NEVADA DIVISION OF INSURANCE

REPORT ON THE

NEVADA INSURANCE MARKET

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NEVADA DEPARTMENT OF BUSINESS AND INDUSTRY

TABLE OF CONTENTS

FOREWORD

The 2011 Nevada Insurance Market report has been expanded from its past concentration on the property and casualty insurance market to a broader presentation of the major functions performed by the Nevada Division of Insurance (Division). This has been done to provide a more comprehensive understanding of insurance issues that impact Nevada consumers. Pursuant to Nevada Revised Statutes (NRS) 679B.410, this report must be delivered to the Legislature no later than February 1 of each legislative session year. Below are highlights of topics discussed within this report.

One of the ways the Division maintains its high regulatory standards is through accreditation by the National Association of Insurance Commissioners (NAIC), which promotes interstate cooperation and consistency by ensuring minimum regulatory standards. The NAIC conducts an examination every five years to confirm reaccreditation. The NAIC will conduct its 5-year reaccreditation examination of the Division in late 2011.

Assembly Bill 6 was passed during the 2010 Special Session of the Nevada Legislature to initiate the implementation of the Insurance Premium Tax Desk Audit Program, which verifies that insurers have accurately reported premium taxes remitted to the Department of Taxation and recover any unpaid taxes, penalties and interest. Additional details of this program are reported under the Corporate and Financial Affairs Section, in the article titled *Premium Tax.*

The Property & Casualty and the Life & Health Sections within the Division are tasked with rate, rule and form review and approval. Through the review and approval process, the Division protects consumers by ensuring insurance forms provide a clear description of coverage, the coverage provisions comply with Nevada law, the rates are not excessive, inadequate or unfairly discriminatory and they neither negatively affect competition nor create a monopoly within the industry segments.

Despite national economic challenges, which have also impacted Nevada, market trends indicate that Nevada consumers are well served by the current competitive property, casualty and worker's compensation insurance markets. To ensure the market remains viable, the Division has focused on a number of areas including an in-depth review of the credit-based insurance scoring models used by insurers and third-party vendors. Another effort was taken by proposing legislation this session in response to increased premiums resulting from extraordinary life events. Over the past biennium, the Property and Casualty Section has streamlined the rate review process and continues to publish articles to educate consumers. One article included in this publication addresses the issue that, although real estate values have declined, insurance premiums may increase due to rising replacement costs of a home.

There have been numerous federal and state regulatory developments during the past two years. In the 2009 Legislative Session, the Fund for Insurance Administration and Enforcement was established. This Fund transitioned the Division from the General Fund to a fee-based structure. This change lessened external economic impacts, was strongly supported by industry, and has enabled the Division to better fulfill its regulatory mandate.

Other changes include creation of the new Federal Insurance Office, which monitors certain aspects of the insurance industry and has limited preemption powers over state insurance laws. Associated legislation granted sole regulatory authority for multi-state surplus lines transactions to the insured's home state and resulted in one set of rules, oversight and taxation. This will substantially reduce the Nevada surplus lines broker licensing fees paid to the General Fund and the Division as brokers now need only be licensed in the insured's home state. However, there could be a realization of revenue by participating in the Non-admitted Insurance Multi-state Agreement, allowing collection of premium tax on multi-state risks.

An upward trend in statewide automobile insurance base rates for bodily injury coverage, including medical treatment, has resulted from more frequent and severe losses for top insurers over the last three years. This trend may be attributed to an increase in uninsured and underinsured Nevada drivers forced to either reduce their coverage or forego insurance completely as a result of current economic conditions.

Health insurance issues continue to receive a great deal of national and state regulatory attention. On March 23, 2010, the Patient Protection and Affordable Care Act, known as the ACA, was enacted. This law has many health-related provisions that take effect over the next four years.

One of particular note is that beginning in 2011, insurance companies must meet new Medical Loss Ratio ("MLR") requirements designed to ensure a greater majority of premium dollars go to health care. I have sought public and industry feedback as part of our evaluation of whether the MLR will result in a market destabilization and whether the Division should request a temporary reduction of the MLR to allow time for insurers and brokers to adjust and comply.

In September 2010, the Division applied for and received a $1 million grant to enhance its ability to review, monitor, analyze and report health benefit plan rate changes. As a condition of receiving the grant, the Division must meet certain "maintenance of effort" requirements. The Division will also seek increased authority to regulate rates charged for all group health benefit plans in the 2011 Session of the Nevada Legislature.

The Division has responded to increased public inquiries regarding medical issues including medical discount plans, in which consumers receive discounts on certain medical services for a fee. Separately, annuities, which the aging population is incorporating into their retirement planning, are also a source of concern and attention.

Nevada continues to be among the top five states for licensing captive insurers. The Division continues to work closely with the captive insurers domiciled in Nevada to ensure they remain financially solvent despite the decrease in credit nationally, which reduces the ability to maintain statutory capital and surplus levels.

Details of these topics, as well as many others pertaining to Nevada's insurance market are included in this report. I encourage you to contact me if you would like to discuss any issue in more detail as you work to address your constituents' concerns during the 2011 legislative session.

Sincerely,

Brett J. Barratt
Commissioner of Insurance

CONSUMER SERVICES SECTION

Introduction

The Consumer Services Section plays an important role in fulfilling the mission of the Division of Insurance. It is charged with providing consumers with a conduit for resolving issues between consumers and insurance entities. “Entities” include but are not limited to, producers, insurance companies, bail agents, title agents, medical discount plans and extended warranties covered by NRS 679A.140.

The Consumer Services Section has six consumer officers and one supervisor who investigate and respond to consumer concerns including formal complaints. Two consumer officers are located in the Carson City office and the remaining staff is based in Las Vegas.

The Consumer Services Section responds to more than 30,000 incoming consumer contacts per year. These contacts include consumers who visit the offices as well as phone calls and e-mail requests.

Consumer Contacts

Type of Contact Incoming-Only	Calendar Year 2008	Calendar Year 2009	1/1/2010 – 10/31/2010
Telephone	26,171	25,923	19,656
Walk-in	3,085	2,697	2,474
Email	2,064	3,019	3,065
TOTALS	**31,320**	**31,639**	**25,195**

Complaints

A standard definition adopted by the National Association of Insurance Commissioners in June 2006 states: “A complaint is any written communication that expresses dissatisfaction with a specific person or entity subject to regulation under state insurance laws.”

It is important to note, however, the Consumer Services Section does not formally investigate complaints from attorney-represented consumers, most federally regulated insurance or insurance programs or manufacturer warranties.

Consumer Services’ officers investigate over 2,500 complaints each year.

Formal Complaints

Line of Coverage	Calendar Year 2008	Calendar Year 2009	1/1/2010 – 10/31/2010
Automobile	1423	1264	853
Health	522	559	403
Fire	18	13	12
Homeowners	119	165	145
Liability	57	44	29
Life	128	135	79
Miscellaneous	258	342	241
TOTAL COMPLAINTS	**2525**	**2522**	**1762**

Reason (A complaint may have more than one reason)	Calendar Year 2008	Calendar Year 2009	1/1/2010 – 10/31/2010
Claim Handling	1098	1112	759
Policyholder Service	965	985	705
Marketing & Sales	305	275	140
Underwriting	289	220	172

Consumers are asked to complete a survey card when their complaint is closed. The respondents have historically shown that the satisfaction rate is over 95 percent in the service provided and 80 percent in the outcome of the complaint.

Recoveries

Recoveries include additional amounts paid, refunded, or cleared for the consumer as a result of the complaint.

Calendar Year 2008	Calendar Year 2009	1/1/2010 – 10/31/2010
$4,277,809	$5,864,509	$3,046,944

CORPORATE AND FINANCIAL AFFAIRS SECTION

Introduction

The Commissioner of Insurance has the responsibility to ensure that the insurance companies doing business in Nevada are financially solvent and that Nevada policyholders are treated fairly. To carry out this mission, the Commissioner is responsible for financial and market regulation of the state's $12 billion insurance industry. **Financial regulation** seeks to protect the policyholders from insurers who are unable to meet their financial obligations, which is accomplished through the processes of the insurers' admission and licensing; review of corporate governance and related transactions with affiliates; analysis of solvency and investments; and the review of reinsurance activity and compliance with statutes and regulations. **Market regulation** attempts to ensure that insurers are able to provide products to the consumer in a fair and reasonable marketplace and prevent abusive practices that could harm the consumer. This is accomplished through licensing and monitoring of the producers (agents and brokers), insurance and insurance related products, pricing, underwriting and claims handling as well as monitoring consumer complaints. Although financial regulation and market regulation appear to be separate functions, they are inextricably interrelated.

The Division's Corporate & Financial Affairs Section (C&F) oversees the solvency of the insurance companies through financial reporting and monitoring, desk audits and examinations; ensures that the insurers are in compliance with financial statutes and regulations; and monitors the market condition — especially the transactions with policyholders. The tasks the section is charged with include:

- **Insurers' admission and licensing:** All insurers offering products and services in Nevada must be authorized by the Commissioner.
- **Corporate governance and related transactions with affiliates:** Includes address changes, mergers, acquisitions, annual renewal and other revenue items.
- **Solvency and investments, and reinsurance:** Accomplished through financial review and analysis, desk audits and financial examination.
- **Compliance with financial statutes and regulations and market practices:** Accomplished through market review and analysis and market conduct examination.

CAPTIVES

Captive insurance is a regulated form of self-insurance, in which the insurer is owned wholly by the insureds. It is organized for the purpose of self-funding the owners' risks. Currently, Nevada, which is known for being a business-friendly state, ranks 4th in the nation as a domicile for captive insurers. Why is it so attractive? Among many contributing factors is the absence of personal or corporate income taxes and a readily available, knowledgeable and responsive Insurance Division staff. Nevada also offers a premium tax credit of up to $5,000, applicable to the first year of a captive's issuance of a Nevada Certificate of Authority.

