

**LCB File No. R024-02**

**PROPOSED REGULATION OF THE DIVISION OF INSURANCE  
OF THE DEPARTMENT OF BUSINESS AND INDUSTRY**

**NOTICE OF WORKSHOPS TO SOLICIT COMMENTS  
ON PROPOSED REGULATIONS**

February 25, 2002

The Department of Business and Industry, Division of Insurance (Division) is proposing new regulations pertaining to material reinsurance transactions and risk-based capital; filing of financial statements and NAIC accounting practices and procedures; holding companies; reinsurance; and NAIC accounting practices and procedures. A workshop has been set for 9:00 a.m., on March 27, 2002, at the offices of the Division, 788 Fairview Drive, Suite 300, Carson City, Nevada 89701. Interested parties may also participate through a simultaneous video-conference conducted at the Bradley Building, 2501 E. Sahara Avenue, Manufactured Housing Division Conference Room, 2<sup>nd</sup> Floor, Las Vegas, Nevada 89104. The purpose of the workshop is to solicit comments from interested persons on the following general topics addressed in the proposed regulations.

- 1. Material Reinsurance Transactions and Risk-Based Capital: Proposed regulation provides that domestic insurers must complete their risk-based capital calculations and reports in accordance with current NAIC risk-based capital instructions and provides for requirements of reporting material new ceded reinsurance agreements affecting in force life insurance business.**
- 2. Filing of Financial Statements and NAIC Accounting Practices and Procedures: Proposed regulation provides that domestic insurers must prepare their annual statements in accordance with the NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manual.**
- 3. Holding Companies: Proposed regulation provides instructions as to the filing of Forms A, B, C, D and E; does away with the exemption for domestic company filings**
- 4. Reinsurance: Proposed regulation adopts all required elements of the NAIC Credit for Reinsurance Model Regulation, including specific provisions pertaining to trust agreements, insolvency clause in reinsurance agreements and the adoption of Form AR-1.**
- 5. NAIC Accounting Practices and Procedures: Proposed regulation updates certain NAIC publications, their applicability, location and current price.**

Members of the insurance industry, business community, and the public are also invited to comment on any impact the proposed regulations may have on small businesses. The Division has reviewed the proposed regulations and determined that the regulations do not impose a direct or

significant impact on a small business, or directly restrict the formation, operation, or expansion of a small business.

A copy of this notice and the proposed regulations will be on file at the State Library, 100 Stewart Street, Carson City, Nevada, for inspection by members of the public during business hours. Additional copies of the notice and the proposed regulations will be available at the offices of the Division, 788 Fairview Drive, Suite 300, Carson City, Nevada 89701, and 2501 East Sahara Avenue, Suite 302, Las Vegas, Nevada 89104, and in all counties in which an office of the agency is not maintained, at the main public library, for inspection and copying by members of the public during business hours. This notice and the text of the proposed regulations are also available in the **State of Nevada Register of Administrative Regulations** which is prepared and published monthly by the Legislative Counsel Bureau pursuant to NRS 233B.0653 and on the Internet at **www.leg.state.nv.us**. Copies will also be mailed to members of the public upon request. A reasonable fee may be charged for copies if it is deemed necessary.

This Notice of Workshop to Solicit Comments on Proposed Regulations has been sent to all persons on the agency's mailing list for administrative regulations and posted at the following locations:

Department of Business and Industry  
Division of Insurance  
788 Fairview Drive, Suite 300  
Carson City, NV 89701

Department of Business and Industry  
Division of Insurance  
2501 East Sahara Avenue, Suite 302  
Las Vegas, NV 89104

Legislative Counsel Bureau  
Capitol Complex  
Carson City, NV 89710

Blasdel Building  
Capitol Complex  
Carson City, NV 89710

State Capitol  
Capitol Complex  
Carson City, NV 89710

Capitol Press Room  
State Capitol Basement  
Carson City, NV 89710

County Clerk  
Courthouse  
Carson City, NV 89710

Nevada State Library & Archives  
Capitol Complex  
Carson City, NV 89710

Carson City Library  
900 North Roop Street  
Carson City, NV 89701

Churchill County Library  
553 South Maine Street  
Fallon, NV 89406

Las Vegas Library  
833 Las Vegas Blvd. North  
Las Vegas, NV 89101

Douglas County Library  
1625 Library Lane  
P.O. Box 337  
Minden, NV 89423

Elko County Library

Goldfield Public Library

720 Court Street  
Elko, NV 89801

Fourth & Cook Street  
P.O. Box 430  
Goldfield, NV 89013

Eureka Branch Library  
10190 Monroe Street  
P.O. Box 293  
Eureka, NV 89316

Humboldt County Library  
85 East 5<sup>th</sup> Street  
Winnemucca, NV 89445

Battle Mountain Branch Library  
P.O. Box 141  
Battle Mountain, NV 89820

Lincoln County Library  
93 Main Street  
P.O. Box 330  
Pioche, NV 89043

Lyon County Library  
20 Nevin Way  
Yerington, NV 89447

Mineral County Library  
First & A Street  
P.O. Box 1390  
Hawthorne, NV 89415

Tonopah Public Library  
171 Central Street  
P.O. Box 449  
Tonopah, NV 89049

Pershing County Library  
1125 Central Avenue  
P.O. Box 781  
Lovelock, NV 89419

