

**ADOPTED REGULATION OF THE
COMMISSIONER OF INSURANCE**

LCB File No. R247-03

Effective November 12, 2004

EXPLANATION – Matter in *italics* is new; matter in brackets ~~omitted material~~ is material to be omitted.

AUTHORITY: §§1-5, NRS 679B.130.

A REGULATION relating to insurance; adopting by reference certain publications for financial reporting and examinations of entities regulated by the Commissioner of Insurance; requiring any reserves maintained by a nonprofit corporation which maintains and operates a hospital, medical or dental service plan to be deposited in certain federally insured financial institutions; requiring each nonprofit corporation to file an annual statement with the Commissioner of Insurance, and requiring, under certain circumstances, a foreign or alien nonprofit corporation to submit an affidavit, a jurat page or a copy of the jurat page to the Commissioner of Insurance to indicate that the annual statement of the nonprofit corporation has been filed; authorizing the Commissioner to require a foreign or alien nonprofit corporation to file a financial statement more frequently than annually under certain circumstances; requiring each domestic nonprofit corporation to file a quarterly statement with the Commissioner; requiring a nonprofit corporation to file an audited financial statement with the Commissioner in accordance with certain forms and instructions provided by the National Association of Insurance Commissioners; authorizing the Commissioner to grant a reasonable extension of time for filing an annual statement or audited financial statement under certain circumstances; requiring the Commissioner to take disciplinary action against a nonprofit corporation for failure to file its annual statement or audited financial statement in accordance with the prescribed forms or by the prescribed date; requiring an examination of a nonprofit corporation to be conducted in accordance with certain requirements; and providing other matters properly relating thereto.

Section 1. NAC 679B.033 is hereby amended to read as follows:

679B.033 1. The following publications of the National Association of Insurance Commissioners are hereby adopted by reference and may be obtained from the National Association of Insurance Commissioners, Publications Department, 2301 McGee Street, Suite

800, Kansas City, Missouri ~~[64108-2604,]~~ 64108-1662, or by ordering via telephone at (816) 783-8300 or on the Internet at <http://www.naic.org/insprod> at the respective prices indicated:

(a) The *Examiners Handbook*, which consists of ~~[Volume One,]~~ :

(1) *The Financial Condition Examiners Handbook*, which may be obtained at the domestic price of \$250 and the international price of \$270; and ~~[Volume Two, Model]~~

(2) *The Market Conduct Examiners Handbook*, ~~[and]~~ which may be obtained at the domestic price of ~~[\$125 for Volume One and \$125 for Volume Two.]~~ \$250 and the international price of \$270.

(b) The *Accounting Practices and Procedures Manual*, which may be obtained at the domestic price of ~~[\$225.]~~ \$395 and the international price of \$435.

(c) *The Annual Statement Blanks for Life and Accident and Health*, which may be obtained at the domestic price of \$200 and the international price of \$220.

(d) *The Annual Statement Blanks for Health*, which may be obtained at the domestic price of \$200 and the international price of \$220.

(e) The *Annual Statement Instructions Manual for Life and Accident and Health*, which may be obtained at the domestic price of \$225 ~~[-These]~~ and the international price of \$250. Except as otherwise provided in paragraph (g), these instructions must be used by an insurer that, under its certificate of authority, transacts health insurance or life insurance, as those terms are defined in NRS 681A.030 and 681A.040, respectively.

~~[(d)]~~ (f) The *Annual Statement Instructions Manual for Property and Casualty*, which may be obtained at the domestic price of \$225 ~~[]~~ and the international price of \$250. These instructions must be used by an insurer that, under its certificate of authority, transacts casualty insurance or property insurance, as those terms are defined in NRS 681A.020 and 681A.060, respectively.

~~(e)~~ (g) The *Annual Statement Instructions ~~Manual~~* for Health, which may be obtained at the *domestic* price of ~~[\$175.] \$225~~ and the *international price of \$250*. These instructions must be used by an insurer whose certificate of authority is issued in accordance with NRS 695B.110, 695C.090, 695D.110 or 695F.100.