Nevada's Captive Insurance Program continues to reflect national and global trends relating to alternative risk programs. One of the most positive movements for the captive insurance sector in 2009 was where, against all forecasts, the number of licenses issued for captive insurance companies increased nationally. Several states launched or grew their respective captive insurance programs, including Utah and New Jersey. Nevada continues to hold a spot among the top five states for licensing captive insurers. The Commissioner is pleased to announce that, although there has been a national trend in the contraction of credit, reducing the ability to fund both capital and related premiums associated with maintaining a captive company, domestic captive insurers have adequately maintained their fiscal solvency.

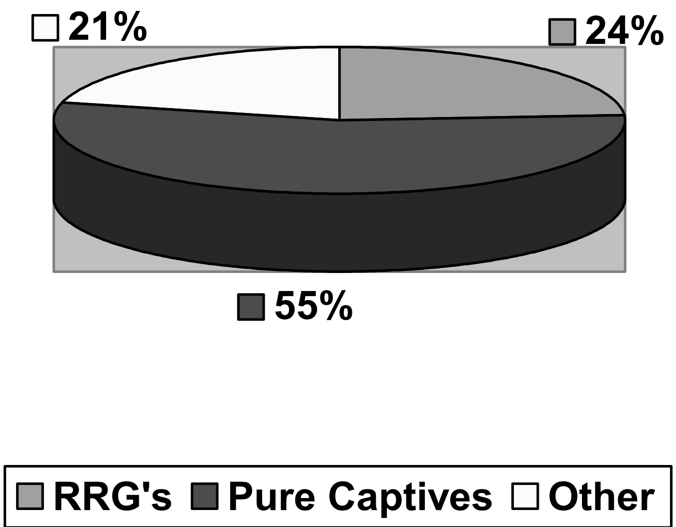
One notable factor in the popularity of captive insurance is the ability for parent companies to use their own capital and manage their investments independently, allowing parent companies to earn better returns on their investments than they might earn in traditional institutional investments.

Despite marked reductions in programs related to construction liability and worker's compensation deductible programs, there has been a notable increase in health service liability programs as well as sponsored-cell captive programs linked to traditional lines of insurance. Nevada has also led a national trend reflecting the utilization of alternative risk programs for financial institutions, which reflected a significant percentage of captive insurer applications for 2010.

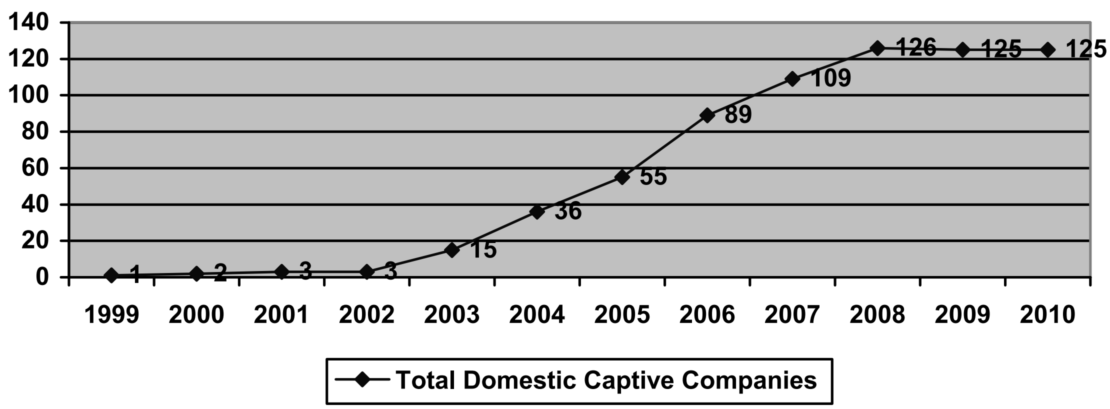
Nevada Captive Program

YEAR	TOTAL PREMIUMS	PREMIUM TAX PAID
2007	$176.427.403	**$724,498.55**
2008	$165,795,711.55	**$782,943.11**
2009	$164,401,531.22	**$782,033.24**

Percentage of Licensed Captives by Type
Based on 125 Active Companies as of 12/23/10



Total Number of Active Nevada Captive Companies
As of 12/23/10



CORPORATE AFFAIRS, ANNUAL RENEWAL AND REVENUE GENERATION

An insurer, once authorized (licensed) to do insurance business in the state, has its information and activities tracked in SIRCON, the Division's database of record. There are currently more than 2,300 active insurance companies licensed in Nevada. In addition, the section monitors and has to maintain data for more than 1,200 inactive insurance companies. The variety of data captured and maintained includes: company types and details, contact information, name changes, mergers and acquisitions, financial and market data, service of process, examination (audit) information, companies in rehabilitation or liquidation, corporate officer changes, updates to articles of incorporation, by-laws, and more. Additionally, the Corporate & Financial Affairs Section on average receives more than 1,000 pieces of correspondence monthly. The information maintained by this section is essential to all business conducted by the Division with insurers, their clients, other government agencies and the public.

The Corporate and Financial Affairs Section also handles the annual renewal invoicing and financial document tracking of licensed insurers. The process starts in every fall by updating the checklists of filing requirements. Toward the end of the year, the database is reviewed for required mailing information. In January, invoices with a payment date due of March 1 are printed and mailed and staff tracks these invoices and financial statements to ensure compliance with the state statutes and fee collection. Renewal fees generate more than $1.6 million for the General Fund. Companies failing to remit payment timely and/or required filings are fined.

On July 1, 2009, Chapter 680C established the Fund for Insurance Administration and Enforcement (A&E Fund). This change transitioned the funding of the Division from the State's General Fund, allowing the Division to rely on a fee-based funding structure widely supported by the state's insurance industry. This new funding structure allows the Division to continue to adequately regulate Nevada's $12 billion insurance industry without being subjected to the cycles of the economy. The Corporate and Financial Affairs Section is responsible for invoicing and collecting the assessments from the insurance companies regulated by this statute. The corporate and financial portion of the fund generates approximately $2.5 million annually for the Division's operation.

GETTING LICENSED IN NEVADA

As previously noted, the primary goal of insurance regulation is to protect the policyholder and the consumer against insurer insolvency. To do this, regulators require insurance companies to meet specific financial standards before they are authorized to form and conduct business in Nevada. Specifically, each insurer is required to maintain a minimum capital and surplus and submit regular financial reports to the states in which they do business. The minimum capital and surplus amounts are established by statute and are intended to ensure that a company has adequate surplus to initiate operations and provide a cushion against changes in liabilities and assets. Additionally, capital and surplus is intended to fund the expenses of a company if the company is placed in receivership or liquidation.

If an insurer wishes to become licensed to write business in Nevada, it must submit an application and provide evidence that it is in compliance with Nevada statutes and regulations and is financially solvent. In addition to the application forms, insurers wishing to become licensed are required to file an Annual Financial Statement, Audited Financial Report, Actuarial Opinion, Holding Company Registration, Articles of Incorporation and By-Laws. The Division then processes the application, which includes an in-depth review of the application and company operations including:

- The lines of intended business and a business plan
- Financial status, including a multi-year pro-forma financial projection detailing capitalization, investments, reserves and asset-liability matching
- Management, including information supporting the insurer's experience and expertise in writing the lines of business requested and background information on the principals
- Affiliates and affiliated transactions
- Pricing and products

The NAIC developed (and continues to maintain) the Uniform Certificate of Authority Application (UCAA) forms. The same forms are used by all states to allow insurers to file the same application in numerous states.

Just as Nevada has grown, the number of insurance companies that are licensed in the state has grown significantly over the past 15 years. The chart below indicates the growth of the number of domestic and foreign insurance companies licensed in Nevada.

Nevada Licensing

Type of Insurance Company	Total Number Licensed in:				
	1975	1985	1995	2005	2010*
Property & Casualty	263	440	581	815	881
Life and Health	223	406	465	522	483
Health (HMO, Limited Health)	0	3	11	17	29
Captives	0	0	0	56	118
Misc.	30	96	216	661	801
Total	516	945	1273	2071	2312

	Domestic Companies Only Total Number Licensed in:				
	1975	1985	1995	2005	2010*
Property & Casualty		1	3	10	14
Life and Health		0	0	2	3
Health (HMO, Limited Health)		3	9	13	17
Captives		0	0	56	118
Misc.		0	5	34	42
Total	0	4	20	115	194

2010* - as of 9/30

NAIC ACCREDIDATION STANDARDS

Twenty years ago, the National Association of Insurance Commissioners (NAIC) adopted a formal accreditation process to certify that all states have statutes and regulations, policies, procedures and uniform standards in place to ensure its solvency regulation meets certain minimum requirements giving other states a degree of confidence in each other's oversight of their domestic companies. The other states' reliance on the domiciliary states avoids duplicative analysis and examinations of those insurers that operate in more than one state. Efficiencies in the regulation of insurers are thus achieved.

Under the Financial Regulation Standards and Accreditation Program, each states' insurance department is reviewed to assess the department's compliance with the financial regulation standards. The evaluation is conducted by an independent team and consists of a review of the statutes and regulations, quality and timeliness of financial analysis and examination, and quality and quantity of personnel.

The Accreditation Review process consists of two main components: a full accreditation review and interim annual reviews. The full accreditation review occurs once every five years, subject to interim annual reviews. The review entails a full audit of a state's statutes and regulations, the financial analysis and financial examination functions, and organization and personnel practices. The interim annual review occurs annually to maintain accredited status between full accreditation reviews. The process consists of each state submitting a self-evaluation report that addresses the same functions noted in the full review. If a state is exhibiting some problems, the review team can return to the state to conduct a target review.

It is difficult to quantify the effects of the accreditation program without a complete review of the process from beginning to end. However, the number of positive benefits is significant. This list includes solidifying the infrastructure of financial regulation by increasing the quality and quantity of tools available, increasing staffing and budgets and codifying accounting procedures and practices. The continuation of the accreditation program allows the departments to continue upgrading their practices and resources in a cohesive manner as the insurance marketplace evolves.

