

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

REPORT OF EXAMINATION

OF

**NORTH DAKOTA INSURANCE RESERVE FUND
BISMARCK, NORTH DAKOTA**



**AS OF
DECEMBER 31, 2020**

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 Reserve Fund

Bismarck, North Dakota

as of December 31, 2020, 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 12 day of
November, 2022.



Jon Godfred
Insurance Commissioner

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Bismarck, North Dakota
August 11, 2022

Honorable Jon Godfread
Insurance Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue
Bismarck, ND 58505-0320

Dear Commissioner:

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

North Dakota Insurance Reserve Fund

Bismarck, North Dakota

The North Dakota Insurance Reserve Fund, hereinafter referred to as the "Fund", was last examined as of December 31, 2016, by the North Dakota Insurance Department, hereinafter referred to as the "Department."

SCOPE OF EXAMINATION

This examination was a single-state, risk focused financial condition examination conducted in accordance with North Dakota Century Code ("N.D.C.C.") § 26.1-23.1-04(2) and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Fund's financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the four-year period from January 1, 2017, through December 31, 2020, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The examination was conducted in accordance with examination policies and standards established by the Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, the examination was planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Fund, and evaluate system controls and procedures used to mitigate those risks. The examination also included identifying and evaluating significant risks that could cause the Fund's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Fund were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with N.D.C.C. § 26.1-23.1. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Fund's financial statements.

There may be other items identified during the examination that, due to their nature, are not included within the examination report but are separately communicated to the Fund.

Work papers provided by the Fund's independent auditor, Eide Bailly, L.L.C., were reviewed and where deemed appropriate, certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

SUBSEQUENT EVENTS

There were no material or significant subsequent events noted between the balance sheet date and the date this report was signed.

HISTORY

General

The Fund is a non-profit government self-insurer pool engaged in the underwriting and insuring of property and casualty risks. The Fund commenced business on January 1, 1986, as the North Dakota Insurance Reserve Fund under a "Pooling Agreement", executed by political subdivisions of the State of North Dakota pursuant to the provisions of N.D.C.C. § 32-12.1-07.

The provisions of the Pooling Agreement were superseded by the Bylaws of the Fund, which were adopted by its Board of Directors on November 24, 1986, and ratified by the general membership of the Fund at its annual meeting on April 20, 1987. Accordingly, the provisions of the Pooling Agreement are no longer operative. On May 4, 1990, the Fund became an authorized government self-insurance pool in which all political subdivisions in the State of North Dakota are eligible to participate in accordance with N.D.C.C. § 26.1-23.1.

The purpose of the Fund is to establish a means for self-insurance of its members against various types of property and casualty risks to which they are exposed in the ordinary course of their operations. Members include cities, counties, townships, school districts, fire districts, park districts, ambulance associations, soil conservation districts, and water districts within the State of North Dakota.

MANAGEMENT AND CONTROL

Board of Directors

The Fund's Bylaws provide that the Board of Directors shall consist of nine members. Two of the board members shall be elected from the class of participants consisting of cities, two of the board members shall be elected from the class of participants consisting of counties, one of the board members shall be elected from the class of participants consisting of elementary and secondary schools, and two of the board members shall be elected from the class of participants consisting of all other participants. In addition, the North Dakota League of Cities and the North Dakota Association of Counties may each, in writing, appoint one permanent voting member to the Board of Directors.

The board members shall be elected by vote of the North Dakota participants in the Fund and only elected officers or employees of North Dakota participants are eligible for the Fund's board membership. The Board of Directors is elected at the annual meeting of the Fund which is held on a date during the months of April or May as determined by the Board of Directors.

The minutes show that the annual meetings of the Board were held as required by the Fund's Bylaws. In addition to the annual meetings, the Board held quarterly meetings in each year during the examination period.

Directors serving the Fund at December 31, 2020, were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Randy Bina Bismarck, North Dakota	Executive Director Bismarck Parks & Recreation District
Scott Ouradnik Amidon, North Dakota	Slope County Commissioner
Blake Crosby Bismarck, North Dakota	Executive Director North Dakota League of Cities
Chad Peterson Fargo, North Dakota	Cass County Commissioner
Ty Dewitz Tappen, North Dakota	Kidder County School Board
Terry Traynor Bismarck, North Dakota	North Dakota Association of Counties
Darcie Huwe Wahpeton, North Dakota	City of Wahpeton
Chris West Grafton, North Dakota	Mayor
Burdell Johnson Tuttle, North Dakota	Township Officer

Officers

According to the Fund's Bylaws, the officers of the Board of Directors shall consist of a Chairperson, a Chairperson-elect, a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors. The titles of President and Vice-President are not used.

