

NDIRF NORTH DAKOTA INSURANCE RESERVE FUND

2019 ANNUAL REPORT



**For North Dakota.
For Local Government.
For You.**

CEO REPORT



Dear NDIRF Member,

Nearly 34 years ago, you, NDIRF members, were faced with a decision. The commercial insurance industry had abruptly exited the local government insurance market, fully exposing your organization to the financial risks assumed by providing valuable services to North Dakota's residents, businesses, and visitors.

With nowhere to turn, you turned to each other and developed a best-of-its kind coverage solution: the North Dakota Insurance Reserve Fund (NDIRF).

As an NDIRF member, you gain access to affordable coverage and robust training opportunities. NDIRF's coverage and training continuously evolve to meet your needs as economic, operational, and/or employment advancements are made. But just as important, you gain access to NDIRF's experienced professionals who are committed to supporting your organization through every claim, providing expert advice and, at times, reassurance that your organization and its employees are protected.

I hope you take a few minutes to review the NDIRF 2019 Annual Report. This report encapsulates our collective accomplishments from the last year, including financial, claims, and training performance summaries. The strong correlation between training and reduced loss activity is one of the main reasons we continue to emphasize training; the more training NDIRF offers independently, as well as in partnership with statewide associations and organizations, the more effective and efficient your organization and its employees become.

One of the highlights of this report is NDIRF's Board of Directors declaring a 2019 Conferment of Benefits, which is the distribution of surplus funds to members. This conferment is made possible by NDIRF's continued strong financial health and our high-performing investment portfolio. If you would like financial information beyond what this report contains, the 2019 audited financial statements are available at www.ndirf.com/ndirf-info/financials.

On behalf of the NDIRF Board of Directors and staff, thank you for your continued participation in NDIRF.

Sincerely,

A handwritten signature in black ink, appearing to read "Brennan Quintus". The signature is stylized and fluid.

Brennan Quintus
CEO

MEMBERSHIP

Membership

All political subdivisions in North Dakota are eligible for membership in the NDIRF. Distribution of NDIRF membership by entity-type covers the broad spectrum of all categories of local government and the relative premium distribution among them has remained very stable historically. (Fig. 1)

In 2019, 2,555 local governmental entities participated in the NDIRF. This number means that well over 90% of the entities eligible for membership have become part-owners of the NDIRF through their purchase of coverage. (Fig. 2)

Fig. 1 Member Premium Distribution

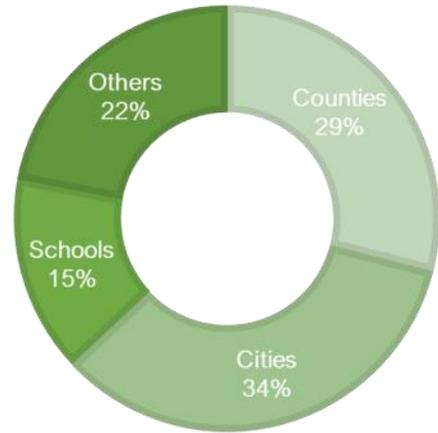
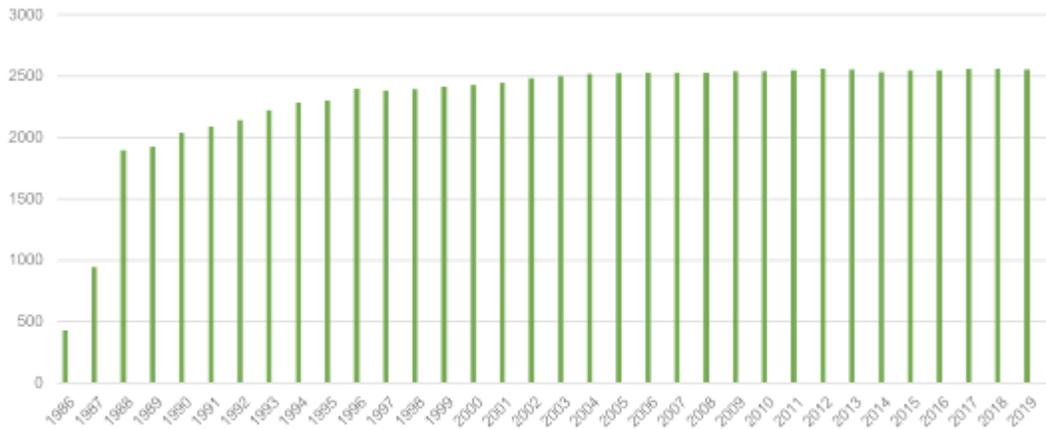


Fig. 2 NDIRF Membership



Conferment of Benefits

The NDIRF is pleased to share its Board of Directors declared a conferment of benefits in 2019. The NDIRF's 2019 investment portfolio performance, strong underwriting results, and continued responsible stewardship of the Fund, enabled it to return nearly \$3.1 million back to its members. This amount represents the largest conferment of benefits since 2008.