The Division currently enjoys full accreditation status. The Division is subject to a full accreditation review in late 2011.

NEVADA DOMESTIC INSURERS

The purpose of financial regulation is solvency monitoring. This ensures that insurers meet regulatory standards and alerts regulators of any potential problems that could ultimately harm consumers in the state. Solvency monitoring includes financial reporting, financial review, analysis, desk audits and examinations. Each domestic insurer must file annual and quarterly financial statements with the Division, which provide the key financial information used for solvency monitoring. These statements also provide other key information used by other Division sections for monitoring additional regulatory concerns.

Examinations: Periodic Review of the Financial and Market Conditions of Nevada's Insurers – Compliance with NRS and NAC

By statute, the Commissioner must examine insurers authorized to write business in Nevada at least once every three or five years, or as often as he deems appropriate. Financial condition examinations are conducted on those insurers who are domiciled in Nevada, and include full-scope periodic examinations and limited-scope or "targeted" examinations focusing on specific accounts or issues. This examination process enables the Division to be knowledgeable about all aspects of the insurer, including its corporate governance, risk management practices and key business activities. This information is essential for the continued analysis of the insurer — the primary focus of the in-house desk audits performed annually and quarterly by Division staff.

Market condition/conduct examinations can be conducted on any insurer or insurance entity engaged in the business of insurance in Nevada, including insurance companies, administrators, producers (agents and brokers), adjusters, medical organizations, medical discount plans, service contract providers, motor clubs, premium finance companies, fraternal benefit societies, funeral and burial sellers, title agencies and bail agencies. These examinations focus on such areas as sales, advertising, rating and the handling of claims, and can be triggered by consumer complaints, changes in the complaint index or market share, information from other states or a shift in business practices. The process evaluates the insurer's business practices and its compliance with Nevada statutes and regulations relating to its transactions with Nevada policyholders and claimants. Due to the interrelation of an insurer's financial condition and market condition problems, both financial and market examinations are often conducted at the same time on Nevada's domestic insurers. Only market condition examinations are conducted on those insurers domiciled in other states.

The results of these examinations are documented in examination reports that assess the financial or market condition of the insurer and set forth findings of fact with regard to any material adverse findings. The report also includes specific citations of pertinent statutes, regulations and applicable accounting rules. Any corrective actions that may be required to be undertaken by the insurer and any recommendations for improvements are found in the examination conclusion.

Analysis: Tools to Monitor the Solvency of Nevada's Insurers

Each quarter, the Division subjects domestic insurers' financial statements and supplemental financial filings to a review or desk audit by staff financial analysts or examiners. The analyst assesses the accuracy and reasonableness of the financial information and determines whether the insurer requires additional in-depth investigation or examination. This process utilizes the tools of the NAIC financial information systems to gather statistical and historical data via an online application. A considerable amount of information exists to assist the analyst in this quarterly review of insurers; the NAIC database maintains historical information of most of the insurers operating in the United States. In addition to the NAIC, analysts also use external sources of information available from industry sources and rating agencies.

Quarterly analysis is vital for solvency monitoring and providing the Commissioner with timely knowledge of significant changes or events. The analysis is the basis for the establishment of supervisory plans and prioritization of the section's resources. Without such periodic analysis, insurers who are exhibiting excessive financial risk and hazardous financial conditions would not be detected.

Any concerns identified during the analysis process may be addressed by the Division in a variety of ways. These may include:

- Contacting the insurer and requesting specific information or explanations
- Obtaining the insurer's business plan or requesting an update
- Requiring additional interim reporting
- Commencing a targeted or limited scope examination
- Engaging specialists to help assess the problem
- Requesting insurer management to meet with the Commissioner and staff
- Requesting a corrective action plan
- Restricting, suspending or revoking an insurer's Certificate of Authority

PREMIUM TAX

In 1933, the Nevada Legislature passed a statute that every insurer transacting insurance within the state of Nevada is subject to the payment of a premium tax on their total income derived from direct written premiums. This premium tax was the equivalent of a sales tax on such income derived from the sale of insurance products. The funds were collected by the Insurance Department (at that time, the regulation of insurance was organized at a Department level) and allocated to the state's General Fund. The Insurance Department was responsible for the calculation, collection and remittance of the premium tax for the state.

In 1993, the Nevada Legislature consolidated the collection of the revenue generated by various agencies through taxes into the Department of Taxation. The collection and administration of the insurance premium tax was transferred to the Department of Taxation per AB 782.

During an audit of the Department of Taxation in 2008, the questions were asked, "Are the insurers paying the required amount of premium tax, and how can the state be sure of the accuracy of their filings?" Those are very valid questions as discussed below.

Premium Tax Examinations

The Department of Taxation is charged with the collection and administration of the premium tax; however, the Insurance Division has the authority to examine insurers. Through a cooperative agreement between the two agencies, the Insurance Division examined 37 insurers in 2008/2009 and another 100 insurers in 2010. The original 37 exams identified $297,792 in underpaid premium tax.

Premium Tax Audits

During the 2010 Special Session of the Legislature, AB 6 was passed, tasking the Division of Insurance with creating the Insurance Premium Tax Desk Audit Program. The primary purpose of the desk audit is to verify and confirm that the insurers have reported the correct amount of tax (at a 3.5 percent rate) remitted to the Nevada Department of Taxation pursuant to NRS 680B and 679B.227 or, if not, determine the amount of unpaid taxes to be recovered and any penalties, fines or interest assessed.

The Division has established a Desk Audit Program within the Corporate and Financial Affairs Section. Two Insurance Examiner positions were hired during the summer of 2010. The Examiners created the program and are in the process of performing the initial group of premium tax audits on a number of licensed insurers. Initial results are difficult to quantify at this time due the immaturity of the program.

LEGAL-ENFORCEMENT SECTION

Introduction

The primary duty of the Legal-Enforcement Section of the Division of Insurance (Division) is to assist the Commissioner in enforcing the provisions of the Insurance Code through the administrative investigation and adjudication process. This is accomplished by the Division's investigators, attorneys and legal support staff.

The Division's investigators are responsible for confidential fact gathering and analysis initiated by requests for enforcement submitted by other sections of the Division or as a result of complaints received from outside sources. The investigators are responsible for developing credible evidence and are key testifying witnesses for the Division during administrative prosecutions of violations of the Insurance Code.

The Division's attorneys review the results of company examinations, confidential investigations and other requests for enforcement in order to prosecute violations of the Insurance Code. The attorneys also act as hearing officers for hearings of contested matters, mergers, information gathering, informal meetings with troubled self-insured employers, as well as rulemaking workshops and hearings. Providing legal advice, review and support to the Commissioner and other sections of the Division, as well as drafting legal opinions, proposed legislation and regulations are also critical functions of the Division's attorneys.

Legal-Enforcement Staff

The Commissioner's Legal-Enforcement staff consists of one Chief Insurance Counsel and two staff Insurance Counsels located in Carson City; plus one Chief Investigator and four staff investigators, two located in Carson City and two located in Las Vegas. The attorneys and investigators are supported by one Chief Legal Secretary and three staff legal secretaries located in Carson City. The Commissioner is also assigned one senior deputy attorney general located in Carson City, who has additional clients, and one deputy attorney general in Las Vegas, both of whom represent other clients in addition to the Division. The attorneys assigned from the Office of the Attorney General are primarily responsible for addressing legal matters that rise beyond the administrative level to the civil court level, including arguments before the Supreme Court of Nevada. The attorneys assigned from the Office of the Attorney General also draft Attorney General Opinions relevant to the Insurance Code as required.

Summary of Activities

All investigations and other legal administrative processes — for example, rulemaking and contested cases — are tracked as "E-cases." During the period between July 1, 2008, and June 30, 2010, the Legal-Enforcement Section opened 2,671 new E-cases. During this same period, 4,073 E-cases were completed as a result of hearings and final orders of the Commissioner, or other less formal administrative resolutions. Of the 145 hearings scheduled during this period, 60 had the final determination made as a result of formal hearings. Of those E-cases for which formal hearings were conducted, the following provides a general categorization of the types of issues adjudicated: 33% concerned failure of licensees to pay required fees; 18% concerned failure to file required reports; 12% concerned failure of producers to remit premiums to insurers; 12% concerned failure of producers to report other states' actions; 3.5% concerned failure of producers to disclose arrests and criminal convictions; and 3.5% concerned producer license revocations due to felony convictions. The remaining 18% included issues such as embezzlement, examinations and billings, failure to maintain appointment, falsifying applications, mergers, rates and conducting the business of insurance without the proper license.

The Insurance Code provides the Commissioner with the authority to revoke and suspend insurance licenses. It also provides him with the authority to levy administrative penalties either in addition to or in lieu of license revocation or suspension. Based on this authority, E-cases resulted in the imposition of $1,255,457 in administrative penalties during the relevant period of this Report. In addition, the Legal-Enforcement Section was able to accomplish direct reimbursements to Nevada consumers in the total amount of $877,169.50.

The Commissioner also must adopt regulations that supplement and clarify the statutes within the Insurance Code. This is done through a public administrative rulemaking process that encourages dialogue between the Division, the industry it regulates and Nevada consumers. When a new regulation is proposed, participation in the process may be accomplished through the submission of written comments to the Division, or through oral testimony during public workshops and hearings conducted prior to adoption of a new regulation. Between July 1, 2008, and June 30, 2010, the Division conducted 27 workshops and 28 hearings to adopt new regulations.

Other mechanisms such as formal opinions, advisory letters, memoranda and bulletins are used by the Commissioner to provide guidance to those navigating the Insurance Code. Between July 1, 2008, and June 30, 2010, the Legal-Enforcement Section — in participation with other Division Sections — drafted and prepared 227 formal opinions, advisory letters and memoranda, and 21 advisory bulletins. The Section also completed 66 national surveys that help the states compare and share information about their particular laws and the scope of regulation provided by those laws.

