

**PROPOSED REGULATION OF  
THE COMMISSIONER OF INSURANCE**

**LCB File No. R108-16**

**NOTICE OF INTENT TO ACT UPON REGULATION  
AND  
HEARING AGENDA**

Notice of Hearing for the Adoption, Amendment or Repeal of Regulations of  
The Department of Business and Industry, Division of Insurance

The State of Nevada, Department of Business and Industry, Division of Insurance (“Division”), (775) 687-0700, will hold a public hearing at **11:00 a.m. on October 11, 2016**, in the 1<sup>st</sup> Floor Hearing Room at the Division’s offices located at 1818 East College Parkway, Suite 103, Carson City, Nevada 89706. Interested persons may also participate through a simultaneous videoconference conducted in the 3<sup>rd</sup> floor conference room, at the Division’s offices located in the Bradley Building, 2501 East Sahara Avenue, Suite 302, Las Vegas, Nevada 89104. The purpose of the hearing is to receive comments from all interested persons regarding the adoption, amendment or repeal of the regulation(s) that pertain(s) to **chapter(s) 680A** of the Nevada Administrative Code (“NAC”).

The following information is provided pursuant to the requirements of Nevada Revised Statute (“NRS”) 233B.0603 and the directives of the Governor:

**LCB File No. R108-16. Internal Audit.** (NAC 680A)

A REGULATION relating to insurance; requiring the establishment of an internal audit function for certain insurers and groups of insurers; revising provisions relating to auditing for insurers and groups of insurers; and providing other matters properly relating thereto.

- (1) Why is the regulation necessary and what is its purpose?

*The proposed regulation is necessary in order to meet National Association of Insurance Commissioners (“NAIC”) Accreditation standards for internal audit requirements for large insurers. Most large insurers are publicly traded and, therefore, have to meet the Securities Exchange Commission (SEC) requirements for internal audit. The NAIC has determined that all large insurers need to have an internal audit, not just those that are publicly traded companies.*

- (2) What are the terms or substance of the proposed regulation?

*The proposed changes define what an internal audit program is and what the requirements are for large insurers.*

- (3) What is the anticipated impact of the regulation on the problem(s)?

*Most large insurers already have an internal audit and it is good business practice to have one. This requirement will ensure proper controls over financial reporting, which the Division uses to evaluate the financial solvency of insurers.*

(4) Do other regulations address the same problem(s)?

No.

(5) Are alternate forms of regulation sufficient to address the problem(s)?

No. *This rulemaking is necessary to adopt the changes in the NAIC model regulation (#205).*

(6) What value does the regulation have to the public?

*The regulation ensures that large insurers are practicing standard business practices of having an internal audit. Internal audits are designed to ultimately protect the insurer from any fraud, non-compliance, and/or any other matters that may harm the insurer and its financial solvency.*

(7) What is the anticipated economic benefit of the regulation?

a. Public

1. Immediate: *Keeps Nevada as an accredited state for financial solvency regulation of insurance companies.*

2. Long Term: *Keeps Nevada as an accredited state for financial solvency regulation of insurance companies.*

b. Insurance Business

1. Immediate: *Keeps Nevada as an accredited state for financial solvency regulation of insurance companies.*

2. Long Term: *Keeps Nevada as an accredited state for financial solvency regulation of insurance companies.*

c. Small Businesses

1. Immediate: *Keeps Nevada as an accredited state for financial solvency regulation of insurance companies.*

2. Long Term: *Keeps Nevada as an accredited state for financial solvency regulation of insurance companies.*

d. Small Communities

1. Immediate: *Keeps Nevada as an accredited state for financial solvency regulation of insurance companies.*

2. Long Term: *Keeps Nevada as an accredited state for financial solvency regulation of insurance companies.*

e. Government Entities

1. Immediate: *Keeps Nevada as an accredited state for financial solvency regulation of insurance companies.*

2. Long Term: *Keeps Nevada as an accredited state for financial solvency regulation of insurance companies.*

(8) What is the anticipated adverse impact, if any?

a. Public

1. Immediate: *None.*

2. Long Term: *None.*

- b. Insurance Business
  - 1. Immediate: *None.*
  - 2. Long Term: *None.*
- c. Small Businesses
  - 1. Immediate: *None.*
  - 2. Long Term: *None.*
- d. Small Communities
  - 1. Immediate: *None.*
  - 2. Long Term: *None.*
- e. Government Entities
  - 1. Immediate: *None.*
  - 2. Long Term: *None.*

(9) What is the anticipated cost of the regulation, both direct and indirect?

