Risk Factors Comparison 2024-03-15 to 2023-03-08 Form: 10-K

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The compromise of personal, confidential, or proprietary information could also subject us to legal liability or regulatory action, including fines, penalties, or intervention, under evolving cybersecurity, data protection, and privacy laws and regulations enacted by the U. S. federal and state governments. Such laws and regulations have become increasingly widespread and demanding in recent years and may result in increased compliance costs and risk of regulatory actions or penalties. If incurred, such regulatory actions or penalties could harm our reputation. Any such events could have an adverse impact on our business, financial condition or results of operations. Regulatory Risks A portion of our written premiums and net profits are generated from multi- peril crop insurance business, and the loss of such business as a result of a termination of or substantial changes to the federal crop insurance program could have an adverse effect on our revenues and net income. In **2023,** 2022, **and** 2021 ~~, and 2020~~ , our direct premiums written generated from the multi- peril crop insurance line of business were **10. 2 %,** 12. 8 %, **and** 12. 0 ~~%, and 11. 5~~ %, respectively, of total written premiums. Through the FCIC, the U. S. government subsidizes insurance companies by assuming an increasingly higher portion of losses incurred by farmers as a result of weather- related and other perils as well as commodity price fluctuations. The U. S. government also subsidizes the premium cost to farmers for multi- peril crop yield and revenue insurance. Without this risk assumption, losses incurred by insurance companies would be higher. Without the premium subsidy, the number of farmers purchasing multi- peril crop insurance would decline significantly. Periodically, members of the U. S. Congress propose to significantly reduce the government' s involvement in the federal crop insurance program in an effort to reduce government spending. If legislation is adopted to reduce the amount of risk the government assumes, the amount of insurance premium subsidy provided to farmers or otherwise reduce the coverage provided under multi- peril crop insurance policies, losses **21** would increase and purchases of multi- peril crop insurance could experience a significant decline nationwide and in our market area. Such changes could have an adverse effect on our revenues and income. Our businesses are heavily regulated by the jurisdictions in which we conduct business and changes in regulation, including required participation in pools, premium surcharges, and higher tax rates, may reduce our profitability and limit our growth. Most states require insurance companies authorized to do business in their state to participate in guaranty funds, which require the insurance companies to bear a portion of the unfunded obligations of impaired, insolvent, or failed insurance companies. These obligations are funded by assessments, which are expected to continue in the future. State guaranty associations levy assessments, up to prescribed limits, on all insurance companies doing business in the state based on their proportionate share of premiums written in the lines of business in which the impaired, insolvent, or failed insurance companies are engaged. Accordingly, the assessments ~~21levied~~ -- **levied** on us may increase as we increase our written premiums. For additional information, see Part I, Item 1, " Business " and " Regulation. " In addition, as a condition to conducting business in some states, insurance companies are required to participate in residual market programs to provide insurance to those who cannot procure coverage from an insurance carrier on a negotiated basis. Insurance companies generally can fulfill their residual market obligations by, among other things, participating in a reinsurance pool where the results of all policies provided through the pool are shared by the participating insurance companies. Although we price our insurance to account for our potential obligations under these pooling arrangements, we may not be able to accurately estimate our liability for these obligations. Accordingly, mandatory pooling arrangements may cause a decrease in our profits. As we write policies in new states that have mandatory pooling arrangements, we will be required to participate in additional pooling arrangements. Further, the impairment, insolvency, or failure of other insurance companies in these pooling arrangements would likely increase the liability for other members in the pool. The effect of assessments and premium surcharges or increases in such assessments or surcharges could reduce our profitability in any given period or limit our ability to grow our business. In addition, state tax laws that specifically impact the insurance industry, such as premium taxes, or more general tax laws, such as U. S. federal corporate income taxes, could be enacted or changed and could have a material adverse impact on us. We are subject to insurance industry laws and regulations, as well as claims and legal proceedings, which if determined unfavorably, could have a material adverse effect on our profitability. We are subject to