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December 21, 2015

Sue Dummar
Legal Secretary
Division of Insurance
1818 East College Parkway, Suite 103
Carson City, Nevada 89701

Re: LCB File No. R094-14

Dear Ms. Dummar:

A regulation adopted by the Commissioner of Insurance has been filed today with the Secretary of State pursuant to NRS 233B.067 or 233B.0675, as appropriate. As provided in NRS 233B.070, this regulation becomes effective upon filing, unless otherwise indicated.

Enclosed are two copies of the regulation bearing the stamp of the Secretary of State which indicates that it has been filed. One copy is for your records and the other is for delivery to the State Library and Archives Administrator pursuant to subsection 6 of NRS 233B.070.

Very truly yours,

Brenda J. Erdoes
Legislative Counsel

Asher A. Killian
Senior Deputy Legislative Counsel

AAK/slj
Enclosure

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**Form For Filing
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Agency
Dept. of Business and Industry
Division of Insurance

R094-14

FOR EMERGENCY
REGULATIONS ONLY

Effective date _____

Expiration date _____

Governor's signature

Classification: PROPOSED ADOPTED BY AGENCY EMERGENCY

Brief description of action Regulation concerning insurers which are controlled by a producer.

Authority citation other than 233B NRS 679B.130 and 693A.110

Notice date 9/15/2015

Date of Adoption by Agency 11/6/2015

Hearing date 10/20/2015

**ADOPTED REGULATION OF THE
COMMISSIONER OF INSURANCE**

LCB File No. R094-14

Effective December 21, 2015

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

AUTHORITY: §§1-19, NRS 679B.130 and 693A.110.

A REGULATION relating to insurance; revising provisions relating to insurers which are controlled by a producer; and providing other matters properly relating thereto.

Legislative Counsel’s Digest:

Existing law authorizes the Commissioner of Insurance to adopt regulations governing the management and agency contracts of insurers. (NRS 693A.110)

Section 6 of this regulation adopts the same definition of “control” for controlled insurers and controlling producers that is used for insurance holding companies. **Section 8** of this regulation includes certain risk retention groups within the definition of “controlled insurer.” **Section 9** of this regulation: (1) limits the applicability of regulations governing controlled insurers to certain licensed insurers; and (2) provides that, if a conflict exists with the laws or regulations of this State governing holding companies, those laws or regulations control. **Sections 3 and 7-19** of this regulation replace the terms “broker” and “controlling broker” with “producer” and “controlling producer,” respectively.

Section 1. Chapter 693A of NAC is hereby amended by adding thereto the provisions set forth as sections 2 and 3 of this regulation.

Sec. 2. *“Licensed insurer” means a person, firm, association or corporation duly licensed to transact property and casualty insurance business in this State.*

Sec. 3. *“Producer” has the meaning ascribed to “producer of insurance” in NRS 679A.117.*

Sec. 4. NAC 693A.600 is hereby amended to read as follows:

693A.600 As used in NAC 693A.600 to 693A.770, inclusive, *and sections 2 and 3 of this regulation*, unless the context otherwise requires, the words and terms defined in NAC 693A.610 to 693A.660, inclusive, *and sections 2 and 3 of this regulation* have the meanings ascribed to them in those sections.

Sec. 5. NAC 693A.610 is hereby amended to read as follows:

693A.610 “Accredited state” means a state in which the agency which regulates insurance in that state has qualified as meeting the minimum financial regulatory standards established *and promulgated from time to time* by the National Association of Insurance Commissioners.

Sec. 6. NAC 693A.640 is hereby amended to read as follows:

693A.640 “Control” or “controlled” ~~[means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a controlled insurer, whether through the ownership of voting securities, by contract other than a commercial contract for goods or nonmanagement services or otherwise, unless the power is the result of an official position with or corporate office held by the controlled insurer, if the person possessing that power placed, in a calendar year, an aggregate amount of gross written premiums on business with the controlled insurer that is equal to or greater than 5 percent of the assets of the controlled insurer that were reported in the controlled insurer’s annual statement filed with the Commissioner as of March 1 preceding.]~~ *has the meaning ascribed to “control” in NRS 692C.050.*

Sec. 7. NAC 693A.650 is hereby amended to read as follows:

693A.650 “Controlling ~~{broker}”~~ *producer*” means a ~~{broker}~~ *producer* who controls an insurer.