In addition to enjoying coverage rates that are lower than the traditional insurance marketplace, the conferment of benefits program gives NDIRF members-owners the opportunity to share in the success of the Fund. Including the 2019 conferment, the NDIRF has been able to return nearly \$65 million back to its members since the inception of the conferment of benefits program.

PREMIUMS AND LOSSES

Premiums and Losses

Unlike the tendency of commercial insurance pricing to sometimes vary dramatically from year to year, the NDIRF's rates have historically remained quite stable. For example, the NDIRF did not react immediately to dramatically increased claim loss in 2015 and 2016 with a general rate increase. Instead, the NDIRF staff chose to review an additional year of experience (2017) to better determine whether 2015 and 2016 incurred losses were an anomaly or if the results of those years represented a trend in the making. Following another year of higher than normal loss activity in 2017, however, in 2018 a general rate increase was sought by NDIRF staff. In 2019, increases to the value of covered autos and equipment and new coverage offerings provided the NDIRF with a 5% increase in written premium for 2019. *(Fig. 3)*

Losses in 2019 fell in line with what NDIRF has determined to be a new normal *(Fig. 4)*. The NDIRF experienced \$9.03 million in total losses which produced a loss ratio of 55.5% *(Fig. 5)*. Liability losses contributed significantly to the overall total loss amount with \$4.9 million in losses and a 64% loss ratio. Law enforcement, corrections, contractual dispute, and employment-related claim activity continue to lead to the high liability loss ratio and will continue to be addressed through NDIRF loss control activity. Automobile and Public Assets loss activity were at a much more palatable level, which can, in part, be attributed to the NDIRF's emphasis on Automobile and Public Assets loss control activity through defensive driving courses and other loss control programs. Automobile losses came in at \$3.4 million, producing a 49% loss ratio, and Public Assets losses finished 2019 at \$722,000, producing a loss ratio of 43%.

The more serious claims (claims reserved at \$10,000 or higher) open at any point in time continue to be higher than average, highlighting the trend toward a consistently higher level of claim activity and expense.

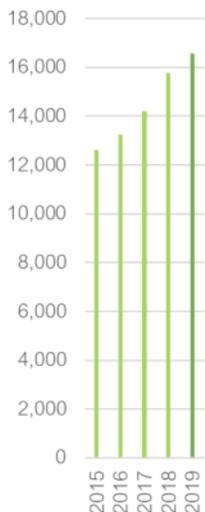


Fig. 3 Net Written Premium
[in thousands]

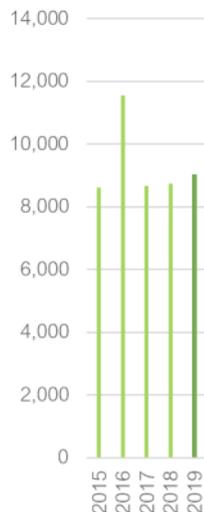


Fig. 4 Losses
[in thousands]

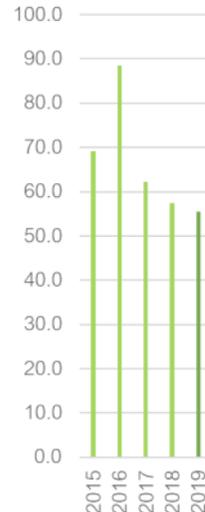


Fig. 5 Loss Ratios



INVESTMENTS & EARNINGS

Investments

The NDIRF's investment portfolio, as of December 31, 2019, was distributed 78% in fixed income; 16% in equities; and 6% in cash or equivalents. The quality of the fixed income portfolio is high, with an average S&P quality rating of A+.

Overall, the NDIRF investment portfolio provided a 10.92% total return in 2019 as compared to an .88% loss for the prior year. Fixed income investment returns of 7.8% increased significantly from 2018's .52% while exponentially higher returns from the NDIRF's equity investments – moving from a 8.57% loss in 2018 to a 31.8% gain in 2019 – caused the total portfolio to swing from a loss of \$343,000 in 2018 to a \$4.4 million gain in 2019.