The terms of office of the Chairperson, Chairperson-elect, Secretary and Treasurer are one year commencing at the close of an annual meeting and ending at the close of the next succeeding annual meeting. Officers serving at December 31, 2020, were as follows:

Officer

Terry Traynor
Darcie Huwe
Brennan Quintus
Nora Frueh

Title

Chairperson of the Board
Chairperson-Elect
Secretary
Treasurer

Committees

The Fund's Bylaws provide that the Board of Directors shall be entitled to establish any number of committees that, in the exercise of its discretion, shall be deemed helpful and appropriate. In addition to these ad-hoc committees, the Board shall establish two standing committees, which include an Executive Committee and a Finance Committee.

The Executive Committee shall consist of the current chairperson and chairperson-elect of the Board and at least three additional Board members to be appointed (including subsequent vacancies) by the current chairperson of the Board.

The Finance Committee shall consist of the chairperson-elect of the Board and at least four additional Board members, to be appointed (including subsequent vacancies) by the current chairperson of the Board.

The Executive Committee met a total of 10 times during the exam period and the Finance Committee met 16 times.

The committees and their respective members at December 31, 2020, were as follows:

Executive Committee

Terry Traynor, Chairperson
Darcie Huwe
Randy Bina
Scott Ouradnik
Chris West

Finance Committee

Darcie Huwe, Chairperson
Blake Crosby
Ty Dewitz
Burdell Johnson
Chad Peterson

In addition to the aforementioned committees, the Fund also has a Nominating Committee which meets on an as-needed basis. Members serving at December 31, 2020 were as follows:

Terry Traynor, Chairperson
Blake Crosby
Burdell Johnson

Audit Committee

The Fund is not required to have an Audit Committee. During the period under examination, the Fund's independent auditor conducted annual audits of the Fund's books and records and presented their findings to the entire Board of Directors.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

No changes to the Articles of Incorporation or Bylaws were noted during the period under review.

Board of Directors, Members, and Committee Minutes

The minutes of the Board of Directors, members, and committee meetings for the period under examination were read.

The minutes of the various meetings indicate that full board meetings were well attended and were held in compliance with the Bylaws, Articles of Incorporation, and statutory requirements. The deliberations of the board were adequately documented and supported the Fund's transactions and events.

Conflict of Interest

The Fund has procedures for annually disclosing potential conflicts of interest to its Board of Directors. Any material interest or affiliation on the part of its Directors, Officers, or key members of Management which is in, or likely to, conflict with the official duties of such person must be disclosed to the Board.

FIDELITY BOND AND OTHER INSURANCE

The Fund is protected against loss from fraudulent or dishonest acts of its employees by a fidelity bond providing coverage in the amount of \$500,000. The amount of the coverage meets the minimum amount recommended in the NAIC's *Financial Examiners Handbook*.

The Fund has other types of liability coverage including Directors and Officers Liability, Automobile, Commercial Excess Liability, Cyber Breach, and Employment Practices Liability which were reviewed and considered adequate.

TERRITORY AND PLAN OF OPERATION

At December 31, 2020, the Fund was licensed and qualified to write property and casualty insurance for North Dakota political subdivisions. The Fund writes general liability, auto lines, and inland marine coverages. The Fund is not authorized to write property coverages offered by the State Fire and Tornado Fund under the provisions of N.D.C.C. § 26.1-22.

OTHER AGREEMENTS

Effective June 28, 2019, and amended July 9, 2020, the Fund entered into a contract with the Department to carry out certain functions of the State Fire and Tornado Fund and the State Bonding Fund, including collection of premiums, loss control, underwriting, and claims administration, in exchange for an annual payment of \$50,000, plus 7 percent of all written premiums and up to an additional 3 percent of all written premiums based on actual loss experience for the preceding year. An in-depth review of the operational components of this contract was not included within the scope of this examination.

In 2020, the Department compensated the Fund \$571,000 for these services, net of agent commissions and certain third-party fees engaged and deemed necessary by the Fund to assist in its administration of this contract.

REINSURANCE

At December 31, 2020, the Fund had three ceded reinsurance contracts, all placed through the Fund's reinsurance intermediary, Guy Carpenter: cyber insurance quota share, auto and liability excess of loss, and property excess of loss.

The cyber insurance reinsurance contract is a 100% quota share, placed with Tokio Marine HCC – Cyber & Professional Lines Group. The Fund's retention under this contract is \$25,000 per incident up to a maximum of \$250,000. The contract has an annual aggregate limit of \$5,000,000 for all Data Breach Coverage endorsements.