2. The publications listed in subsection 1 apply to the:

(a) Conduct and report of an examination made pursuant to NRS 679B.230 to 679B.300, inclusive, 695C.310 and 695D.270; and

(b) Evaluation of the financial condition of an insurer or organization based on an examination or its annual statement. As used in this paragraph, “organization” includes:

(1) A health maintenance organization, as that term is defined in NRS 695C.030; and

(2) An organization for dental care, as that term is defined in NRS 695D.060.

3. If any publication listed in subsection 1 is revised, the Commissioner will review the revision to determine its suitability for this State. If the Commissioner determines that the revision is not suitable for this State, he will give notice within 30 days after the effective date of the revision. If the Commissioner does not give notice within 30 days, the revision becomes part of the publication adopted by reference pursuant to subsection 1. If a revision becomes part of a publication pursuant to this subsection and a person objects to and is aggrieved by the revision, that person may request a hearing before the Commissioner pursuant to NRS 679B.310 to 679B.370, inclusive.

4. The ~~Model~~ *Market Conduct Examiners Handbook* will be used in the examination of the records of an administrator.

5. All persons, including, without limitation, insurers and health maintenance organizations, required to file financial statements with the Commissioner shall prepare those statements in accordance with the appropriate publications adopted by reference in this section.

Sec. 2. Chapter 695B of NAC is hereby amended by adding thereto the provisions set forth as sections 3, 4 and 5 of this regulation.

Sec. 3. *All reserves maintained by a nonprofit corporation pursuant to NRS 695B.140:*

1. Must be deposited in a trust account in a federally insured financial institution located in this State. All income earned by the account belongs to the nonprofit corporation and may be credited and paid to the nonprofit corporation and used for its operations.

2. Are in addition to those reserves established by the nonprofit corporation according to good business and accounting practices for incurred but not reported claims and other similar claims.

Sec. 4. *1. As a condition of doing business in this State, each nonprofit corporation which maintains and operates a hospital, medical or dental service plan must file with the Commissioner an annual statement required by NRS 695B.160 that:*

(a) Conforms to the format prescribed by the National Association of Insurance Commissioners in the Annual Statement Instructions for Health and the Accounting Practices and Procedures Manual, which have been adopted by reference in NAC 679B.033;

(b) Contains exhibits and schedules that follow the specifications developed by the National Association of Insurance Commissioners; and

(c) Contains any other information relating to the nonprofit corporation required by the Commissioner.

2. Information from the annual statement of the nonprofit corporation must be filed:

(a) Pursuant to the specifications adopted by the National Association of Insurance Commissioners for filing information in an electronic format;

(b) At the central office of the National Association of Insurance Commissioners, 2301 McGee Street, Suite 800, Kansas City, Missouri 64108-2662; and

(c) On or before March 1 of each year.

3. If a foreign or alien nonprofit corporation files a statement in an electronic format with the National Association of Insurance Commissioners, that statement will be deemed to have been filed with the Commissioner if:

(a) The foreign or alien nonprofit corporation submits an affidavit, a jurat page or a copy of the jurat page to the Commissioner indicating that the statement has been so filed. If the nonprofit corporation submits a jurat page, the jurat page must:

(1) Conform to the format prescribed by the National Association of Insurance Commissioners in the Annual Statement Instructions for Health, which has been adopted by reference in NAC 679B.033; and

(2) Be executed by a notarial officer pursuant to NRS 240.1655 and 240.167.

(b) The affidavit, jurat page or copy of the jurat page is accompanied by the applicable fees set forth in NRS 680B.010.

4. An annual statement required by NRS 695B.160 to be filed with the Commissioner by a nonprofit corporation must be on the current version of the Annual Statement Blanks for Health adopted by the National Association of Insurance Commissioners, which has been adopted by reference in NAC 679B.033. Each nonprofit corporation shall, in preparing the statement, follow the Annual Statement Instructions for Health adopted by the National

Association of Insurance Commissioners, which accompanies the Annual Statement Blanks for Health.