- a. Enactment – *None.*
- b. Enforcement – *The Division has the staff and resources to enforce these regulations since they are similar to other standards the Division already enforces.*
- c. Compliance – *Not enacting this regulation will cause certain Nevada domiciled insurance businesses to leave Nevada, because Nevada would no longer be an NAIC accredited state. The cost to implement an internal audit process as described in the regulation is minimal compared to the adverse effect that a loss of accreditation would have on the relevant insurance businesses.*

(10) Does the regulation establish a new fee or increase an existing fee?

*No.*

(11) Provide a statement which identifies the methods used by the agency in determining the impact of the proposed regulation on a small business, prepared pursuant to subsection 3 of NRS 233B.0608.

*A domiciled insurance company that writes less than \$500,000,000 in direct premiums is exempted from the requirement of this regulation. Data reviewed by Division staff shows that Nevada has never had, nor does Nevada currently have, a domiciled insurance company that has written over \$500,000,000 in direct premiums. A review conducted by Division staff of insurers in the United States writing more than \$500,000,000 in direct premiums shows that these companies are not small businesses. The requirement in this regulation also does not apply to producers or administrators.*

*Based on the experience of the Division's insurance examiner staff in reviewing insurance company financial information and rates, the cost of such an internal audit process is not significant compared to the very large amount of direct premium taken in by companies writing \$500,000,000 or more in direct premiums. Any trickle-down of this cost to those who buy the insurance product would be de minimis. As a result, there is no direct, significant, or burdensome impact on Nevada small businesses due to this regulation. Therefore, the Division concluded that no solicitation outside of the workshop and hearing setting is required; nor is a small business impact statement needed.*

(12) Provide a description of any regulations of other state or local governmental agencies which the proposed regulation overlaps or duplicates, and a statement explaining why the duplication or overlapping is necessary. If the regulation overlaps or duplicates a federal regulation, state the name of the regulating federal agency.

*No regulation overlaps with the audit regulation.*

(13) If the regulation is required pursuant to federal law, provide a citation and description of the federal law.

*N/A*

(14) If the regulation includes provisions which are more stringent than a federal regulation that regulates the same activity, provide a summary of such provisions.

*N/A*

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, 1818 East College Parkway, Suite 103, Carson City, Nevada 89706. **Written submissions must be received by the Division on or before September 14, 2016.** 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 regulation will be on file at the State Library, 100 North Stewart Street, Carson City, Nevada, for inspection by members of the public during business hours. Additional copies of the notice and the regulation will be available at the offices of the Division, 1818 East College Parkway, Suite 103, Carson City, Nevada 89706, 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://leg.state.nv.us/register/>. Copies of this notice and the proposed regulation will be mailed to members of the public upon request. A reasonable fee may be charged for copies if it is deemed necessary. This does not apply to a public body subject to the Open Meeting Law.

Upon adoption of any regulation, the agency, if requested to do so by an interested person, either before adoption or within 30 days thereafter, shall 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.

Notice of the hearing was provided via electronic means to all persons on the agency's e-mail list for administrative regulations, and this Notice of Intent to Act Upon Regulation was posted to the agency's Internet Web site at <http://doi.nv.gov/> and was provided to or posted at the following locations:

Department of Business and Industry  
Division of Insurance  
1818 East College Parkway, Suite 103  
Carson City, Nevada 89706

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

Legislative Building  
401 South Carson Street  
Carson City, Nevada 89701

Grant Sawyer Building  
555 East Washington Avenue  
Las Vegas, Nevada 89101

Blasdel Building  
209 East Musser Street  
Carson City, Nevada 89701

Capitol Building Main Floor  
101 North Carson Street  
Carson City, Nevada 89701

Nevada Department of Employment,  
Training and Rehabilitation  
2800 E. Saint Louis Ave.  
Las Vegas, NV 89104

Nevada State Library & Archives  
100 North Stewart Street  
Carson City, Nevada 89701

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

Churchill County Library  
553 South Main Street  
Fallon, Nevada 89406

Douglas County Library  
P.O. Box 337  
Minden, Nevada 89423

Elko County Library  
720 Court Street  
Elko, Nevada 89801

Esmeralda County Library  
P.O. Box 430  
Goldfield, Nevada 89013

Eureka Branch Library  
P.O. Box 293  
Eureka, Nevada 89316

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

Lander County Library  
P.O. Box 141  
Battle Mountain, Nevada 89820

Las Vegas-Clark County Library District  
7060 W. Windmill Lane  
Las Vegas, NV 89113