Earnings and Equity

With loss levels remaining stable and the 2018 general rate increase contributing to an increase in earned premium and significant investment returns, the NDIRF ended 2019 with a net income of just over \$6 million.

(Fig. 6)

Members' equity increased to just over \$23 million compared to \$20 million in 2018. The gradual addition to members' equity from 2009-2015 – in recognition of the possibility of an eventual increase in claims due to population growth – was designed to provide continued strength and stability of members' equity, even as the NDIRF found it necessary to use some of it in 2016 to offset the unprecedented loss activity. Fortunately, the results in 2018 and 2019 allowed for the reduction in 2016 to be negated. With continued success, the NDIRF members' equity levels fell back in line with levels that allowed for a conferment of benefits in 2019.

The Fund's consulting actuaries indicate that the current level of members' equity provides an outstanding confidence level (well in excess of 90%) that all expected future obligations can be met. *(Fig. 7)*



Fig. 6 Net Earnings
[in thousands]

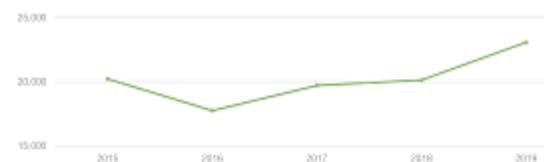


Fig. 7 Members' Equity
[in thousands]

MEMBER SERVICES

Training

In 2019, the NDIRF continued its commitment to assist members in controlling their cost of risk through training opportunities. The NDIRF offered training independently, as well as in partnership with statewide associations and organizations. This effort was substantial and included providing information and assistance to thousands of officials and employees of Fund members on the following subjects:

- Defensive driving
- Employment practices
- Road maintenance
- Law enforcement liability
- Playground safety
- Special coverage issues for specific member groups

Development and maintenance of online employment practices and procedures handbooks, in addition to the live presentation of HR-related information to local government groups, has had a real impact. NDIRF's website hosts documents that are regularly updated and linked to the websites of statewide political subdivision associations, including the ND Association of Counties, ND League of Cities, ND Recreation & Parks Association, and ND School Boards Association.

Since 2009, the NDIRF has partnered with the ND Firefighter's Association to bring emergency vehicle operations training to firefighters on a regional-availability basis, including the use of driving simulators. In 2019, this effort continued to grow and resulted in training opportunities for North Dakota firefighters at locations convenient to them.

The NDIRF also continues to support the ND Local Technical Assistance Program (NDLTAP) in its efforts to educate local officials and employees regarding road maintenance and signage. In addition to funding, the NDIRF also provides support through its member services staff.

All of these tools are intended to assist NDIRF members in successfully managing the multitude of challenges they encounter.

Special Fund Administration

On June 28, 2019, the NDIRF began administering the North Dakota Fire & Tornado Fund (NDFT) which provides property coverage for North Dakota state agencies and political subdivisions, and the State Bonding Fund, which provides employee fidelity risk coverage to state agencies and political subdivisions. The administration of these funds enables the NDIRF to further serve its membership.



CONCLUSION

Conclusion

Since commencing operations in 1986, the NDIRF has consolidated its claim as **the stable source of risk services to local government in North Dakota.**

Over the past 34 years, the NDIRF has proven its ability to meet a critical need for its members. As highlighted in this report, the NDIRF is in strong financial health, and the Fund and its employees are well-positioned to continue to be *the* provider of dependable risk services to North Dakota's political subdivisions well into the future.

The NDIRF looks forward to working with its members to build upon the strength and stability created over the past 34 years.



(Above): NDIRF Director of Member Services Corey Olson (right) and NDIRF Member Services Representative Mark Verke (left) at the 2019 North Dakota League of Cities Annual Conference.



(Right): NDIRF CEO Brennan Quintus (left) with North Dakota Insurance Commissioner Jon Godfred (right) following the announcement that NDIRF will administer the North Dakota Fire & Tornado Fund beginning June 28, 2019.



(Left): NDIRF Director of Member Services Corey Olson presents at the 2019 ND Assn of Counties Annual Conference. (Below): NDIRF Director of Member Services Corey Olson (left) and NDIRF Director of Underwriting Jeff Tescher (right) at the 2019 ND Farmers Union Insurance Agent Statewide Event.