5. If necessary to determine the financial condition of a foreign or alien nonprofit corporation or the fulfillment of contractual obligations or compliance with law by a foreign or alien nonprofit corporation, the Commissioner may require the foreign or alien nonprofit corporation to file a financial statement more frequently than annually. Such a statement must be:

- (a) Filed on the current form adopted by the National Association of Insurance Commissioners for the type of nonprofit corporation filing;*
- (b) Completed in accordance with the instructions accompanying that form; and*
- (c) Filed with the National Association of Insurance Commissioners in an electronic format.*

6. Each domestic nonprofit corporation shall file a quarterly statement with the Commissioner. A quarterly statement must be:

- (a) Filed on the current form adopted by the National Association of Insurance Commissioners for the type of nonprofit corporation filing;*
- (b) Completed in accordance with the instructions accompanying that form; and*
- (c) Filed with the National Association of Insurance Commissioners in an electronic format.*

7. The audited financial statement required to be filed pursuant to NRS 680A.265 is a separate document from the annual statement required to be filed pursuant to NRS 695B.160. Each nonprofit corporation filing the audited financial statement shall follow the Annual Statement Instructions for Health adopted by the National Association of Insurance

Commissioners. Consolidated statements for nonprofit corporations that are members of an insurance holding company are not acceptable. For the purposes of paragraph (d) of subsection 2 of NRS 695B.110, the term “annual report” means the audited financial statement required to be filed pursuant to NRS 680A.265.

8. The Commissioner may grant a reasonable extension of time for filing the annual statement required by NRS 695B.160 or the audited financial statement required by NRS 680A.265 if the request for an extension is submitted in writing and in advance and shows good cause.

9. The Commissioner will, if appropriate, take disciplinary action pursuant to the applicable provisions of this chapter or chapter 695B of NRS against a nonprofit corporation which fails to file its annual statement or audited financial statement on the prescribed forms, in the prescribed format or by the prescribed date.

10. As used in this section, “jurat page” means a written declaration by a notarial officer that the signer of a document signed the document in the presence of the notarial officer and swore to or affirmed that the statements in the document are true.

Sec. 5. *Each examination of a nonprofit corporation which establishes, maintains or operates a hospital, medical or dental service plan, including, without limitation, an examination conducted pursuant to NRS 695B.160, must be conducted in accordance with the requirements found in the handbooks and manuals adopted by reference in NAC 679B.033 and the provisions of NRS 679B.250 to 679B.300, inclusive.*

NOTICE OF ADOPTION OF PROPOSED REGULATION
LCB File No. R247-03

The Commissioner of Insurance adopted regulations assigned LCB File No. R247-03 which pertain to chapters 679B and 695B of the Nevada Administrative Code on June 18, 2004.

Notice date: 12/30/2003
Hearing date: 1/30/2004

Date of adoption by agency: 6/18/2004
Filing date: 11/12/2004

INFORMATIONAL STATEMENT

A hearing was held on January 30, 2004, at the offices of the Department of Business and Industry, Division of Insurance (Division), 788 Fairview Drive, Suite 300, Carson City, Nevada 89701, with a simultaneous video-conference conducted at the Bradley Building, 2501 E. Sahara Avenue, Manufactured Housing Division Conference Room, 2nd Floor, Las Vegas, Nevada 89104, regarding the adoption of the regulation concerning the financial reporting requirements of nonprofit hospital, medical, and dental service corporations.

Public comment was solicited by posting notice of the hearing in the following public locations: 788 Fairview Drive, Legislative Counsel Bureau, Capitol Building Lobby, Blasdel Building, Carson City Courthouse, State Library, Clark County Library, Capitol Press Room and the Division's Las Vegas office.

In addition, the Division maintains a list of interested parties, comprised mainly of insurance companies, agencies, and other persons regulated by the Division. These persons were notified of the hearing and that copies of the regulation could be obtained from or examined at the offices of the Division in Carson City.

The hearing was attended by 13 individuals. Bob Burch, representing the Division, provided testimony. There were no other speaking participants. The Division received no written testimony. Mr. Burch stated that the regulation added several provisions to clarify the financial reporting requirements for nonprofit hospital, medical, and dental service organizations, added a provision requiring domestic nonprofit corporations to maintain certain reserves, and added a provision requiring examinations to be conducted pursuant to the requirements found in the examination handbooks and manuals adopted by reference. During the workshop, the participants concurred with the Division on the changes to the proposed regulation. A revised version of the regulation is attached. The revision amends the proposed regulation for clarification. The Commissioner has issued an order adopting the regulation, as revised, pursuant to the workshop and hearing, as a permanent regulation of the Division.