Lincoln County Library  
P.O. Box 330  
Pioche, Nevada 89043-0330

Lyon County Library  
20 Nevin Way  
Yerington, Nevada 89447

Mineral County Public Library  
P.O. Box 1390  
Hawthorne, Nevada 89415

Pershing County Library  
P.O. Box 781  
Lovelock, Nevada 89419

Storey County Clerk  
P.O. Drawer D  
Virginia City, Nevada 89440

Tonopah Public Library  
P.O. Box 449  
Tonopah, Nevada 89049

Washoe County/Downtown Reno Library  
P.O. Box 2151  
Reno, Nevada 89505-2151

White Pine County Library  
950 Campton Street  
Ely, Nevada 89301

Members of the public who would like additional information about the proposed regulation may contact Omar Akel, Chief Insurance Examiner, at (775) 687-0743, or via e-mail to [oakel@doi.nv.gov](mailto:oakel@doi.nv.gov).

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, no later than five (5) working days before the meeting: 1818 E. College Parkway, Suite 103, Carson City, Nevada 89706, or [suebell@doi.nv.gov](mailto:suebell@doi.nv.gov).

DATED this 1<sup>st</sup> day of September, 2016.

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/s/  
BARBARA D. RICHARDSON  
Commissioner of Insurance

### HEARING AGENDA

The State of Nevada, Department of Business and Industry, Division of Insurance

**October 11, 2016 • 11:00 a.m.**

**Location of Hearing:**

Office of the Division of Insurance  
1818 E. College Pkwy., 1<sup>st</sup> Floor Hearing Room  
Carson City, NV 89706  
(Division Offices located in Suite 103)

**Available via Videoconference at:**

Office of the Division of Insurance  
2501 E. Sahara Ave., 3<sup>rd</sup> Floor Conference Room  
Las Vegas, NV 89104  
(Division Offices located in Suite 302)

1. **Call to Order: R108-16.**
2. **Presentation, Discussion and Adoption of Proposed Regulation. (For Possible Action)**

**LCB File No. R108-16. Internal Audit.** (NAC 680A)

A REGULATION relating to insurance; requiring the establishment of an internal audit function for certain insurers and groups of insurers; revising provisions relating to auditing for insurers and groups of insurers; and providing other matters properly relating thereto.

3. **Public Comment.**
4. **Closure: R108-16.**
5. **Adjournment.**

Supporting public material for this meeting may be requested from Susan Bell, Legal Secretary, Nevada Division of Insurance, 1818 E. College Parkway, Carson City, Nevada 89706, (775) 687-0704, or [suebell@doi.nv.gov](mailto:suebell@doi.nv.gov).

Note: Any agenda item may be taken out of order; items may be combined for consideration by the public body; and items may be pulled or removed from the agenda at any time. The Hearing Officer, within his/her discretion, may allow for public comment on individual agenda items. Public Comment may be limited to three minutes per speaker.

Members of the public are encouraged to submit written comments for the record.

We are pleased to make reasonable accommodations for attendees with disabilities. Please notify the Commissioner's secretary, in writing, no later than five (5) working days before the meeting: 1818 E. College Parkway, Suite 103, Carson City, Nevada 89706, or [suebell@doi.nv.gov](mailto:suebell@doi.nv.gov).

NOTICES FOR THIS MEETING HAVE BEEN POSTED IN ACCORDANCE WITH NRS 241 AT THE FOLLOWING LOCATIONS:

Nevada Division of Insurance, 1818 E. College Parkway, Suite 103, Carson City, Nevada 89706

Nevada Division of Insurance, 2501 E. Sahara Avenue, Suite 302, Las Vegas, Nevada 89104

Nevada State Legislative Building, 401 S. Carson Street, Carson City, Nevada 89701

Grant Sawyer State Office Building, 555 E. Washington Avenue, Las Vegas, Nevada 89101

Blasdel State Office Building, 209 E. Musser Street, Carson City, Nevada 89701

Nevada State Capitol, 101 N. Carson Street, Carson City, Nevada 89701

Nevada Dept. of Employment, Training and Rehabilitation, 2800 E. Saint Louis Avenue, Las Vegas, Nevada 89104

The State of Nevada Website ([www.nv.gov](http://www.nv.gov))

The Nevada State Legislature Website ([www.leg.state.nv.us](http://www.leg.state.nv.us))

The Nevada Division of Insurance Website ([www.doi.nv.gov](http://www.doi.nv.gov))