expense										
Claims Paid	\$ 84,588	\$ 469,123	\$1,000,607	\$358,824	\$151,088	\$ 220,808	\$ 31,733	\$ 92,650	\$39,116	\$ 4,145
Adjusting Paid	7,655	314,503	370,273	131,496	50,738	128,200	3,305	4,513	34,381	18,898
Unearned Premiums	53,215	322,564			69,682				251	
Operating Expenses	1,796	97,360	41,903	9,796	8,292	14,410	5,169	2,915	5,947	691
Refund of Assessments										
Total Expense	\$147,254	\$1,203,550	\$1,412,783	\$500,116	\$279,800	\$ 363,418	\$ 40,207	\$100,078	\$79,695	\$ 23,734
Fund Balance	\$165,119	\$1,371,877	\$ 845,707	\$507,397	\$174,217	\$65,731	\$(17,601)	\$59,341	\$57,598	\$117,229

**North Dakota Insurance Guaranty Association
Statement of Activities and Changes in Fund Balance
Inception through December 31, 2019**

	Mission Ins. Co.	Edison Ins. Co.	American Mutual	Reliance Ins. Co.	Phico Ins. Co.	United Community	Legion Insurance	Lutheran Benevolent	Home Insurance	American Eagle	Lumber- man's Ins. Co.
Revenue											
Assessments											
Interest Income											
Liquidation Refunds	\$1,647	\$ 23,225		\$ 239,615	\$ 597,407	\$ 2,686	\$ 477,339			\$ 6,558	\$ 3,378
Total Revenue	\$1,647	\$ 23,225		\$ 239,615	\$ 597,407	\$ 2,686	\$ 477,339			\$ 6,558	\$ 3,378
Expense											
Claims Paid		\$ 47,321		\$ 47,500	\$ 398,482	\$ 469	\$ 283,711			\$ 18,245	
Adjusting Paid		7,636		198,477	253,853		133,264			2,086	\$ 3,554
Unearned Premium		29,589			20,678	4,982	11,524	\$1,787			
Operating Expenses	\$ 838	3,985	15,116	64,036	85,529		84,757	22	\$ 3,705	11	
Refund of Assessments											
Total Expense	\$ 838	\$ 88,531	\$ 15,116	\$310,013	\$ 758,542	\$ 5,451	\$513,256	\$ 1,809	\$ 3,705	\$ 20,342	\$ 3,554
Fund Balance	\$ 809	\$(65,306)	\$ (15,116)	\$(70,398)	\$(161,135)	\$(2,765)	\$(35,917)	\$(1,809)	\$(3,705)	\$ (13,784)	\$ (176)

**North Dakota Insurance Guaranty Association
Statement of Activities and Changes in Fund Balance
Inception through December 31, 2019**

	Operating Expenses	Totals
Revenue		
Assessments	\$ 70,636	\$ 4,431,049
Interest Income	5,171,891	5,607,423
Liquidation Refunds	25,000	5,606,861
Total Revenue	\$ 5,267,527	\$ 15,645,333
Expense		
Claims Paid		\$ 3,875,381
Adjusting Paid		1,919,483
Unearned Premium		534,969
Operating Expenses	\$ 2,312,038	2,781,520
Refund of Assessments		
Total Expense	\$ 2,312,038	\$ 9,111,353
Fund Balance	\$ 2,955,489	\$ 6,533,980

**This schedule is prepared on the cash basis of accounting and excludes \$39,466 in excess investment market value over book value that is included on the balance sheet.*

COMMENTS TO THE FINANCIAL STATEMENTS

Cash and Cash Equivalents

Cash and money market deposit account balances on deposit at December 31, 2019, consisted of the following items and amounts:

Wells Fargo Bank, Bismarck, ND	\$ 31,554
Wells Fargo Investment Advisors Bismarck, ND	<u>89,873</u>
Total	<u>\$ 121,427</u>

Long Term Certificates

The foregoing amount is the same as the amount reported by the Association in its financial statements for the period ended December 31, 2019. The following schedule discloses Certificates of Deposit owned by cost and market value as of December 31, 2019:

<u>Description</u>	<u>Actual Cost</u>	<u>Market Value</u>
Certificates of Deposit	<u>6,412,553</u>	<u>6,452,019</u>
Total	<u>\$ 6,412,553</u>	<u>\$ 6,452,019</u>

The Association generally invests in bonds of the U.S. government or its agencies, or in negotiable certificates of deposit. All bonds and long-term certificates were investment grade at December 31, 2019.

The Association values its long-term certificates at market value. At December 31, 2019, all investments, including long-term certificates, were held in a custodial account with Wells Fargo Advisors, LLC that met the requirements of N.D. Admin Code §45-03-23-02.

FUND BALANCE

Members' equity at December 31, 2019, was determined by this examination to be in the amount of \$6,573,446 or the same amount reported by the Association in its financial statement as of December 31, 2019.

CONCLUSION

The financial condition of the North Dakota Insurance Guaranty Association, Bismarck, North Dakota, as of December 31, 2019, as determined by this examination is summarized as follows:

Total Assets	<u>\$6,573,446</u>
Total Fund Balance	<u>\$6,573,446</u>

In addition to the undersigned, Supervising Examiner Colton Schulz, CFE, CFE (Fraud) participated in this examination.

The examiners express their appreciation for the courteous cooperation and assistance given them by the Managing Secretary and the Treasurer of the Association during the course of this examination.

Respectfully submitted,



Matt Fischer, CFE
Chief Examiner
N.D. Insurance Department