As a public agency, the Division must timely respond to public records requests, as well as to formal subpoenas for documents and information. During the relevant time period of this Report, the Legal-Enforcement Section processed 26 subpoenas and 251 requests for public records. The Commissioner also functions as the attorney-in-fact for non-domestic companies licensed in Nevada for the purpose of receiving service of process of all initial pleadings for lawsuits filed in Nevada against those out-of-state companies. As a result, between July 1, 2008, and June 30, 2010, the Legal-Enforcement Section accepted and timely processed 2,532 services of process.

Special Concerns

Many factors cause changes in the insurance market. These factors can range from catastrophic natural or man-made disasters to sweeping federal reforms and from very specific and technical changes in tax laws to the rendering of a particular court decision. When these changes occur, the insurance market may be presented with opportunities to offer new types of products, or traditional products with new twists. However, it also is a time when unlicensed entities and sham operations take advantage of consumers by offering products that mimic legitimate insurance products and when unscrupulous individuals push the sale of certain products that are not suitable for particular consumers.

During the period relevant to this Report, the following product areas raised special interest, not only for Nevada insurance regulators, but also insurance regulators nationwide:

Medical Discount Plans

A Medical Discount Plan (MDP) is not health insurance. Rather, an MDP is a program evidenced by a membership agreement in which a person, in exchange for a fee, is able to receive certain medical services at a discount. Legitimate MDPs may be useful for some consumers who must save money on healthcare. MDPs are under the exclusive jurisdiction of the Commissioner and, with certain exceptions, it is unlawful for an MDP to be offered, marketed or sold in Nevada unless it is registered with the Division pursuant to Chapter 695H of the Nevada Revised Statutes. Nevada law mandates that specific disclosures be made in writing to any prospective member including, but not limited to, the fact that the MDP is not a policy of health insurance, and that it does not make payments directly to the participating healthcare providers. Nevada law also requires that an MDP maintain a net worth of $100,000 at all times, and make its records freely available to the Commissioner for examination.

Public inquiries to the Division about MDPs have been on the rise since 2008. Based on contact with those making the inquiries, this upsurge seems to be rooted in the increase of unemployment, the rising cost of health insurance and, more recently, the fear of unknown effects of the new federal health plan legislation.

The Enforcement Section has largely focused its investigative resources on those MDPs and their marketers who are not registered. The Division is cooperating with other states' insurance regulatory agencies as these unregistered plans tend to move from one location to another in a two-week pattern, making it extremely difficult to track down the person(s) responsible for the plan. These plans/marketers also change their company names on a regular basis.

Annuities

For the purposes of the Insurance Code, in general and with certain exceptions, an "annuity" is a contract under which obligations are assumed to make periodic payments for a specific term, and where these payments are dependent upon continuance of human life. The Commissioner is responsible for regulating fixed annuity products, including indexed products, pursuant to Chapter 688A of the Nevada Revised Statutes; however, the S.E.C. is primarily responsible for regulating variable annuity products nationwide.

Both fixed and variable annuity products may be offered in different design structures, and different designs may generate certain fees and compensation for those selling the products. Especially as a result of the aging baby-boomer population, the purchase of annuity products has become more popular as a retirement vehicle. Based upon complaints and inquiries from consumers, questions about whether or not a particular design is suitable for a particular consumer have become major focal points for regulators, especially concerning the senior population.

LIFE & HEALTH SECTION

Introduction

The Life & Health Section is responsible for the analysis, review and approval (or disapproval) of rates and forms for a variety of insurance products ranging from health benefit plans, life insurance and investments in the form of annuities. With the passage of the Affordable Care Act in March 2010, through a federal grant program the Section has been given increased resources to improve the premium review process and ensure that consumers are protected against unfair premium charges in their health insurance coverage. The additional resources include increased staff, funds for consumer education and additional computer resources. Along with the grant came additional reporting responsibilities to the federal Department of Health & Human Services. For more information on this important Act, please refer to the article on the Affordable Care Act.

Other specific types of insurance reviewed by the Section include:

- Accidental Death and Dismemberment policies
- Annuities: variable and fixed
- Credit Insurance: life, disability and involuntary unemployment
- Prescription Drug Plans
- Medicare Supplement Plans
- Blanket Health
- Disability
- Dental Plans
- Long Term Care
- Life Insurance: group, whole life and term
- Excess/Stop Loss Insurance
- Individual Specialty
- Limited Health Plans (Mini-Meds)
- Pre-Paid Limited Health Service Organizations (lab only, x-ray only, mental health only)

The Section has one Chief Insurance Examiner, five actuarial analysts (one of whom also serves as Assistant Chief), one accredited lead actuary and one administrative assistant.

The Section receives rate and form filings from insurers, of which more than 99 percent are submitted electronically using the System for Electronic Rate and Form Filing (“SERFF”). The SERFF system is operated and maintained by the National Association of Insurance Commissioners and has greatly improved the efficiency of the filing and review process. The SERFF system also allows the payment of filings by electronic fund transfer.

THE FEDERAL AFFORDABLE CARE ACT

. On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act known as ACA. The law has many health-related provisions that take effect over the next four years including the following:

- Expand Medicaid eligibility
- Subsidize health insurance premiums
- Provide incentives for businesses to provide health care benefits to employees and families
- Prohibit the denial of coverage and/or claims based on pre-existing health conditions
- Establish health insurance exchanges by 2014 to provide a principal market of coverage
- Support medical research

The costs of these provisions are paid by a variety of taxes, fees and cost-saving measures such as:

- Medicare taxes on high-income taxpayers
- Taxes on indoor-tanning salons
- Cuts to Medicare Advantage programs in favor of traditional Medicare
- Fees on medical devices and pharmaceutical companies
- A tax penalty on citizens who do not obtain health insurance (unless exempted)

Since the Act becomes effective incrementally over time, here are some important benchmark dates:

March 23, 2010:

- The Food and Drug Administration is authorized to approve generic versions of biologic drugs and grant biologic manufacturers 12 years of exclusive use before generic drugs can be developed.
- The Medicaid drug rebate program for brand name drugs is increased.

June 21, 2010:

- A Pre-existing Condition Insurance Plan (PCIP) is created in each state to provide coverage for those individuals who are in the country legally who have been without coverage for at least six months and are unable to qualify for health insurance in the standard market due to a pre-existing health condition. Twenty-one states, including Nevada, opted to have the federal government administer the program for their states. Information on this program may be found at: www.pcip.gov.
- According to Division of Insurance estimates, this program would have been granted $62 million to provide coverage for eligible Nevada citizens for the period June 21, 2010 to January 1, 2014, and would have funded benefits for approximately 2,900 Nevadans. Based on Nevada data, approximately 100,000 Nevada citizens would have qualified, yet only about 2.9 percent would be able to benefit, due to the lack of adequate funding. (These estimates are based on historical data from the 35 states operating “high-risk pools” during calendar years 2007 and 2008.) This program will cease on January 1, 2014 when additional components of the ACA take effect.

September 23, 2010, or on the next renewal of a plan in effect on this date:

- Insurers are prohibited from excluding coverage for children under age 19 due to pre-existing medical conditions (except in grandfathered individual health insurance plans). This change eliminates an insurer's ability to "underwrite" the risk of preexisting conditions and because of this all insurers in Nevada and several other states have ceased providing coverage on "child-only policies."
- To remedy this, the Division introduced a temporary regulation at a workshop on November 23 and held a hearing on December 14, creating an "open enrollment period" for carriers. This open enrollment period will limit the opportunity for applicants under age 19 to apply for coverage only when medical services are needed, creating a level playing field for all insurers.
- Dependent children are permitted to remain on their parent's health insurance plan until their 26^{th} birthday.
- Insurers must provide coverage for preventive care and medical screenings with no cost-sharing on all new insurance plans.
- Individuals affected by the Medicare Part D coverage gap (known as the "doughnut hole") will receive a rebate of $250. The gap will be reduced by 50 percent in 2011 and will be eliminated by 2020. (The "doughnut hole" is a gap between the limit provided by a person's drug plan and the Medicare prescription coverage plan. The person is responsible for all out-of-pocket prescription costs in this gap.)
- Annual healthcare caps are restricted (and will be eliminated by 2014).
- Insurers are prohibited from dropping policyholders when they get sick (limited ability to rescind a policy except when fraud is involved).
- Insurers must reveal details about administrative and executive expenses.
- Insurers must implement an appeals process for coverage determination and claims on all new plans.
- Indoor tanning salons must pay a 10 percent service tax.
- Medicare is expanded to small, rural hospitals and facilities.
- Employers who provide early retiree benefits for individuals ages 55-64 are eligible to participate in a temporary program to reduce premium costs.

January 1, 2011:

- Employers must disclose the value of benefits they provided beginning in 2011 for each employee's health insurance coverage on the employee's annual Form W-2. This value will now be considered taxable income to the employee.
- The Act imposes a Medical Loss Ratio (MLR) for insurers to achieve, and if not achieved requires the "rebating" of excess premiums to the policyholder. The intent is to require insurers to spend at least 80 percent of collected premium on health care for individual and small group insurance plans and at least 85 percent of collected premium on health care for large group plans.
- In 2010, the NAIC was charged with developing a recommendation for the implementation of the MLR by the federal Department of Health and Human Services. The recommendation took more than five months and many meetings to achieve consensus among the states. One controversial component affecting insurance producers doing business in Nevada was determining how to treat commissions paid to agents and brokers selling health insurance. Commissions were ultimately determined to be an administrative expense, and since administrative expenses were limited to 20 percent or 15 percent depending on the types of plans, commissions were reduced by some carriers.
- It is important to note that some insurers may not be able to achieve the MLR objective without extensive restructuring, and instead may choose to leave the marketplace altogether. This could cause a disruption in the marketplace in Nevada, particularly in the "individual" market. While consumers in the small group market have a "guaranteed issue" requirement by statute ensuring their continued ability to purchase coverage, there

is no such protection for individuals or large groups coverage. If a carrier in the individual market withdrew and non-renewed all of its individual policies, those consumers with medical conditions may find it difficult to procure replacement coverage at any price.