extensive supervision and regulation by the states in which we operate. The failure to comply with these regulations could subject the Company to sanctions and fines, including the cancellation or suspension of our licenses, which could significantly impact our financial condition and results of operations. State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to financial condition, holding company issues, and other matters. Additionally, changes in the level of regulation of the insurance industry or changes in laws or regulations themselves or interpretations by regulatory authorities could adversely affect our ability to operate our business. Federal laws and regulations, and the influence of international laws and regulations, may have adverse effects on our business, potentially including a change from a state- based system of regulation to a system of federal regulation, the repeal of the McCarran Ferguson Act, and / or measures under the Dodd- Frank Act that establish the Federal Insurance Office and provide for a determination that a non- bank financial company presents systemic risk and therefore should be subject to heightened supervision by the Federal Reserve Board. It is not known how this federal office will coordinate and interact with the NAIC and state insurance regulators. Adoption or implementation of any of these measures may restrict our ability to conduct our insurance business, govern our corporate affairs, or effectively manage our cost of doing business. We also face a risk of litigation in the ordinary course of operating our businesses including the risk of class action lawsuits. We may become subject to class actions and individual suits alleging breach of fiduciary or other duties, including our obligations to indemnify directors and officers in connection with certain legal matters. We are also subject to litigation arising out of our general business activities such as contractual and employment relationships and claims regarding the infringement of the intellectual property of others. Plaintiffs in class action and other lawsuits against us may seek large or indeterminate amounts of damages, including punitive and treble damages, which may remain unknown for substantial periods of time. **22** Risks Related to Our Common Stock Nodak Mutual Group' s majority control of our common stock will enable it to exercise voting control over most matters put to a vote of shareholders. Nodak Mutual Group owns a majority of our outstanding common stock and, through its Board of Directors, is able to exercise voting control over most matters put to a vote of shareholders. The votes cast by Nodak Mutual Group may not be in the best interests of all shareholders. For example, Nodak Mutual Group may exercise its voting control to defeat a shareholder nominee for election to the Board of Directors of NI Holdings. In addition, certain provisions of our Articles of Incorporation, such as the ~~existence of a classified Board of Directors, the~~ prohibition of cumulative voting for the election of directors ~~,~~ and the prohibition on any person or group acquiring and having the right to vote in excess of 10 % of our outstanding stock without the prior approval of the Board of Directors will make removal of the Company' s management difficult. ~~22~~ Our status as an insurance holding company with no direct operations could adversely affect our ability to fund operations, execute future share repurchases, or meet potential future shareholder dividend and / or debt obligations. NI Holdings is an insurance holding company that transacts substantially all of its business through its subsidiaries. A significant source of funds available to us for the payment of operating expenses, share repurchases, and potential future dividends to shareholders and / or debt servicing are ~~remaining net proceeds from our IPO retained at the holding company,~~ management fees, ~~and~~ dividends from our subsidiaries **, or other sources of capital** . The payment of dividends by our subsidiaries are restricted by North Dakota' s insurance law. If we are unable to obtain dividends from our subsidiaries as needed to fund our operations, our business and financial results could be adversely affected. Statutory provisions and provisions of our Articles of Incorporation and Bylaws may discourage takeover attempts of NI Holdings that shareholders may believe are in their best interests. We are subject to provisions of North Dakota corporate and insurance law that hinder a change of control. North Dakota law requires the North Dakota Insurance Department' s prior approval of a change of control of an insurance holding company. Under North Dakota law, the acquisition of 10 % or more of the outstanding voting stock of an insurer or its holding company is presumed to be a change in control. Approval by the North Dakota Insurance Department may be withheld even if the transaction would be in the shareholders' best interest if the North Dakota Insurance Department determines that the transaction would be detrimental to policyholders. Our Articles of Incorporation and Bylaws also contain provisions that may discourage a change in control. These provisions may serve to entrench management and may discourage a takeover attempt that shareholders may consider