Storey County Library  
95 South R Street  
P.O. Box 14  
Virginia City, NV 89440

Washoe County Library  
301 South Center Street  
P.O. Box 2151  
Reno, NV 89505

White Pine County Library  
950 Campton Street  
Ely, NV 89301

Clark County Library  
1401 East Flamingo Road  
Las Vegas, NV 89119

Members of the public who are disabled and require special accommodations or assistance at the hearing are requested to notify the Commissioner's secretary in writing at 788 Fairview Drive, Suite 300, Carson City, Nevada 89701, or by calling no later than 5 working days prior to the hearing, (702) 687-4270, extension 260.

DATED this \_\_\_\_\_ day of February, 2002.

By:

ALICE A. MOLASKY-ARMAN  
Commissioner of Insurance

**DIVISION OF INSURANCE OF THE  
DEPARTMENT OF BUSINESS AND INDUSTRY**

**NOTICE OF INTENT TO ACT UPON REGULATIONS**

Notice of Hearing for the Adoption of Regulations  
of the Department of Business and Industry, Division of Insurance

The Department of Business and Industry, Division of Insurance (Division) will hold a public hearing at 9:00 a.m., on March 27, 2002, immediately following a public workshop, at the offices of the Division, 788 Fairview Drive, Suite 300, Carson City, Nevada 89701. Interested persons may also participate through a simultaneous video-conference conducted at the Bradley Building, 2501 E. Sahara Avenue, Manufactured Housing Division Conference Room, 2<sup>nd</sup> Floor, Las Vegas, Nevada 89104. The purpose of the hearing is to receive comments from all interested persons regarding the adoption of:

**REGULATIONS CONCERNING MATERIAL REINSURANCE  
TRANSACTIONS AND RISK-BASED CAPITAL**

The following information is provided pursuant to the requirements of NRS 233B.060:

1. The proposed regulation is needed to establish rules for requiring domestic insurers to complete their risk-based capital calculations and reports in accordance with current NAIC instructions.
2. The proposed regulation requires domestic insurers to complete their risk-based capital calculations and reports in accordance with the current NAIC risk-based capital instructions rather than those adopted by the NAIC as of January 1, 1997.
3. Estimated economic effect of the regulation:  
On the business which it is to regulate:  
The proposed regulation should not have either an immediate or long-term impact on the insurers.  
On the public:  
The proposed regulations should have no economic impact on the public.
4. The Division may incur some additional expense to enforce the proposed regulation that cannot be measured at this time.
5. The Division is not aware of any overlap or duplication of the regulation with any state, local or federal regulation.
6. The proposed regulation does not establish any new fees or increase an existing fee.

Persons wishing to comment upon the proposed action of the Division may appear at the scheduled public hearing or may address their comments, data, views or arguments, in written form, to the Division, 788 Fairview Drive, Suite 300, Carson City, Nevada 89701. Written submissions must be received by the Division on or before March 22, 2002. If no person who is directly affected by the proposed action appears to request time to make an oral presentation, the Division may proceed immediately to act upon any written submissions.

A copy of this notice and the proposed regulation will be on file at the State Library, 100 Stewart Street, Carson City, Nevada, for inspection by members of the public during business hours. Additional copies of the notice and the proposed regulation will be available at the offices of the Division, 788 Fairview Drive, Suite 300, Carson City, Nevada 89701, and 2501 East Sahara Avenue, Suite 302, Las Vegas, Nevada 89104, and in all counties in which an office of the agency is not maintained, at the main public library, for inspection and copying by members of the public during business hours. This notice and the text of the proposed regulation are also available in the **State of Nevada Register of Administrative Regulations** which is prepared and published monthly by the Legislative Counsel Bureau pursuant to NRS 233B.0653 and on the Internet at <http://www.leg.state.nv.us>. Copies will also be mailed to members of the public upon request. A reasonable fee may be charged for copies if it is deemed necessary.

Upon adoption of any regulation, the agency, if requested to do so by an interested person, either before adoption or within 30 days thereafter, will issue a concise statement of the principal reasons for and against its adoption, and incorporate therein its reason for overruling the consideration urged against its adoption.

This notice of hearing has been posted at the following locations:

Department of Business and Industry  
Division of Insurance  
788 Fairview Drive, Suite 300  
Carson City, NV 89701

Department of Business and Industry  
Division of Insurance  
2501 East Sahara Avenue, Suite 302  
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DATED this \_\_\_\_\_ day of February, 2002.

By:

ALICE A. MOLASKY-ARMAN  
Commissioner of Insurance

**PROPOSED REGULATION OF THE DIVISION OF INSURANCE  
OF THE DEPARTMENT OF BUSINESS AND INDUSTRY**

**REGULATIONS FOR MATERIAL REINSURANCE  
TRANSACTIONS AND RISK-BASED CAPITAL**

Explanation – Matter *bold/italics* is new, matter in ~~brackets/strikethrough~~ is material to be omitted.