January 1, 2013:

- Medicare taxes are increased on higher-income individuals and couples, including payment of Medicare taxes on investment income.

January 1, 2014:

- Insurers are prohibited from denying coverage, or charging higher rates, for individuals with pre-existing conditions.
- Insurers are prohibited from limiting consumers with annual healthcare spending caps.
- Medicaid eligibility is further expanded.
- Additional incentives to small businesses to provide health insurance benefits are offered as well as penalties for those who do not. Penalties are also imposed on individuals who do not purchase health insurance.
- A new long-term care program is created on a voluntary basis.
- Flexible Spending Accounts (FSAs) are limited to $2,500, thereby increasing income taxes.
- Health insurance exchanges are created to provide coverage for individuals and small employers. All insurance procured through subsidies from agencies such as Medicaid and the State Children's Health Insurance Program (SCHIP) must be purchased through the exchange. (An Exchange is a mechanism allowing competing providers, each offering different qualified health benefit plans, to make their products available to consumers.)

According to the Congressional Budget Office, by 2019, the number of uninsured residents nationwide will drop by 32 million people. However, there still will be 23 million residents without insurance in 2019 after all of the Act's provisions have taken effect. Among those uninsured will be:

- Illegal immigrants. While almost 8 million will be uninsured, they will not be eligible for insurance subsidies and Medicaid.
- Those who do not enroll in Medicaid despite being eligible.
- Those who are not otherwise covered but elect to pay the penalty for lack of coverage.
- Those whose insurance coverage would cost more than 8 percent of household income, who would be exempt from paying the penalty.

Grants: This Act provides more than $20 billion in grants to implement and maintain the reform activities. In September 2010, the Division received a grant of $1 million to improve its ability to review, monitor, analyze and report rate increases on health benefit plans. The Division will also seek increased authority to regulate rates charged for health benefit plans in the 2011 Session of the Nevada Legislature.

ANNUITIES

An annuity is a contract between a consumer and an insurance company. The consumer makes a lump-sum payment or series of payments over time to an insurance company and, in return, the insurer agrees to make periodic payments to the consumer or his chosen annuitant beginning immediately (immediate annuity) or at a specified date in the future (deferred annuity). While most people purchase life insurance policies to protect their family in case they die, some buy annuities to protect their finances while they are alive.

Immediate Annuities

With immediate annuities, the consumer pays a lump sum of money to the insurance company and the insurance company makes periodic (usually monthly) payments starting right away to the consumer based on age, life expectancy, interest rates, and the type of payout option chosen. Immediate annuities can play an important role in retirement planning by:

- Eliminating the fear of outliving one's savings.
- Guaranteeing a fixed monthly income for life of the annuitant and/ or the spouse.
- Providing freedom from the responsibility of money management.

Deferred Annuities

There are two phases of a deferred annuity: the accumulation period and the payout period. During the accumulation period, the contract owner makes payments to an insurance company either as a single lump sum or over a period of years. These payments grow on a tax-deferred basis until the payout starts. Deferred annuities generally include a death benefit that will pay a guaranteed amount to a beneficiary named by the contract holder.

A deferred annuity may be appropriate as a retirement savings vehicle, a tool to save for college or to meet other medium to long-term financial goals. It is not an appropriate product if the money will be needed in the short term because surrender charges can apply if the annuity is withdrawn early. Additionally, a tax penalty may be assessed if the annuity is withdrawn before age 59 ½.

There are generally three types of deferred annuities: fixed, variable and indexed.

1. Fixed Annuities

With a fixed annuity, the insurance company guarantees that the funds deposited will earn a minimum rate of interest during the accumulation period and also guarantees that the periodic payments made during the payout phase will be a guaranteed amount per dollar of the accumulated account value. Fixed annuities are not securities and are not regulated by the SEC. Fixed annuities owned by Nevada residents are insured (up to $100,000) by the state's life and health guaranty association (similar to the insurance provided to bank account holders by the FDIC) in the event the insurance company becomes insolvent.

2. Variable Annuities

With a variable annuity, the contract owner can choose to invest the accumulated funds in a range of different types of investments, usually mutual funds. The rate of return earned during the accumulation period, as well as the amount of the payments made in the payout period, are not guaranteed and will vary depending on the performance of the investments selected by the contract owner. Variable annuities are attractive because they have the potential of earning higher returns – however, they are also riskier than fixed annuities. Variable annuities are securities regulated by the SEC and are not guaranteed by the state guaranty association.

3. Indexed Annuities

An indexed annuity is a special type of deferred annuity where the interest credited is linked to an equity index — typically the S&P 500 or the Dow Jones Industrial Average index. It guarantees a minimum interest rate (typically between 1 percent and 3 percent) if held to the end of the surrender term and protects against a loss of principal. An indexed annuity may be described as a "hybrid" annuity with features of both a fixed and a variable annuity. Indexed Annuities are generally regulated as fixed annuities by the states rather than by the SEC and are insured (up to $100,000) by the state life and health guaranty association.

The mechanics of how indexed annuities work are often very complex and the returns can vary greatly depending on when the annuity is purchased, the method used to adjust balances and the fees charged. They are, therefore, more suited to the sophisticated purchaser.

CREDIT INSURANCE

Consumer Credit Insurance

Consumer credit insurance is a line of insurance coverage that a consumer may purchase to insure that credit or loan payments are made even if his income is interrupted due to circumstances beyond his control such as death, illness or the loss of a job. Depending on the type of coverage purchased, consumer credit insurance may be designed to pay off all or part of an outstanding debt or to make the required minimum periodic payments. Unlike other insurance, claim payments are made directly to the lending institution or finance company, not the insured, and factors such as smoking status, health status and age, which can affect the price of regular life or health insurance, do not affect consumer credit insurance premium rates.

In the wake of the recent financial crisis, lenders have begun bundling insurance with their loans. However, it is illegal for a lender to require a person to buy credit insurance as a condition of obtaining a loan or for a lender to deceptively include credit insurance in a loan without the consumer's knowledge or permission. There are three types of consumer credit insurance products which are regulated by the Division's Life and Health Section: credit life insurance, credit disability insurance (also known as credit accident and health insurance) and credit involuntary unemployment insurance. Credit property insurance is regulated by the Division's Property & Casualty Section.

Credit Life Insurance

Credit life insurance is similar to a term life insurance policy and is designed to pay off all or part of a specific debt owed by the borrower, such as a loan or credit card, in the event of his death. Unlike traditional life insurance, the beneficiary on the credit life insurance policy is the lender and not a family member or other person chosen by the insured. During 2009, more than 25 companies reported premiums for credit life insurance in the state of Nevada. However, three companies account for over 90 percent of the credit life insurance business in this state: American Bankers Life Assurance Company of Florida, Cuna Mutual Life Insurance Society and Minnesota Life Insurance Company.

Credit Disability Insurance

Credit disability insurance, also known as credit accident and health insurance, pays all or part of a borrower's monthly loan or other credit payment in the event the borrower is disabled due to illness or injury. During 2009, more than 25 companies reported premiums for credit disability insurance in the state of Nevada. However, six companies accounted for essentially all of the credit disability insurance business in this state. They are: American Bankers Insurance Company of Florida, American Bankers Life Assurance Company of Florida, Central States Indemnity Company of Omaha, Cuna Mutual Life Insurance Society, Household Life Insurance Company and Minnesota Life Insurance Company.

Credit Involuntary Unemployment Insurance (IUI)

Credit IUI pays all or a part of a borrower's monthly loan or credit payment in the event the borrower loses his job as a result of a labor dispute, layoff or other type of termination of employment that is not under the employee's control. During 2009, American Bankers Insurance Company of Florida, American Security Insurance Company, Central States Indemnity Company of Omaha and Stonebridge Casualty Insurance Company were the main issuers of credit involuntary unemployment insurance in Nevada.

2009 Report on Consumer Credit Insurance Experience in the State of Nevada

Background and Scope

Pursuant to NAC 690A.175, insurers that provide consumer credit insurance to Nevada consumers are required to report experience data annually to the Commissioner. The Commissioner uses this data to determine annually whether the prima facie rates for credit life insurance, credit accident and health insurance and credit involuntary unemployment insurance set forth in NAC 690A.105 to NAC 690A.155 inclusive, are reasonable in relation to the benefits provided, and to revise them if necessary. The following summarizes the 2009 review of consumer credit prima facie rates in Nevada and puts forth recommendations for changes to the current prima facie rates set forth in NAC 690A.105 to NAC 690A.155 inclusive. The prima facie rates are intended to establish rates at a level that insurers may use and regulators may accept without individual justification.

The Commissioner is required to establish prima facie rates for consumer credit insurance that are reasonable in relation to the benefits provided and that are not excessive, inadequate or unfairly discriminatory. In addition, subsection 2 of NRS 690A.093 states that, in establishing these rates, the Commissioner shall consider and apply the following factors:

(a) Actual and expected loss experience
(b) General and administrative expenses
(c) Loss settlement and adjustment expenses
(d) Reasonable creditor compensation
(e) The manner in which premiums are charged
(f) Other acquisition costs
(g) Reserves
(h) Taxes
(i) Regulatory license fees and fund assessments
(j) Reasonable insurer profit, and
(k) Other relevant data consistent with generally accepted actuarial standards.

The component rating methodology, where a fair value is determined for each component and the prima facie rate is determined directly from the components by formula, is consistent with the Nevada statutes and is used to establish the prima facie rates for consumer credit insurance. The component rating approach was first used to establish prima facie rates in Nevada under regulation R014-06, effective on April 1, 2007, based on a report by an actuarial consulting firm contracted by the Consumer Credit Insurance Association (CCIA).