to be in their best interest or in which they would receive a substantial premium over the current market price. These provisions may make it extremely difficult for any one person, entity, or group of affiliated persons or entities to acquire voting control of NI Holdings, with the result that it may be extremely difficult to bring about a change in the Board of Directors or management. Some of these provisions also may perpetuate present management because of the additional time required to cause a change in the control of the Board of Directors. Other provisions make it difficult for shareholders owning less than a majority of the voting stock to be able to elect even a single director. General Risks Our investment portfolio is subject to credit and interest rate risk, and therefore our revenues and financial results may fluctuate with interest rates, investment results, equity market fluctuations, and developments in the capital markets. Investment income is an important component of our net income and overall profitability. We invest premiums received from policyholders and other available cash to generate investment income and capital appreciation, while also maintaining sufficient liquidity to pay claims and operating expenses. Changes in interest rates and credit quality may result in fluctuations in the income derived from, the valuation of, and in the case of declines in credit quality, payment defaults on our fixed income securities. Such conditions could give rise to significant realized and unrealized investment losses or the impairment of securities. Potential higher interest rates could reduce the carrying value of our fixed ~~maturity~~ **income** and short- term investments, negatively impacting the Company' s carrying value in the short- term. Over the long- term, however, higher interest rates would provide an incremental benefit to our net investment income as excess cash and the proceeds of maturing bonds are reinvested at higher rates. We manage our exposure to interest rate increases by monitoring the duration within our investment portfolio and maintaining maturities that minimize any forced sales within the portfolio. However, even with such monitoring efforts, we may be forced to sell securities at a loss, which would adversely affect our results of operations. **23** We also invest a portion of our assets in equity securities, which are subject to greater volatility in their investment returns than fixed ~~maturity~~ **income** investments. Unlike fixed income securities, the changes in the fair value of our equity securities are recognized in net income. General economic conditions, stock market volatility, changes in tax laws, and many other factors beyond our control can adversely affect the value of these securities and potentially reduce our net investment income and / or lead to net investment losses. Any significant or long-running negative changes in the fixed income or equity markets could have a material adverse effect on our financial condition, results of operations, or cash flows. **Our** ~~The Company' s~~ investment portfolio is also subject to credit and cash flow risk, including risks associated with ~~its~~ **our** investments in asset- backed and mortgage- backed securities. Because **our** ~~the Company' s~~ investment portfolio is the largest component of ~~its~~ **our** assets and a multiple of ~~its~~ **our** shareholders' equity, adverse changes in economic conditions could result in impairments that are material to our financial condition and operating results. Such economic changes could arise from overall changes in the financial markets or specific changes to industries, companies, or municipalities in which we maintain investment holdings. See Part II, Item 7A, " Quantitative and Qualitative Disclosures About Market Risk. " ~~23~~ We may not be able to manage our growth effectively. We intend to continue to grow our business in the future, which could require additional capital, systems development, and skilled personnel. However, there are inherent risks associated with this strategy, including the risks of unsuccessfully identifying profitable business opportunities, managing capital requirements, expanding systems and internal controls, maintaining innovative products and technologies, allocating human capital resources, identifying qualified employees and / or agents, and integrating future acquisitions. The failure to manage our growth effectively could have a material adverse effect on our business, financial condition, and results of operations. We could be adversely affected by a future unexpected business interruption involving our office buildings, operational systems and infrastructure, key external vendors, and / or workforce. Our business operations could be substantially interrupted by flooding, snow, ice, wind, and other weather- related incidents, or from fire, pandemics, power loss, telecommunications failures, terrorism, or other such events. Our business continuity plans may not sufficiently remediate all risks associated with future significant business interruptions. Any damage caused by such a failure or loss may cause interruptions in our business operations that may adversely affect our service levels and business. ~~24~~ Item 1B. Unresolved Staff Comments