Sec. 8. NAC 693A.660 is hereby amended to read as follows:

693A.660 “Controlled insurer” means a licensed insurer which is domiciled in this State or an insurer which is domiciled in a state that is not an accredited state and which is controlled by a ~~{broker.}~~ *producer*. The term does not include:

1. ~~{Risk retention groups covered by 15 U.S.C. § 3902, 42 U.S.C. § 9673 and chapter 695E of NRS;~~

~~—2.} Residual market pools;~~

~~{3.} 2. Joint underwriting authorities or associations; and~~

~~{4.} 3. Captive insurers [.] , other than risk retention groups covered by 15 U.S.C. § 3902, 42 U.S.C. § 9673 and chapter 695E of NRS.~~

Sec. 9. NAC 693A.670 is hereby amended to read as follows:

693A.670 1. *Except as otherwise provided in subsection 2 or 3, the provisions of NAC 693A.600 to 693A.770, inclusive, and sections 2 and 3 of this regulation apply to licensed insurers:*

(a) Domiciled in this State or in a state that is not an accredited state and does not have in effect a substantially similar law; and

(b) Who, in any calendar year, have an aggregate amount of gross written premium on business placed with a controlled insurer by a controlling producer equal to or greater than 5 percent of the admitted assets of the controlled insurer, as reported in the controlled insurer’s

quarterly financial statement filed on or before September 30 of the immediately preceding calendar year.

2. The provisions of NAC 693A.600 to 693A.770, inclusive, *and sections 2 and 3 of this regulation* do not apply if:

~~{1.}~~ (a) A controlling ~~{broker.}~~ *producer*:

~~{(a)}~~ (1) Places insurance only with a controlled insurer, or only with the controlled insurer and ~~{an}~~ *a member of the controlled insurer's holding company system or a parent, subsidiary or* affiliate of the controlled insurer, and receives no compensation based upon the amount of premiums written in connection with that insurance; and

~~{(b)}~~ (2) Accepts insurance only from other nonaffiliated ~~{brokers}~~ *producers* and not directly from insureds; and

~~{2.}~~ (b) The controlled insurer, except for insurance business written through a residual market plan, accepts insurance business only from a controlling ~~{broker}~~ *producer, a producer controlled by the controlled insurer* or a ~~{broker}~~ *producer* that is a subsidiary of the controlled insurer.

3. *To the extent that the provisions of this chapter conflict with the provisions of chapter 692C of NRS or chapter 692C of NAC, the provisions of chapter 692C of NRS or chapter 692C of NAC control.*

Sec. 10. NAC 693A.680 is hereby amended to read as follows:

693A.680 1. A controlled insurer shall not accept insurance business from a controlling ~~{broker}~~ *producer* and a controlling ~~{broker}~~ *producer* shall not place insurance with a controlled insurer unless there is a written contract, which has been approved by the board of directors of

the controlled insurer, between the controlling ~~{broker,}~~ **producer** and the controlled insurer that specifies the responsibilities of each party.

2. Such a contract must contain a provision that allows a controlled insurer, upon written notice to a controlling ~~{broker,}~~ **producer**, to terminate the contract for cause. The controlled insurer shall *suspend the authority of the controlling producer to place insurance with the controlled insurer and shall* not accept insurance business from the controlling ~~{broker}~~ **producer** during the pendency of any dispute regarding the cause for the termination of the contract.

3. A controlling ~~{broker}~~ **producer** shall not assign, in whole or in part, a contract entered into pursuant to subsection 1.

Sec. 11. NAC 693A.690 is hereby amended to read as follows:

693A.690 1. A controlling ~~{broker}~~ **producer** shall provide an accounting to a controlled insurer that sets forth all material transactions executed by the controlling ~~{broker}~~ **producer** that affect the controlled insurer, including information necessary to identify and explain all commissions, charges and other fees already received by the controlling ~~{broker}~~ **producer** or still owing by the controlled insurer to the controlling ~~{broker,}~~ **producer**.

