

# PROPOSED REGULATION OF THE COMMISSIONER OF INSURANCE

## LCB File No. R029-12

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

AUTHORITY: §§ NRS 679B.130, and 680A.290.

A REGULATION relating to insurance; additional instructions for insurer’s Risk Based Capital (RBC) Report; additional definitions for health entities; inclusion of trend reporting for property and casualty insurance companies.

**Section 1.** Chapter 681B of NAC is hereby amended by adding thereto the provisions set forth as sections 2 to 5, inclusive, of this regulation.

**Sec. 2.** *“Health organization” means:*

- 1. a health maintenance organization (HMO) licensed under NRS 695C;*
- 2. a dental plan licensed under NRS 695D; or*
- 3. a pre-paid limited health service organization, hospital, medical and dental indemnity or service corporation, or other managed care organization, licensed under NRS 695F.*

*This definition does not include an organization that is licensed as either a life and health insurer or a property and casualty insurer under NRS 680A and that is otherwise subject to either the life and health or the property and casualty RBC requirements.*

**Sec. 3.** *“Domestic health organization” means a health organization domiciled in this state.*

**Sec. 4.** *“Foreign health organization” means a health organization that is licensed to do business in this state under NRS 695C but is not domiciled in this state.*

**Sec. 5.** *For the purposes of NAC 681B.400 to 681B.595, inclusive, the context requires that the provisions apply only to insurers. The RBC requirements as identified in NAC 695C.130, NAC 695D.300 and NAC 695F.205 reference NRS 681B.290 and the regulations adopted*

*pursuant thereto; thus, any reference in those sections to “insurer” must be replaced by “health organization.”*

**Sec 6.** NAC 681B.480 is hereby amended to read as follows:

681B.480 The report on risk-based capital of an insurer must be completed in accordance with the formula set forth in the instructions relating to risk-based capital.

*1. A life and health insurer’s RBC shall be determined in accordance with the formula set forth in the RBC instructions. The formula shall take into account and may adjust for the covariance between the following factors, determined in each case by applying the factors in the manner set forth in the RBC instructions:*

*(a) The risk with respect to the insurer’s assets;*

*(b) The risk of adverse insurance experience with respect to the insurer’s liabilities and obligations;*

*(c) The interest rate risk with respect to the insurer’s business; and*

*(d) All other business risks and such other relevant risks as are set forth in the RBC instructions.*

*2. A property and casualty insurer’s RBC and a health organization’s RBC shall be determined in accordance with the formula set forth in the RBC instructions. The formula shall take the following into account and may adjust for the covariance between the following factors, determined in each case by applying the factors in the manner set forth in the RBC instructions:*

*(a) Asset risk;*

*(b) Credit risk;*

*(c) Underwriting risk; and*

*(d) All other business risks and such other relevant risks as are set forth in the RBC instructions.*

*3. An excess of capital over the amount produced by the risk-based capital requirements contained in this regulation and the formulas, schedules and instructions referenced in this regulation is desirable in the business of insurance. Accordingly, insurers should seek to maintain capital above the RBC levels required by this regulation. Additional capital is used and useful in the insurance business and helps to secure an insurer against various risks inherent in, or affecting, the business of insurance and not accounted for or only partially measured by the risk-based capital requirements contained in this regulation.*

**Sec. 7.** NAC 681B.490 is hereby amended to read as follows:

681B.490 1. The following constitute events that require company action:

(a) The filing by an insurer of a report on risk-based capital which indicates that:

(1) The total adjusted capital of the insurer is greater than or equal to its regulatory action level of risk-based capital but less than its company action level of risk-based capital; or

(2) For a life and health insurer, the total adjusted capital of the insurer has a negative trend and is greater than or equal to its company action level of risk-based capital but less than the product of 2.5 times its authorized control level of risk-based capital; or

*(3) If a property and casualty insurer, the insurer has total adjusted capital which is greater than or equal to its Company Action Level RBC but less than the product of its Authorized Control Level RBC and 3.0 and triggers the trend test determined in accordance with the trend test calculation included in the Property and Casualty RBC instructions.*

(b) Notification by the commissioner to an insurer that the commissioner has adjusted a report on risk-based capital of the insurer in accordance with [NAC 681B.485](#) and that the adjusted

report indicates a situation described in paragraph (a), except that if the insurer challenges the adjustment pursuant to [NAC 681B.580](#), the event that requires company action is the notification by the commissioner to the insurer that the commissioner has, after a hearing, rejected the challenge of the insurer.

2. As used in this section, “negative trend” means a negative trend over a period, as determined in accordance with the “Trend Test” calculation included in the instructions relating to risk-based capital.