The property excess of loss reinsurance contract is placed with Great American Insurance Company. Coverage consists of \$70,000,000 excess of a \$4,800,000 million retention.

The auto and liability excess of loss reinsurance contract is placed with Ace American Insurance Company. Coverage consists of \$8,000,000 excess of a \$2,000,000 retention.

The Fund does not assume any reinsurance.

ACCOUNTS AND RECORDS

The Fund's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2020, was obtained and traced to the appropriate schedules of the Fund's 2020 Audited Financial Statement. The Fund's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

The Fund is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to extent deemed appropriate for this examination.

The Fund prepares its financial statements on a GAAP basis with supplementary statutory based supporting schedules. Our review focused on the statutory based financial data.

FINANCIAL STATEMENTS

The financial statements of the Fund are presented on the following pages in the sequence listed below:

Statement of Assets, December 31, 2020

Statement of Liabilities and Surplus, December 31, 2020

Statement of Operations, Year Ended December 31, 2020

Reconciliation of Capital and Surplus, January 1, 2017 through December 31, 2020

These financial statements are based on the statutory financial statements filed by the Fund with the North Dakota Insurance Department and present the financial condition of the Fund for the period ending December 31, 2020. 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 Reserve Fund
Statement of Assets
December 31, 2020
In Thousands

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$37,196		\$37,196
Stocks:			
Common Stocks	9,329		9,329
Real Estate:			
Occupied by the Fund	601		601
Cash and Cash Equivalents:			
Cash	4,481		4,481
State Fire and Tornado Fund Cash	14		14
Money Market	495		495
Interest Receivable	239		239
Agents' Balances or Uncollected Premiums:			
Premiums and Agents' Balances in Course of Collection	514		514
Electronic data processing equipment and software	80		80
Total Assets	\$52,949	\$0	\$52,949

North Dakota Insurance Reserve Fund
Statement of Liabilities and Surplus
December 31, 2020
In Thousands

Losses and Loss Adjustment Expenses	\$10,533
Incurred But Not Reported Losses	6,551
Unearned Premiums	6,081
Unearned Commission from Fire and Tornado Fund	218
Accounts Payable	52
Accrued Expenses	232
Conferment Payable	<u>6,314</u>
Total Liabilities	\$29,981
Unassigned Funds (Surplus)	<u>\$22,968</u>
Total Liabilities, Capital and Surplus	<u>\$52,949</u>

North Dakota Insurance Reserve Fund
Statement of Operations
December 31, 2020
In Thousands

Underwriting Income

Premiums Earned		\$17,083
Fire & Tornado Fund Commissions Earned		<u>571</u>
Total Underwriting Income		\$17,654
Deductions:		
Losses Incurred	\$3,575	
Loss Expenses Incurred	2,475	
Other Underwriting Expenses Incurred	<u>6,284</u>	
Total Underwriting Deductions		<u>12,334</u>
Net Underwriting Gain (Loss)		\$5,320
Investment Income		
Net Investment Income Earned	\$1,042	
Net Realized Capital Gains (Losses)	<u>278</u>	
		<u>\$1,320</u>
Net Income		<u>\$6,640</u>

North Dakota Insurance Reserve Fund
Reconciliation of Capital and Surplus Accounts
January 1, 2017, Through December 31, 2020
In Thousands

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Capital and Surplus, December 31, Prior Year	\$21,055	\$19,766	\$18,951	\$17,159
Net Income	6,640	2,715	1,505	890
Net Unrealized Gains or (Losses)	1,545	3,359	(1,100)	1,076
Change in Non-Admitted Assets	16	(1,709)	410	(174)
Conferment Declared	(6,288)	(3,076)	0	0
Net Change in Capital and Surplus for the Year	(1,913)	1,289	815	1,792
Capital and Surplus, December 31, Current Year	\$22,968	\$21,055	\$19,766	\$18,951


CONCLUSION

The financial condition of the Fund, as of December 31, 2020, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$52,949,000</u>
Total Liabilities	\$29,981,000	
Total Capital and Surplus	<u>22,968,000</u>	
Liabilities, Surplus, and Other Funds		<u>\$52,949,000</u>

Since December 31, 2016, the Fund's admitted assets increased \$13,123,000, its total liabilities have increased \$7,314,000 and its surplus increased \$5,809,000.

Respectfully submitted,



Colton Schulz, CISA, CFE, CFE (Fraud)
Supervising Examiner
North Dakota Insurance Department