2. A controlling ~~{broker}~~ **producer** shall remit all money due under the terms of a contract entered into with a controlled insurer to the controlled insurer at least once each month on a date agreed to by the parties. Premiums or installments thereof must be remitted to the controlled insurer no later than 90 days after the effective date of any policy of insurance placed with the controlled insurer pursuant to the contract.

3. Except as otherwise provided in this subsection, all money collected by a controlling ~~{broker}~~ *producer* for a controlled insurer must be held by the controlling ~~{broker}~~ *producer* in a fiduciary capacity, in one or more bank accounts established for the controlled insurer in banks that are members of the Federal Reserve System. A controlling ~~{broker}~~ *producer* which is not required to be licensed in this State shall hold money for the controlled insurer in compliance with the requirements of the controlling ~~{broker's}~~ *producer's* domiciliary jurisdiction.

4. A controlling ~~{broker}~~ *producer* shall maintain records of all insurance business written for a controlled insurer separate from all other records of the controlling ~~{broker.}~~ *producer.*

Sec. 12. NAC 693A.700 is hereby amended to read as follows:

693A.700 1. A controlled insurer shall provide to the controlling ~~{broker}~~ *producer* its underwriting standards, rules, procedures and manuals setting forth the rates to be charged and the conditions for the acceptance or rejection of risks. The controlling ~~{broker}~~ *producer* shall adhere to the standards, rules, procedures, rates and conditions of the controlled insurer. The standards, rules, procedures, rates and conditions of the controlled insurer must be the same as those the insurer applies to comparable business placed with the controlled insurer by a ~~{broker}~~ *producer* other than the controlling ~~{broker.}~~ *producer.*

2. The contract between the controlling ~~{broker}~~ *producer* and the controlled insurer must specify the rates and terms of the controlling ~~{broker's}~~ *producer's* commissions, charges or other fees and the purposes for those commissions, charges and fees. The rates of the commissions, charges and other fees must not be greater than those applicable to comparable business placed with the controlled insurer by ~~{brokers}~~ *producers* other than the controlling ~~{broker.}~~ *producer.*

3. As used in this section, “comparable business” includes insurance of the same lines, insurance of the same kinds, risks of the same kinds, limits on policies of insurance that are similar and business of a similar quality to the business between the controlling ~~{broker}~~ *producer* and the controlled insurer.

Sec. 13. NAC 693A.710 is hereby amended to read as follows:

693A.710 1. If a contract between a controlling ~~{broker}~~ *producer* and a controlled insurer provides that the controlling ~~{broker}~~ *producer* is to be compensated for insurance business placed with the controlled insurer contingent upon the controlled insurer making a profit on that business, the compensation may not be determined or paid:

(a) If the insurance is liability insurance, for at least 5 years after the premiums on the insurance are earned.

(b) If the insurance is other than liability insurance, for at least 1 year after the premiums are earned on the insurance.

2. Any commissions owed to a controlling ~~{broker}~~ *producer* may not be paid until the adequacy of the controlled insurer’s reserves on remaining claims has been independently verified pursuant to subsection 1 of NAC 693A.750.

Sec. 14. NAC 693A.720 is hereby amended to read as follows:

693A.720 1. A contract between a controlling ~~{broker}~~ *producer* and a controlled insurer must provide a limit on the controlling ~~{broker’s}~~ *producer’s* writings that is within the limit on the controlled insurer’s *surplus and* total writings. A different limit for each line or subline of insurance may be established in the contract.

2. A controlled insurer shall notify the controlling ~~{broker}~~ *producer* when the ~~{broker}~~ *producer* is approaching the limit established pursuant to subsection 1. The controlled insurer shall not accept insurance business from the controlling ~~{broker}~~ *producer* if the ~~{broker}~~ *producer* has reached the limit. The controlling ~~{broker}~~ *producer* shall not place insurance business with the controlled insurer if the ~~{broker}~~ *producer* has been notified by the controlled insurer that he or she has reached his or her limit.