**Authority: NRS 679B.130 and NRS 681B.290**

Section 1. NAC 681B.300 is hereby amended to read as follows:

681B.300 For the purposes of NRS 681B.280 and NAC 681B.300 to 681B.335, inclusive:

1. “Acquisition” includes every purchase, lease, exchange, merger, consolidation, succession or other means except the construction or development of real property by or for the reporting insurer or the acquisition of materials for that purpose.

2. “Disposition” includes every sale, lease, exchange, merger, consolidation, mortgage, hypothecation, assignment for the benefit of creditors or otherwise, abandonment, destruction or other disposition.

3. An acquisition or the aggregate of any series of related acquisitions during any ~~31~~ 30- day period, or a disposition or the aggregate of any series of related dispositions during any ~~31~~ 30-day period, is “material” if it is nonrecurring and not in the ordinary course of business and involves more than 5 percent of the insurer’s total admitted assets as reported in its most recent statutory statement filed with the commissioner of insurance of the insurer’s state of domicile.

4. A nonrenewal, cancellation or revision of an agreement for ceded reinsurance is “material” if it affects:

(a) For property and casualty business, including accident and health business when written as casualty business:

(1) More than 50 percent of the insurer’s total ceded written premium; or

(2) More than 50 percent of the insurer’s total ceded indemnity and loss adjustment reserves.

(b) For life, annuity, accident and health business, more than 50 percent of the total reserve credit taken for business ceded, on an annualized basis, as indicated in the insurer’s most recent annual statement filed with the commissioner.

5. For property and casualty business or life, annuity, accident or health business, a revision of an agreement for ceded reinsurance is “material” if:

(a) An authorized reinsurer representing more than 10 percent of a total cession is replaced by one or more unauthorized reinsurers; or

(b) Previously established requirements for collateral have been reduced or waived for one or more unauthorized reinsurers representing collectively more than 10 percent of a total cession.

Sec. 2. NAC 681B.305 is hereby amended to read as follows:

681B.305 1. Except as otherwise provided in NAC 681B.320, every insurer domiciled in this state shall file a report with the commissioner of insurance disclosing material acquisitions and dispositions of assets or material nonrenewals, cancellations or revisions of agreements for ceded reinsurance *or material new ceded reinsurance agreements affecting in force life insurance business* unless the ~~material~~ acquisitions and dispositions of assets or ~~the~~ *material nonrenewals, cancellations or revisions of agreements for ceded reinsurance or material new ceded reinsurance agreements affecting in force life insurance business* have been submitted to the commissioner for review, approval or information pursuant to any provision of Title 57 of NRS, regulations adopted pursuant to that title or other requirements.

2. The report must be filed within 15 days after the end of the calendar month in which the acquisition, disposition, nonrenewal, cancellation, ~~or~~ revision, *or material new ceded reinsurance agreement* ~~loses~~ occurs.

3. Except as otherwise provided in subsection 4, the insurer shall file a complete copy of the report, including any exhibits or other attachments, with the National Association of Insurance Commissioners at ~~120 West 12th Street, Suite 1100~~ *2301 McGee Street, Suite 800*, Kansas City, Missouri ~~64105~~ *64108-2604*. The copy of the report must be treated as confidential and is not subject to subpoena as provided in NRS 681B.280.

4. An insurer domiciled in this state *that* is not licensed or otherwise authorized to transact insurance in another state is not required to comply with the provisions of subsection 3.

Sec. 3. NAC 681B.325 is hereby amended to read as follows:

681B.325 The following information must be disclosed in any report of a material nonrenewal, cancellation, ~~or~~ revision of an agreement for ceded reinsurance *or new ceded reinsurance*



*agreements affecting in force life insurance business:*

1. The effective date of the nonrenewal, cancellation or revision;
2. A description of the transaction with an identification of the initiator thereof;
3. The purpose of, or reason for, the transaction; and
4. If applicable, the identity of replacement reinsurers.

Sec. 4. NAC 681B.330 is hereby amended to read as follows:

681B.330 An insurer shall report all material nonrenewals, cancellations or revisions of agreements for ceded reinsurance *or material new ceded reinsurance agreements affecting in force life insurance business* on a nonconsolidated basis unless the insurer is part of a consolidated group of insurers which uses a pooling arrangement or 100-percent reinsurance agreement that affects the solvency and integrity of the reserves of the insurer and the insurer ceded substantially all of its direct and assumed business to the pool. An insurer is deemed to have ceded substantially all of its direct and assumed business to a pool if the insurer has less than \$1,000,000 total direct plus assumed written premiums during any calendar year that are not subject to the pooling arrangement, and the net income of the business not subject to the pooling arrangement represents less than 5 percent of the capital and surplus of the insurer.

Sec. 5. NAC 681B.430 is hereby amended to read as follows:

681B.430 “Instructions relating to risk-based capital” defined “Instructions relating to risk-based capital” are the *current* instructions for reporting risk-based capital adopted by the National Association of Insurance Commissioners ~~[, as those instructions existed on January 1, 1997.]~~ *as amended by the National Association of Insurance Commissioners from time to time.*