The most common method used for determining if premium rates are reasonable in relation to the benefits provided is the loss ratio method. Therefore, the loss ratio, which is the ratio of incurred claims to earned premiums, is included as one of the considerations in determining if an adjustment in the prima facie rates is appropriate. The Nevada loss ratios for credit life and credit disability insurance are lower than the expected loss ratios calculated in conjunction with the derivation of the current prima facie rates and are among the lowest in the country. This indicates that the premiums charged may be excessive in relation to the benefits provided and the assumptions used to develop the components of the prima facie rates may need to be revised.

Data Used and Other Considerations

The information contained in this summary is based on an analysis of the data provided to the Division for calendar years 2007 to 2009, inclusive, as well as the Credit Insurance Experience Exhibit and statutory annual statement information for the corresponding years and supplemental component information by the major credit insurers in the state. Although this information was not audited, it was reviewed for consistency and reasonableness.

Rates

The review of the assumptions used in the component-based approach to rate making indicates that a revision of the prima facie rates for credit life insurance, credit disability and credit IUI is appropriate. While NRS 690A.093 does not include a loss ratio standard, the consistently low loss ratios experienced compared to 1) the expected loss ratios calculated in conjunction with the development of the current prima facie rates and 2) nationwide average loss ratios, indicate that the current rates may be excessive in relation to the benefits provided and that the component assumptions used to develop the prima facie rates need to be revised.

Type of Insurance	Recommended Rates	Current Rates
Credit Life Insurance		
Single Premium - Single Life	$0.32	Determined by formula
Single Premium - Joint Life	$0.49	Determined by formula
MOB - Single Life	$0.72	$0.72
MOB - Joint Life	$1.11	$1.11
Credit Disability Insurance*		
Single Premium - Single Life	$0.78	$1.51
Single Premium - Joint Life	$1.44	$2.79
MOB - Single Life	$1.53	$2.32
MOB - Joint Life	$2.84	$4.29
Credit Involuntary Unemployment Insurance		
Single Premium - Single Life	$0.85	$0.95
Single Premium - Joint Life	$1.57	$1.76

* 12 month 14-day retro rate

DENTAL INSURANCE

Organizations for Dental Care: Plans for Dental Care Licensed Pursuant to Chapter 695D of NRS

There are currently only three companies that are specifically certified as organizations for dental care under NRS 695D in Nevada. They are Alpha Dental of Nevada, Inc.; Community Dental Services of Nevada, Inc.; and Safeguard Health Plans, Inc. These are stand-alone dental plans and do not include a medical component. Carriers licensed as a 680A, 695B or 695F company may also market a dental product. Each of the chapters listed have different licensing and statutory requirements.

Dental insurance reimburses the policyholder for dental care expenses. Dental care is provided by specialized professionals that are licensed to do so, such as oral hygienists and dentists. It includes cleanings, examinations, X-rays, fillings, extractions, root canal, crowns, tooth replacement, orthodontia and some forms of oral surgery. Correction to the temporomandibular joint (TMJ) can also be considered dental care, depending on the provider.

Dental insurance varies greatly from plan to plan; the more that is covered, the greater the premium. In addition to excluding orthodontia and other services from the policy or certificate, premium costs can be reduced if deductibles and coinsurance are increased.

HEALTH CARE COVERAGE

The Division of Insurance regulates, investigates and audits all health insurance business transacted in this state, including health maintenance organizations (HMOs), to ensure that companies remain solvent and meet their obligations to insurance policyholders. The Division does not have regulatory authority over self-funded health plans, or ERISA plans which are under the jurisdiction of the United States Department of Labor.

The Commissioner of Insurance issues certificates of authority to insurance companies seeking admittance to the Nevada market and has general control over many aspects of their business. The Commissioner enforces the laws of the Nevada Insurance Code and promulgates regulations to implement these laws.

Individual Coverage

- An individual <u>health</u> <u>insurance</u> policy is a <u>contract</u> between an insurance carrier and an individual (It may also include family coverage).
- The contract can be renewed annually or monthly.
- Premiums are paid to the carrier on a monthly basis.
- These plans are underwritten by the carrier based upon the information provided in the application. (Underwriting involves measuring risk exposure and determining the premium that needs to be charged to insure that risk.)
- Once issued, these plans are guaranteed to be renewable.*
- Pre-existing conditions may be excluded indefinitely by some plans.

Small Group Coverage

- An employer that annually employs at least 2 and no more than 50 employees is eligible to purchase a small employer group health insurance policy.
- These policies <u>may</u> include dependent coverage.
- Premiums are paid to the carrier on a monthly basis.
- These policies are underwritten by the carrier based upon the information provided in the application.
- These plans are guaranteed to be issued and renewed.*
- Pre-existing conditions cannot be denied, excluded or limited for more than 12 months after the effective date of coverage (18 months after the effective date for a late enrollee).
- Currently, only HMO rates are regulated by the Division.

* **<u>Nevada's Health Insurance Portability and Accountability Act (HIPAA)</u>**

Title I of the Federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) requires insurance carriers in the individual health market to guarantee the issuance of a basic or standard health benefit plan to certain eligible persons.

A carrier must also provide guaranteed issue to all small groups of its health benefit plans available in the small group market. Provisions including credit for a pre-existing condition, limits on a pre-existing time frame, the definition of a pre-existing condition, rating restrictions, and other benefits as defined by laws and regulations, have been achieved through the implementation of HIPAA in Nevada.

Large Group Coverage

- An employer that annually employs more than 50 employees is eligible to purchase a group health insurance policy.
- These policies may include dependent coverage.
- The contract can be renewed annually.
- Premiums are paid to the carrier on a monthly basis.
- Currently, only HMO rates are regulated by the Division.

Health Maintenance Organizations (HMO)

- Are licensed pursuant to Chapter 695C of NRS.
- Apply to either individual or group plans.
- Provide for "comprehensive" services.
- Members must stay within the "network" of providers as defined by the HMO (however benefits are provided for emergency services received out of the HMO network).
- Most benefits are provided in exchange for a copayment.
- Members are held harmless for amounts that exceed the contracted amount.

Prepaid Limited Health Insurance Organizations (PLHSO)

- Are licensed pursuant to Chapter 695F of NRS
- Apply to either individual or group plans
- Provide for a limited type of service (i.e. x-ray or laboratory services, mental health, dental, pharmaceutical)

Preferred Provider Organizations (PPO)

- PPO plans have in-network (contracted provider) and out-of-network (non-contracted provider) benefits subject to NRS 689B.061 and NAC 689B.110 - 160
- Utilization of an out-of-network (non-contracted) provider increases the insured's out-of-pocket costs
- Benefits are generally subject to an annual deductible with a lifetime and/or annual plan maximum. (Most plans require an individual to satisfy his/her deductible before benefits are paid by the carrier)
- Some benefits may also have a separate deductible and are limited to an annual or lifetime maximum
- In addition to deductibles, plans are designed to include other cost-sharing methods in the form of coinsurance and in some cases copayments
- Insureds are held harmless for amounts that exceed the contracted amount when using an in-network provider

Point of Service Plans (POS)

- A POS is a product marketed by an HMO company that combines an HMO and PPO product comprised of three tiers:
    - The first tier is the HMO network benefit
    - The second and third tier are the PPO component:
        - Tier two is the PPO in-network benefit
        - Tier three is the PPO out-of-network benefit

Indemnity Products

- Apply to either individual or group plans
- Benefits generally are subject to an annual deductible with a lifetime and/or annual plan maximum (Note: most plans require an individual to satisfy his/her deductible before benefits are paid by the carrier)
- Some benefits may also have a separate deductible and be limited to an annual or lifetime maximum
- In addition to deductibles, plans are designed to include other cost sharing methods in the form of coinsurance and in some cases copayments
- There is no “in-network” benefit

Ancillary Products

1. Vision Plans: These plans generally are designed as a PPO product or an indemnity product and are subject to the PPO or indemnity statutes and regulations.
2. Prescription Drug Plans: These products generally have several tiers and primarily have generic drug benefit, preferred drug benefit and non-preferred drug benefit. Some plans have a separate injectable drug benefit. PPO plans provide for an in-network and out-of-network benefit.
3. Dental Plans: These plans generally are designed as a PPO product or an indemnity product and are subject to the PPO or indemnity statutes and regulations. (There are dental plans that are "D" companies subject to 695D. Currently, Nevada has only two "D" companies.)

LIFE INSURANCE

Whole Life

Whole life insurance provides a benefit in the form of a lump sum or annuity upon the death of the insured. As the name implies, a whole life policy will remain in force throughout the life of the insured as long as sufficient premiums are paid. To purchase an insurance policy on an insured's life, the policyholder must have an interest in the continued survival of the insured. It is the policyholder who owns the policy, pays the premium and selects the beneficiary to receive the death benefit. Often, the policyholder and insured is the same person.

With traditional whole life insurance, policy elements are fixed at issue. This includes the premium, death benefit and nonforfeiture values. Premiums are generally level and payable for life, but can also be payable for a specified number of years or until a particular age, such as 65.

If the policyholder can no longer afford to pay premiums, or otherwise decides not to, the policy's nonforfeiture benefits become available. The policyholder can generally choose one of the following three options: (1) cash; (2) whole life insurance with a reduced death benefit; or (3) term insurance with the full original death benefit. With each of these options, premiums are no longer paid. These benefits, required by law, become available after about three years of premiums have been paid and will continue to grow in value throughout the life of the policy.

In the 1980s, a new type of whole life insurance known as Universal Life became popular. With Universal Life, the policy elements can be separately identified and are not fixed at policy issue. The policyholder can, within limits, change the premium frequency and amount. Premiums are deposited into a fund that, on a monthly basis, is increased by interest and decreased by mortality and other charges. These types of policies sometimes have the potential to earn higher interest than the built-in return of a traditional whole life policy, but also run the risk of a lower return and can lapse when the fund value is insufficient to cover the monthly charges.