Based upon the testimony received at the hearing, the proposed regulation is revised to read as follows:

1. Paragraph (a) of subsection 1 of section 4 is amended to read as follows:

- 1(a). Conforms to the format prescribed by the National Association of Insurance Commissioners in the Annual Statement Instructions *for Health* for the nonprofit corporation filing the statement and the Accounting Practices and Procedures Manual, which have been adopted by reference in NAC 679B.033;
2. Paragraph (a) of subsection 3 of section 4 is amended to read as follows:
- 3(a). The foreign or alien nonprofit corporation submits an affidavit or *Jurat page, or* a copy [of a jurat] *thereof*, executed by a notarial officer pursuant to NRS 240.1655 and 240.167 to the Commissioner indicating that the statement has been so filed; and
3. Paragraph (b) of subsection 3 of section 4 is amended to read as follows:
- 3(b). The affidavit or *Jurat, or a* copy [of the jurat] *thereof*, is accompanied by the applicable fees set forth in NRS 680B.010.
4. Subsection 4 of section 4 is amended to read as follows:
4. An annual statement required by NRS 695B.160 to be filed with the Commissioner by a nonprofit corporation must be on the current version of the Annual Statement Blanks *for Health* adopted by the National Association of Insurance Commissioners, which has been adopted by reference in NAC 679B.033. Each nonprofit corporation shall, in preparing the statement, follow the Annual Statement Instructions *for Health* adopted by the National Association of Insurance Commissioners, which accompanies the Annual Statement Blanks *for Health*.
5. Subsection 7 of section 4 is amended to read as follows:
7. The audited financial statement required to be filed pursuant to NRS 680A.265 is a separate document from the annual statement required to be filed pursuant to NRS 695B.160. Each nonprofit corporation filing the audited financial statement shall follow the Annual Statement Instructions *for Health* adopted by the National Association of Insurance Commissioners. Consolidated statements for nonprofit corporations that are members of an insurance holding company are not acceptable. For the purposes of paragraph (d) of subsection 2 of NRS 695B.110, the term “annual report” means the audited financial statement required to be filed pursuant to NRS 680A.265.

The economic impact of the regulation is as follows:

- (a) On the business it is to regulate: The regulation will have a negligible economic impact on the industry.
- (b) On the Public: None.

The Division anticipates no additional cost to enforce the proposed regulation.

The Division is not aware of any overlap or duplication of the regulation with any state, local or federal regulation.

ADDENDUM TO INFORMATIONAL STATEMENT

This letter provides additional information on the economic impact of the regulation as expressed on page 3 of the Informational Letter.

The economic impact of the regulation on the business that it is to regulate is amended to read as follows:

Section 1 of this proposed regulation updates the location to purchase the manuals and handbooks provided by the National Association of Insurance Commissioners (NAIC). This section also updates the price of each item required for the filing. These prices are set by the NAIC, not the State of Nevada. It is important that each entity file in accordance with NAIC standards for uniformity and accreditation. The financial impact equals the prices increase for each item purchased by the reporting organization.

Sections 2 and 3 of this regulation will require that reserve accounts be held in a federally insured financial institution located in Nevada. This requirement should have little or no cost to the entities as they currently have such accounts in financial institutions, however, this regulation will provide more security for the citizens of Nevada by requiring that the accounts be in Nevada.

Section 4 of the regulation mandates the filing of annual statements, audited financial statements and other statements with the NAIC. This regulation expands the filing requirements to nonprofit corporations providing hospital, medical or dental services. By mandating the use of NAIC forms for these organizations and the filing of the forms with the NAIC, there will be an impact on any such organization failing to comply with the NAIC standards and requirements. However, most entities are already in compliance. This is an important requirement for uniformity and accreditation.

The final section requires that each examination of these organizations be conducted in accordance with the standards established by the NAIC for uniformity and accreditation. This requirement should have no economic impact on any such entity.