Sec. 15. NAC 693A.730 is hereby amended to read as follows:

693A.730 Except as otherwise provided in this section, a controlling ~~{broker}~~ *producer* may negotiate for but shall not require a controlled insurer to reinsure business that the controlling ~~{broker}~~ *producer* places with the controlled insurer. The controlling ~~{broker}~~ *producer* may require the controlled insurer to enter into contracts for facultative reinsurance pursuant to obligatory facultative agreements if the written contract between the controlling ~~{broker}~~ *producer* and the controlled insurer contains guidelines for underwriting. If the reinsurance has been ceded and assumed, the guidelines for underwriting must include a list of reinsurers with whom obligatory facultative agreements are in effect, the coverages and amounts or percentages that may be reinsured and a schedule of commissions.

Sec. 16. NAC 693A.750 is hereby amended to read as follows:

693A.750 1. In addition to any other required certification of reserves for losses, a controlled insurer shall, on April 1 of each year, file with the Commissioner an opinion of an independent actuary or other independent specialist on reserves for losses who is acceptable to the Commissioner, a report of loss ratios for each line of insurance written which attests to the adequacy of reserves established for losses incurred and outstanding as of December 31,

preceding, including the losses incurred but not reported on insurance business placed with the controlled insurer by his or her controlling ~~{broker,}~~ **producer**.

2. The controlled insurer shall report annually to the Commissioner the amount of commissions paid to the controlling ~~{broker,}~~ **producer**, the percentage which the amount represents of the net premiums written, and comparable amounts and percentages paid to noncontrolling ~~{brokers}~~ **producers** for placements of the same kinds of insurance.

Sec. 17. NAC 693A.760 is hereby amended to read as follows:

693A.760 1. A controlling ~~{broker,}~~ **producer**, before the effective date of a policy of insurance, shall deliver written notice to the prospective insured that discloses the relationship between the controlling ~~{broker}~~ **producer** and the controlled insurer.

2. If a controlling ~~{broker}~~ **producer** places insurance business through a ~~{broker}~~ **producer** who is not a controlling ~~{broker,}~~ **producer**, the controlling ~~{broker}~~ **producer** shall retain in his or her records a signed statement from the other ~~{broker}~~ **producer** indicating that the other ~~{broker}~~ **producer** is aware of the relationship between the controlling ~~{broker}~~ **producer** and the controlled insurer and will notify the insured of the relationship.

Sec. 18. NAC 693A.770 is hereby amended to read as follows:

693A.770 1. If the Commissioner believes that a controlling ~~{broker}~~ **producer** has not complied with a provision of NAC 693A.600 to 693A.770, inclusive, *and sections 2 and 3 of this regulation* or any order issued pursuant to those sections, the Commissioner may:

(a) After giving notice and an opportunity to be heard pursuant to NRS 679B.310 to 679B.370, inclusive, order the controlling ~~{broker}~~ **producer** to cease placing insurance business with a controlled insurer.

(b) Invoke the aid of the courts to enjoin an existing or threatened violation of a provision of NAC 693A.600 to 693A.770, inclusive, *and sections 2 and 3 of this regulation* or to enforce an order made pursuant to paragraph (a).

2. If an order for liquidation or rehabilitation of the controlled insurer has been entered pursuant to chapter 696B of NRS and the Commissioner, acting as domiciliary receiver, believes that the controlling ~~{broker}~~ *producer* has not complied with a provision of NAC 693A.600 to 693A.770, inclusive, *and sections 2 and 3 of this regulation* or any order issued pursuant to those sections, and the controlled insurer suffered a loss or damage therefrom, the receiver may, on behalf of the controlled insurer and pursuant to NRS 696B.290, maintain a civil action to recover compensatory damages or obtain other appropriate relief against the controlling ~~{broker}~~ *producer*.

3. This section does not affect:

(a) The right of the Commissioner to impose any other penalties provided for in title 57 of NRS; or

(b) The rights of policyholders, claimants, creditors or other third parties to maintain any civil action against a controlling ~~{broker}~~ *producer*.