One of the most appealing features of life insurance is the preferential tax treatment. The entire death benefit will generally pass to the beneficiary without incurring any tax liability. There are various life stages in which one can benefit from a whole life insurance policy. For instance, parents of young children may want the security of knowing their children can maintain their standard of living should something happen to one or both of the parents. An older person/couple may wish to pass their estate on to their heirs tax-free by means of a large single-premium policy; or, alternatively, they may wish to simply cover their own funeral expenses through a smaller single-premium policy.

Group Life Insurance

Group life insurance is issued to individual members of a group. The group is most often an employer and the insurance is part of a benefits package, but the contracts have been issued to any number of various organizations.

This insurance is typically of the term variety, expiring upon separation of employment, but may also be whole life or universal life.

An advantage of group policies is the ease with which individuals in the group can obtain coverage. With many contracts there is no individual underwriting. The targeting of healthy groups, such as employer groups, combined with the savings from limited underwriting often results in group insurance premiums being less than those for individual policies.

Term Life

Term life insurance provides a predetermined benefit upon the death of the insured, if the death occurs within the specified term. The policy remains in force during the term, as long as the required premium is paid. The premium is usually level for the term, and may allow for renewal options after the term with a new premium established. The term may be for any period, though generally available terms range from one to 30 years, with multiples of five years the most common.

Term life insurance is the simplest form of life insurance. There is no cash value to the policy, and term policies rarely, if ever, pay dividends. It is also much less expensive than whole life insurance, because whole life insurance must eventually deliver benefits. Term life insurance may expire without delivering benefits. In fact, the more likely that term insurance may expire without paying, the less expensive it will tend to be.

There are many insurers in the term life market, and some compete very aggressively on premiums. Websites have materialized that compare companies providing similar term life products.

The basic factors that determine the premium of a term life policy are the age of the applicant at the prospective issue date, the relative health of the applicant, the size of the benefit to be paid at death and the term of the contract. Some additional common criteria include segregating by sex or whether an applicant smokes.

Term life insurance is particularly useful for people who expect to come into some value if they manage to live to a certain date and wish to protect against failure to do so. For instance, certain pension systems can become quite valuable once the prospective pensioner reaches 30 years of service, but they may not be very valuable before that. A prospective pensioner with 20 years of service may wish to protect loved ones by purchasing a 10-year term life policy, in the event of death during the term.

MEDICARE SUPPLEMENT

Medicare is health insurance for people age 65 or older, under age 65 with certain disabilities, and any age with End-Stage Renal Disease (ESRD) (permanent kidney failure requiring dialysis or a kidney transplant). Original Medicare covers many health care services and supplies, but there are many costs (“gaps”) it doesn’t cover. **Note:** Medicare is a federal program and is not regulated by the Nevada Division of Insurance.

The different parts of Medicare help cover specific services if certain conditions are met. Medicare has the following parts:

Medicare Part A (Hospital Insurance)

- Helps cover inpatient care in hospitals
- Helps cover skilled nursing facility, hospice, and home health care

Medicare Part B (Medical Insurance)

- Helps cover doctors’ services and outpatient care
- Helps cover some preventive services to help maintain health and to keep certain illnesses from getting worse

Medicare Part C (Medicare Advantage Plans) (like an HMO or PPO)

- A health coverage option run by private companies approved by and under contract with Medicare
- Includes Part A, Part B, and usually other coverage like prescription drugs

Medicare Part D (Medicare Prescription Drug Coverage)

- A prescription drug option run by private insurance companies approved by and under contract with Medicare
- Helps cover the cost of prescription drugs
- May help lower prescription drug costs and help protect against higher costs in the future

Original Medicare is run by the federal government and provides for Part A and Part B coverage. Medicare supplement insurance is a Medigap policy. It is sold by private insurance companies to fill gaps in original Medicare plan coverage. Medicare does not pay for every medical expense. That is why many people purchase supplemental insurance to fill the “gap” left by Medicare, such as coinsurance, copayments and deductibles.

Medigap policies don’t work with any other type of health insurance, including Medicare Advantage Plans, employer/union group coverage, Medicaid, Veterans Administration (VA) benefits or TRICARE. Medigap policies help pay the policyholder’s share of the costs of Medicare-covered services.

Medigap policies do work with stand-alone Medicare Prescription Drug Plans. Some Medigap policies cover certain costs Original Medicare doesn’t cover. **Note:** While Medigap fills the gaps in the federal program, the Medigap policies **are** subject to regulation by the Division of Insurance.

Medicare Advantage Plans are run by private insurance companies approved by and under contract with Medicare. They provide Part A and Part B coverage, but can charge different amounts for certain services and may offer extra coverage and prescription drug coverage for an extra cost. If a person is enrolled in a Medicare Advantage Plan, a Medigap policy isn't needed and can't be useful. **Note:** Like Medicare, Medicare Advantage is a federal program and is **not** subject to regulation by the Nevada Division of Insurance.

If a person has a Medigap policy and is switching from Original Medicare to a Medicare Advantage Plan, the Medigap policy is not needed and can't be used to cover deductibles, copayments, coinsurance or premiums under the Medicare Advantage Plan. A person may choose to drop a Medigap policy, but should talk to the State Health Insurance Assistance Program and the current Medigap insurance company first because the Medigap policy may not be a retrievable Medicare Advantage Plan. It is illegal for anyone to sell a Medigap policy to an owner of a Medicare Advantage Plan unless the Medicare Advantage Plan is being cancelled to go back to Original Medicare.

There are two types of Medicare plans that may help lower prescription drug costs and help to protect against higher costs in the future. There is prescription drug coverage that is a part of Medicare Advantage plans and other Medicare health plans. Medicare health care is provided through these plans. There is also Medicare prescription drug coverage, called Medicare Part D, that provides additional coverage to the original Medicare plan and some Medicare cost plans and Medicare private fee-for-service plans. These Medicare Part D plans are offered by insurance companies and other private companies approved by Medicare. **Note:** Medicare Part D is a federal program and is not subject to regulation by the Division of Insurance.

According to the Centers for Medicare and Medicaid Services (CMS), 345,568 Nevadans were eligible to receive benefits through the federal Medicare program as of December 31, 2009. Of these, 88,235 individuals (25.5 percent) received their benefits through Medicare Advantage Plans. The remaining 257,333 Medicare recipients (74.5 percent) received their benefits through traditional fee-for-service Medicare.

Insurance companies may offer eight standard and one high-deductible Medicare supplement policies (Plans A, B, C, D, F, High Deductible F, G, K and L). Additionally, insurers also began offering two new plans, M and N, starting in June of 2010.

Although Medicare supplement insurance is sold mainly to senior citizens, a few insurance companies offer coverage for disabled persons under the age of 65 who qualify for Medicare benefits.

VIATICAL/LIFE SETTLEMENTS

Viatical settlements allow life insurance policyholders to sell their policies to investors for an immediate cash benefit that is less than the face value of the policy, but more than the cash surrender value. In return, the buyer of the viatical settlement becomes the new owner of the life insurance policy, pays future premiums and collects the death benefit when the insured dies.

Viatical settlements grew in popularity in the United States in the late 1980s, when the AIDS epidemic peaked. Viatical settlements offered a way to extract value from the policy while the policyholder was still alive. This event caused a surge in viatical settlements as both investors and viators saw an opportunity for mutual benefit.

While most viatical settlements were originally from people with a life-threatening illness, individuals who are not facing a health crisis may now sell their life insurance policies to get cash. This is known as a life settlement.

The 2009 Legislative Session strengthened Nevada's Viatical/Life Settlement laws to prevent false and misleading advertisements; provide stronger disclosure requirements and consumer protection; ensure viatical settlement providers and brokers demonstrated greater financial responsibility; and to prevent stranger originated life insurance. Additionally, the Nevada Secretary of State's office was given authority to regulate the security side of viatical settlements (raising capital to purchase policies).

PRODUCER LICENSING SECTION

Introduction

The Producer Licensing Section is responsible for reviewing and ensuring the statutory compliance of approximately 30 different license types, all of which are governed by Nevada Revised Statutes (NRS). This is a primary Division activity that includes the issuing of new and renewed licenses, as well as the general maintenance of licenses. This maintenance includes renewing and analyzing applications; performing and reviewing any applicable credit checks; ensuring appropriate education requirements have been met; performing any applicable background or other checks; and ensuring that applicable fees have been paid.

The Licensing Section also assists in the development of education for producers, agents, brokers and other licensees and the evaluation and approval for producer education classes. Another important function of this Section is to review, make recommendations, and work to develop and implement National Association of Insurance Commissioners (NAIC) and National Insurance Producer Registry (NIPR) initiatives to streamline the licensing process.

The Producer Licensing Section must also analyze and draft legislation and regulations; testify at administrative, court-related and legislative hearings on behalf of the Division; respond to consumer representatives, industry representatives, the general public and other interested parties; and respond to Governor/legislator letters, opinion letters, surveys and assignments.

The work of the Producer Licensing Section directly protects Nevada consumers. One way this is accomplished is through conducting and reviewing background investigations of potential licensees as part of the State licensing requirements. Additionally, Section staff is responsible for reviewing audited financial statements for many of its licensees, in order to ensure financial solvency. The Section acts as liaison and support for the other branches of the Division and interfaces with multiple Nevada state agencies as well as other states' insurance divisions.

By the Numbers

As of December 1, 2010, the Producer Licensing section oversaw 107,000 licensees. This includes roughly 16,000 "resident" and 83,000 "non-resident" producers licensed to do business in our state.

Transition from paper to electronic services: Improving Efficiencies

In order to improve efficiencies, the Division continues to expand its electronic services. By utilizing the Division's online services, a licensee has the capability of submitting a single electronic application in multiple jurisdictions at one time. Online services continue to be the most expeditious method for applying for and renewing a license. The online services have significantly reduced the amount of paperwork received by the Producer Licensing Section, improving the Division's efficiency in this area and this fact is illustrated in Exhibits I, II, III, and IV. With the added online services, a licensee or applicant for a license may visit the Division's Website at http://doi.nv.gov, and with the click of a button they may begin their online license application process. Speed to market is the Division's goal.