STATE OF NEVADA
DEPARTMENT OF BUSINESS AND INDUSTRY
DIVISION OF INSURANCE

IN THE MATTER OF

CAUSE NO. **03.781**
LCB FILE NO. **R247-03**

**REGULATION CONCERNING FINANCIAL
REPORTING FOR NONPROFIT HOSPITAL,
MEDICAL, AND DENTAL SERVICE
ORGANIZATIONS.**

**SUMMARY OF PROCEEDINGS
AND ORDER**

SUMMARY OF PROCEEDINGS

A public workshop, as required by NRS 233B.061, on the proposed regulation relating to financial reporting for nonprofit hospital, medical, and dental service organizations, was held before Cliff King, Chief Insurance Assistant, on January 30, 2004, in Carson City, Nevada, and video-conferenced to the Bradley Building in Las Vegas, Nevada. A public hearing on the proposed regulation was also held before Cliff King, Chief Insurance Assistant, on January 30, 2004, in Carson City, Nevada, and video-conferenced to the Bradley Building in Las Vegas, Nevada. The regulation is proposed under the authority of NRS 679B.130 and NRS 695D.100.

The hearing was attended by 13 individuals. Testimony was received at the hearing from Bob Burch, representing the Department of Business and Industry, Division of Insurance (Division). The Division received no written comments.

Mr. Burch testified that:

1. The intent of the regulation was to add several provisions to clarify the financial reporting requirements for nonprofit hospital, medical, and dental service organizations. The first provision, citing NAC 679B.033, updates and adds additional wording to that particular regulation about the different publications of the National Association of Insurance Commissioners (NAIC), including the Examiner's Handbook, which consists of the *Financial Examiner's Handbook*, the *Market Conduct Examiner's Handbook*, the *Accounting Practices and Procedures Manual*, the *Annual Statement Blank for Life, Accident and Health*, the *Annual Statement Blank for Health*, the *Annual Statement Instructions for Life, Accident and Health*, the *Annual Statement Instructions Manual for Property and Casualty*, and the *Annual Statement Instructions Manual for Health*. The regulation states where the manuals may be obtained and the cost of each manual.

2. The second provision added a requirement that all domestic nonprofit corporations maintain the reserves, as required by NRS 695B.140, and to deposit such amounts in a trust account, in a federally insured financial institution within the state. The provision also clarified that the reserve requirement is in addition to those reserves established by the nonprofit corporation corresponding to business and accounting practices to cover claims that have been incurred, but not yet reported, and other similar claims.

3. The third provision addresses the submission of the annual statements, audited financial statements, and the filing of the financial statements with the NAIC. The regulation provides that, as a condition of doing business in the state, each nonprofit corporation shall submit to the Commissioner of Insurance (Commissioner) an annual statement that conforms to the format prescribed by the NAIC in the *Annual Statement Instructions* and the *Accounting Practices and Procedures Manual*. The annual statement shall contain the exhibits and schedules developed by the NAIC and any other information relating to the nonprofit corporation required by the Commissioner. The annual statement must be the current one adopted by the NAIC, prepared according to the current annual statement instructions. Nonprofit corporations providing hospital, medical, or dental services must use the *Annual Statement Blanks* and the *Annual Statement Instructions* as adopted by the NAIC.

4. The annual statement must be filed pursuant to the specifications of the NAIC for filing the information in an electronic format at the central office of the NAIC on or before March 1st of each year. If a foreign or alien nonprofit corporation files the annual statement with the NAIC, the statement shall be deemed to have been filed with the Commissioner if the foreign or alien nonprofit corporation submits an affidavit, a signed jurat page, or a copy thereof, to the Commissioner with the applicable fees.

5. If it is necessary to determine a foreign or alien nonprofit corporation's financial condition, the Commissioner may require such corporations to file a financial statement more frequently than annually. The required statement must be the current form and prepared according to the annual statement instructions and filed with the NAIC.

6. All domestic nonprofit corporations shall file a quarterly statement with the Commissioner. The required statement must be the current form and prepared according to the annual statement instructions and filed with the NAIC.

7. The audited financial statement that is required to be filed pursuant to NRS 680A.265 is a separate document from the annual statement. Each nonprofit corporation filing the audited financial statement shall follow the instructions in the *Annual Statement Instructions*. The audited financial statement is to be prepared by an independent certified public accountant. Consolidated statements for nonprofit corporations that are members of an insurance holding company are not acceptable.