Sec. 19. NAC 693A.620 is hereby repealed.

TEXT OF REPEALED SECTION

693A.620 “Broker” defined. (NRS 679B.130, 693A.110) “Broker” has the meaning ascribed to it in NRS 683A.321.

**LEGISLATIVE REVIEW OF ADOPTED REGULATIONS
INFORMATIONAL STATEMENT AS REQUIRED BY NRS 233B.066**

LCB FILE NO. R094-14

The following statement is submitted by the State of Nevada, Department of Business and Industry, Division of Insurance (“Division”) for adopted amendments to Nevada Administrative Code (“NAC”) Chapter 693A.

1. A clear and concise explanation of the need for the adopted regulation.

This regulation is required pursuant to the National Association of Insurance Commissioners (NAIC) Financial Accreditation Standards, Part A requirements for Laws and Regulations, and is necessary to address the Business Transacted with Producer-Controlled Property/Casualty Insurers Model Act (Model #325). In 2011, the NAIC adopted additional Part A standards for risk-retention groups (RRGs), which require that all states have a regulatory framework similar to the Model.

The existing provisions in NAC 693A.600 through 693A.770 require amendments in order to be brought into compliance with the revised NAIC Model Act. Nevada had adopted prior Model language in 1996 but has not, until the present time, amended the language to address the subsequent changes in the Model, including changes that the NAIC adopted in 2001 and 2003.

2. A description of how public comment was solicited, a summary of public response, and an explanation of how other interested persons may obtain a copy of the summary.

(a) A description of how public comment was solicited:

Public comment was solicited by e-mailing the proposed regulation, notice(s) of workshop, notice(s) of intent to act upon the regulation, and small business impact statement to persons on the Division’s mailing list requesting notification of proposed regulations. The documents were also made available on the website of the Division, <http://doi.nv.gov/>, mailed to the main library for each county in Nevada, and 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
101 North Carson Street
Carson City, Nevada 89701

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

Public comment was also solicited at the workshop held on October 8, 2015, and at the hearing held on October 20, 2015. The public meetings took place at the offices of the Division, 1818 East College Parkway, Carson City, Nevada 89706, with simultaneous videoconferencing to the Bradley Building, 2501 East Sahara Avenue, Las Vegas, Nevada 89104.

(b) A summary of the public response:

No comments were received at the workshop on October 8, 2015. At the hearing on October 20, 2015, one comment was received related to a perceived ambiguity in the existing wording of subsection 2 of Section 13. It was suggested that the currently present wording "Any commissions" be clarified to be limited to the compensation based upon profitability, so that any standard commissions, not based upon insurer profitability, could be paid contemporaneous with all of the other commissions that are paid to producers.

(c) An explanation of how other interested persons may obtain a copy of the summary:

The summary in part 2(b) above reflects the comments and testimony that transpired with regard to regulation R094-14. A copy of said summary may be obtained by contacting Mr. Gennady Stolyarov II, Lead Property and Casualty Actuary for the Nevada Division of Insurance, via e-mail at gstolyarov@doi.nv.gov, or Omar Akel, Chief Financial Examiner for the Corporate and Financial Section of the Nevada Division of Insurance, via e-mail at oakel@doi.nv.gov. This summary will also be made available by e-mail request to insinfo@doi.nv.gov.

3. The number of persons who:

(a) Attended each hearing:

Workshop of October 8, 2015: 2 attendees from the public in Carson City
0 attendees from the public in Las Vegas
Hearing of October 20, 2015: 2 attendees from the public in Carson City
1 attendee from the public in Las Vegas

(b) Testified at each hearing:

One (1) member of the public testified in Las Vegas at the hearing of October 20, 2015. There was no testimony from members of the public at the workshop of October 8, 2015.

(c) Submitted to the agency written statements:

No written statements were submitted.