BOARD OF DIRECTORS

Board of Directors and Member Affiliation



Chris West
Chairperson
Cities



Terry Traynor
Chairperson-Elect
Counties



Randy Bina
Others



Blake Crosby
Cities



Ty Dewitz
Schools



Darcy Huwe
Cities



Burdell Johnson
Others



Scott Ouradnik
Counties

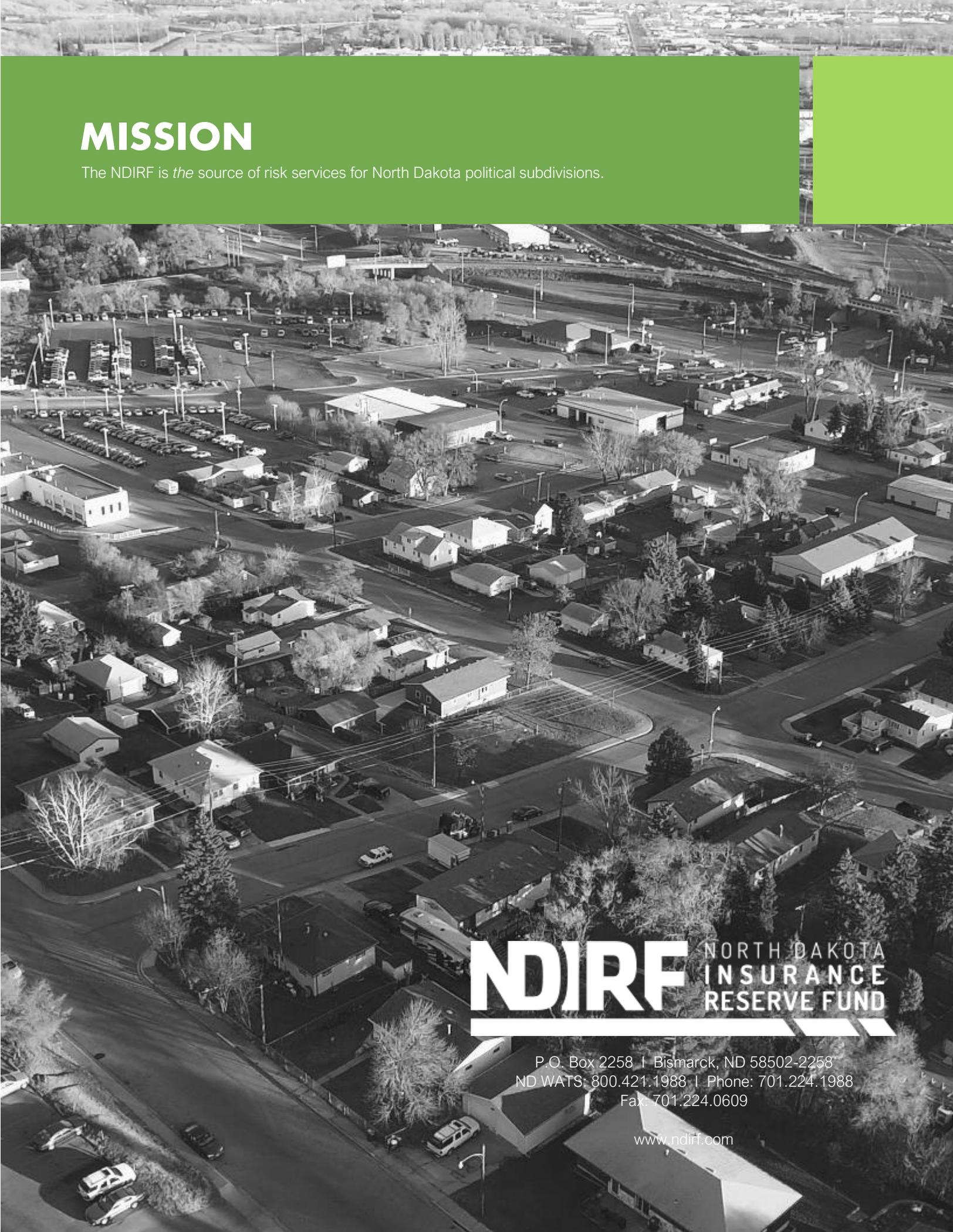


Chad Peterson
Counties



MISSION

The NDIRF is *the* source of risk services for North Dakota political subdivisions.



NDIRF NORTH DAKOTA
INSURANCE
RESERVE FUND

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