8. The Commissioner may grant a nonprofit corporation a reasonable extension of time for filing the annual statement or audited financial report, if the request is submitted in advance, in writing, and shows good cause. The nonprofit corporation is subject to disciplinary action for failing to file its annual statement or financial report on the prescribed forms, in the prescribed format, or by the prescribed date.

9. The fifth provision provides that each examination of a nonprofit corporation must be conducted pursuant to the requirements found in the examination handbooks and manuals that have been adopted by reference in NAC 679B.033 and in accordance to the provisions of NRS 679B.250 to 679B.300, inclusive.

10. The Legislative Counsel Bureau (LCB) changed the terminology of subsection 3(a) and 3(b) of section 4 from the Division's proposed regulation by substituting "jurat" for "Jurat page." Mr. Burch explained that the Division was requesting the wording be reinstated to "Jurat page" as originally stated in the Division's proposed regulation. Additionally, Mr. Burch stated that, in order to be consistent with the other regulations addressing the jurat page, the wording, "or a copy thereof", is to be added to the revised regulation; thus, the wording will be changed to "an affidavit or a Jurat page or a copy thereof."

11. LCB did not identify the *Annual Statement Blanks* or the *Annual Statement Instructions* correctly in the LCB version. The Division is requesting that the titles of the publications include “*for Health*”, which makes the titles consistent with the reference in NAC 679B.033. In paragraph (a) of subsection 1, subsection 4, and subsection 7 of section 4, the complete title of the instruction publication is the *Annual Statement Instructions for Health*. In subsection 4 of section 4, the complete title of the forms publication is the *Annual Statement Blanks for Health*.

RECOMMENDED ORDER OF THE HEARING OFFICER

Based upon the testimony received at the hearing, it is recommended that the proposed regulation be revised to read as follows:

1. Paragraph (a) of subsection 1 of section 4 is amended to read as follows:
 - 1(a). Conforms to the format prescribed by the National Association of Insurance Commissioners in the *Annual Statement Instructions for Health* for the nonprofit corporation filing the statement and the *Accounting Practices and Procedures Manual*, which have been adopted by reference in NAC 679B.033;
2. Paragraph (a) of subsection 3 of section 4 is amended to read as follows:
 - 3(a). The foreign or alien nonprofit corporation submits an affidavit or *Jurat page, or* a copy [of a jurat] *thereof*, executed by a notarial officer pursuant to NRS 240.1655 and 240.167 to the Commissioner indicating that the statement has been so filed; and
3. Paragraph (b) of subsection 3 of section 4 is amended to read as follows:
 - 3(b). The affidavit or *Jurat, or a* copy [of the jurat] *thereof*, is accompanied by the applicable fees set forth in NRS 680B.010.
4. Subsection 4 of section 4 is amended to read as follows:
 4. An annual statement required by NRS 695B.160 to be filed with the Commissioner by a nonprofit corporation must be on the current version of the *Annual Statement Blanks for Health* adopted by the National Association of Insurance Commissioners, which has been adopted by reference in NAC 679B.033. Each nonprofit corporation shall, in preparing the statement, follow the *Annual Statement Instructions for Health* adopted by the National Association of Insurance Commissioners, which accompanies the *Annual Statement Blanks for Health*.
5. Subsection 7 of section 4 is amended to read as follows:
 7. The audited financial statement required to be filed pursuant to NRS 680A.265 is a separate document from the annual statement required to be filed pursuant to NRS 695B.160. Each nonprofit corporation filing the audited financial statement shall follow the *Annual Statement Instructions for Health* adopted by the National Association of Insurance Commissioners. Consolidated statements for nonprofit corporations that are members of an insurance holding company are not acceptable. For the purposes of paragraph (d) of subsection 2 of

NRS 695B.110, the term “annual report” means the audited financial statement required to be filed pursuant to NRS 680A.265.

SO RECOMMENDED this _____ day of June, 2004.

CLIFF KING, CPCU
Chief Insurance Assistant and Hearing Officer

///
///

ORDER OF THE COMMISSIONER

Having reviewed the record in this matter, it is hereby ordered that the proposed regulation concerning financial reporting for nonprofit hospital, medical, and dental service organizations, LCB File No. R247-03, be adopted, as amended, as a permanent regulation of the Division.

SO ORDERED this _____ day of June, 2004.

ALICE A. MOLASKY-ARMAN
Commissioner of Insurance