4. A list of names and contact information, including telephone number, business address, business telephone number, electronic mail address, and name of entity or organization represented, for each person identified above in #3 (b) and (c), as provided to the agency:

Name	Entity/Organization Represented	Address	Telephone No.	E-Mail Address
James L. Wadhams	Fennemore Craig	Not Provided to Division	Not Provided to Division	jwadhams@fcclaw.com

Mr. James L. Wadhams was the sole member of the public who testified at the hearing of October 20, 2015. No members of the public submitted written comments or testified at the workshop of October 8, 2015.

5. **A description of how comment was solicited from affected businesses, a summary of their response, and an explanation of how other interested persons may obtain a copy of the summary.**

Comments were solicited from affected businesses in the same manner as they were solicited from the public. Please see the description, summary, and explanation provided above in response to question #2.

6. **If, after consideration of public comment, the regulation was adopted without changing any part of the proposed regulation, provide a summary of the reasons for adopting the regulation without change.**

The Division has recommended adoption of Regulation R094-14 as originally proposed. Time-sensitive considerations of achieving compliance with the requirements of the NAIC Accreditation Program outweigh the rectification of a potential ambiguity in a situation where there does not exist an actual difference of interpretation for the already-existing provisions of NAC 693A.710, whose substantive effect will not be altered by Section 13 of this regulation. Furthermore, Division staff performed research with regard to the wording from the NAIC Business Transacted with Producer-Controlled Property/Casualty Insurers Model Act (Model #325), and determined that the differences in numbering and the "Any commissions" wording are purely a result of differing codification conventions in Nevada, and would not affect the substance of the provisions in question. Therefore, the Division considers the current wording of NAC 693A.710, as amended by Regulation R094-14, to have substantially the same meaning as Section 4, subsection (9), of NAIC Model #325.

7. **The estimated economic effect of the adopted regulation on the business which it is to regulate and on the public. These must be stated separately, and in each case must include:**
- (a) Both adverse and beneficial effects; and**
 - (b) Both immediate and long-term effects.**

Beneficial effects on regulated business:

Immediate: By bringing the provisions of Nevada law on producer-controlled insurers up to date, the regulation assists the Division in maintaining effective regulation and compliance of all producer-controlled insurers in Nevada, if any come to exist in the future. Nevada-domiciled producer-controlled risk-retention groups, if any come to exist in the future, will be allowed to operate pursuant to regulations that conform to the requirements of the NAIC Accreditation Program. This is an improvement over the status quo, which does not include any framework which would permit producer-controlled risk-retention groups to operate.

Long-Term: By bringing Nevada regulations on producer-controlled insurers up to date, the regulation assists the Division in maintaining effective regulation and compliance of all producer-controlled insurers in Nevada, if any come to exist in the future. Nevada-domiciled producer-controlled risk-retention groups, if any come to exist in the future, will be allowed to operate pursuant to regulations that conform to the requirements of the NAIC Accreditation Program. This is an improvement over the status quo, which does not include any framework which would permit producer-controlled risk-retention groups to operate.

Beneficial effects on the public:

Immediate: The public, including potential third-party claimants, will be protected through up-to-date, effective, and consistent solvency regulation of any producer-controlled insurers, including risk-retention groups, which may come to exist in the future.

Long-Term: The public, including potential third-party claimants, will be protected through up-to-date, effective, and consistent solvency regulation of any producer-controlled insurers, including risk-retention groups, which may come to exist in the future.

Adverse effects on regulated business:

Immediate: The Division does not anticipate any adverse impacts from this regulation.

Long-Term: The Division does not anticipate any adverse impacts from this regulation.

Adverse effects on the public:

Immediate: The Division does not anticipate any adverse impacts from this regulation.

Long-Term: The Division does not anticipate any adverse impacts from this regulation.

8. The estimated cost to the agency for enforcement of the adopted regulation.

The Division will not incur any additional expense to enforce this regulation.

9. A description of any regulations of other state or government 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, the name of the regulating federal agency.

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

10. If the regulation includes provisions that are more stringent than a federal regulation which regulates the same activity, a summary of those provisions.

The Division is not aware of any provisions of a federal regulation which address the same activity.

11. If the regulation establishes a new fee or increases an existing fee, the total annual amount the agency expects to collect and the manner in which the money will be used.

This regulation does not establish a new fee or increase any existing fee.