The Division recommends prospective employers have their applicants obtain Livescan fingerprints in order to expedite the license application process. Additionally, the Division has worked with the prelicensing providers who now have the capability of uploading a candidates' prelicensing information directly into the Division's licensing data base. The state exam test results are also uploaded into the Division's data base by the exam vendor. Provided the licensing candidate utilizes the Livescan fingerprinting and online license application process, the applicant may print their license online upon the Division's approval of the application.

Online Individual License Application and License Renewal Types:

- Resident Producer
- Non-Resident Producer
- Non-Resident Surplus Lines Broker
- Non-Resident Independent Adjuster
- Non-Resident Associate Adjuster

Firm license Types:

- Resident Producer Firm
- Non-Resident Producer Firm
- Non-Resident Surplus Lines Broker
- Non-Resident Independent Adjuster

Application Statistics

The Producer Licensing Section processes hundreds of applications, renewals and other documents each month. Over the last several years applicants, licensees and providers have been encouraged to submit many of these items electronically. The most recent addition to the online process is the availability of Resident Producer applications and all types of Adjuster applications. The Section is working toward becoming paperless.

Adjuster Licensing

On December 9, 2009, the United States District Court for the District of Nevada concluded in Reitz v. Kipper that the opportunity to obtain a license to work as an insurance adjuster in the state of Nevada is a fundamental privilege protected by the Privileges and Immunities Clause of the United States Constitution. The court therefore determined that the residency requirement delineated in NRS 684A violated the Privileges and Immunities Clause of the United States Constitution because it improperly discriminated against non-Nevada residents. As a result of the court's decision in Reitz v. Kipper, the Nevada Division of Insurance adopted changes in February 2010 reflecting the court's decision and allowing non-resident adjusters to apply as such. The acceptance of non-resident adjuster applications has greatly increased the amount of people applying to the Division for adjuster licenses.

The Division also made available in August 2010 the ability to apply for an adjuster's license online. Applications can be submitted online via NIPR or Sircon, and through these programs applicants also now have the ability to pay licensing fees via credit or debit card. The ability to process these applications electronically has sped up the process for issuing licenses and has reduced the amount of paper coming into the Division, as illustrated in Exhibit V.

Non-admitted and Reinsurance Reform Act

On July 21, 2010, President Obama signed the Wall Street Reform and Consumer Protection Act. Title V of the bill includes the Non-admitted and Reinsurance Reform Act, also known as "NRRA." Provisions of NRRA will become effective on July 21, 2011. Under the new law, states are prohibited from collecting licensing fees unless the surplus lines brokers participate in a national database for licensing and renewals. The Division participates in the National Insurance Producer Registry (NIPR). By utilizing NIPR's national Producer Database (PDB), which features online licensing through NIPR's PDB Gateway, the Division will be able to comply with the new licensing and renewal requirement of the NRRA bill. Additional provisions of the bill specify premium taxes for the multi-state non-admitted policies will be collected in the home state. Only states that participate in the Non-admitted Insurance Multi-State Agreement (NIMA) will be able to collect their portion of premium tax on a multi-state risk for which another state is the home state.

Exhibit I Individual License Applications Processed Annually

Individual license applications		2008		2009		2010	
Submitted	License Type	Count	% Electronic	Count	% Electronic	Count	% Electronic
Paper	Res. Escrow Officer	51		31		21	
Paper	Res. Bail Solicitor			1			
Paper	Non-Res. General Agnt for Bail	3					
Paper	Non-Res. Bkr Viatical Settle	2		1			
Paper	Non-Res. Bail Enforcement Agnt	3		1		3	
Paper	Non-Res. Fraternal Agent	35		44		25	
Paper	Non-Res. Motor Club Agent	70		54		9	
Paper	Non-Res. Managing Gen. Agent	8		2		6	
Paper	Non-Res. Specialty Agent	2		5		7	
Paper	Non-Resident Title Agent	2		3			
Paper	Public Adjuster	4				70	
Paper	Res. Bail Agent	92		78		42	
Paper	Res. Bail Enforcement Agent	17		18		14	
Paper	Res. Fraternal Agent	2		3		6	
Paper	Res. Motor Club Agent	168		106		64	
Paper	Res. Managing General Agent	1				1	
Paper	Res. Surplus Lines Broker	64		23		47	
Paper	Res. Specialty Agent	53		47		53	
Paper	Res Temporary License	1					
Paper	Resident Title Agent	218		125		152	
Paper	Temp Res. Bail Enforcement			1			
Paper	Resident Insurance Consultant					1	
Paper	Non-Res. Insurance Consultant					1	
Paper	Res MV Damage Appraiser					4	
Paper	Non-Res MV Damage Appraiser					4	
NIPR	Non-Res. Motor Club Agent					1	
Total Count		**796**		**543**		**531**	

Licensing Types Converted to On-Line Processing

Individual license applications		2008		2009		2010	
Submitted	License Type	Count	% Electronic	Count	% Electronic	Count	% Electronic
Paper	Non-Resident Producer	5,170		2,379		1,131	
NIPR	Non-Resident Producer	9,040	44.46%	8,099	51.63%	8,076	53.48%
Sircon-PIN	Non-Resident Producer	6,121	30.11%	5,210	33.21%	5,893	39.03%
Paper	Associate Adjuster	651		543		445	
NIPR	Associate Adjuster	Not available on line				14	2.92%
Sircon-PIN	Associate Adjuster	Not available on line				21	4.38%
Paper	Independent Adjuster	45		30		873	
NIPR	Independent Adjuster	Not available on line				113	9.22%
Sircon-PIN	Independent Adjuster	Not available on line				239	19.51%
Paper	Non-Res. Surplus Lines Broker	258		209		110	
NIPR	Non-Res. Surplus Lines Broker	Not available on line				61	30.05%
Sircon-PIN	Non-Res. Surplus Lines Broker	Not available on line				32	15.76%
Paper	Resident Producer	3,927		2,943		2,189	
NIPR	Resident Producer	Not available on line				14	0.55%
Sircon-PIN	Resident Producer	Not available on line				322	12.75%
Total Count		**25,212**		**19,413**		**19,533**	

2010 information provided through December 10, 2010

Exhibit II

Firm License Applications
Processed Annually

Firm (Business entity) license applications		2008		2009		2010	
Submitted	License Type	Count	% Electronic	Count	% Electronic	Count	% Electronic
Paper	External Review Organization			2		3	
Paper	Independent Adjuster	16		6		38	
Paper	Non-Res. Gen Agency for Bail	2					
Paper	Non-Res. Bkr Viatical Settle	18					
Paper	Non-Res. Motor Club Agency	4		3		2	
Paper	Non-Res. Managing Gen Agency	8		1		6	
Paper	Non-Res MV Damage Appraiser					1	
Paper	Non-Res. Prv. Viatical Settle	8		1		3	
Paper	Non-Res. Re. Intermediary Bkr	4		3		2	
Paper	Non-Res. Specialty Agency			3			
Paper	Non-Res TPA Prior to 10/1/2009	24		14		6	
Paper	Non-Res. Third Party Admin.					14	
Paper	Non-Resident Title Agency	3		6		1	
Paper	Public Adjuster	2				4	
Paper	Resident Bail Agency	39		46		28	
Paper	Resident Insurance Consultant					1	
Paper	Resident Funeral Seller					2	
Paper	Res. Bkr Viatical Settle	1					
Paper	Res. Bail Enforcement Agency	1		1			
Paper	Res. Motor Club Agency	13		20		16	
Paper	Res. Managing General Agency					2	
Paper	Res. Surplus Lines Broker	13		5		6	
Paper	Res. Specialty Agency	5		5		1	
Paper	Res TPA Prior to 10/1/2009	6					
Paper	Res. Third Party Administrator					1	
Paper	Resident Title Agency	2		7		6	
Paper	Utilization Review	12		13		6	
Total Count		**181**		**136**		**149**	

Licensing Types Converted to On-Line Processing

Firm (Business entity) license applications		2008		2009		2010	
Submitted	License Type	Count	% Electronic	Count	% Electronic	Count	% Electronic
Paper	Non-Res. Producer Firm	229		214		132	
NIPR	Non-Res. Producer Firm	527	44.03%	473	43.39%	524	55.45%
Sircon-PIN	Non-Res. Producer Firm	441	36.84%	403	36.97%	289	30.58%
Paper	Non-Res. Surplus Lines Broker	100		74		57	
NIPR	Non-Res. Surplus Lines Broker	Not available on line				39	36.45%
Sircon-PIN	Non-Res. Surplus Lines Broker	Not available on line				11	10.28%
Paper	Resident Producer Firm	290		225		149	
NIPR	Resident Producer Firm	Not available on line				2	1.11%
Sircon-PIN	Resident Producer Firm	Not available on line				29	16.11%
Total Count		**1,587**		**1,389**		**1,232**	
Total Count Combined		**1,768**		**1,525**		**1,381**	

2010 information provided through December 10, 2010

Exhibit III

Individual Renewal Applications
Processed Annually

Individual renewals		2008		2009		2010	
Submitted	License Type	Count	% Electronic	Count	% Electronic	Count	% Electronic
Paper	Associate Adjuster	93		148		220	
Paper	Independent Adjuster	47		47		48	
Paper	Non-Res. Bail Enforcement Agnt			1			
Paper	Non-Res. Bkr Viatical Settle	3		4			
Paper	Non-Res. Fraternal Agent/Agy	15		22		22	
Paper	Non-Res. General Agnt for Bail	3		5		4	
Paper	Non-Res. Managing Gen. Agt/Agy	9		9		11	
Paper	Non-Res. Motor Club Agent/Agy	5		17		11	
Paper	Non-Res. Re. Intermediary Bkr			1			
Paper	Non-Res. Specialty Agent/Agy	5					
Paper	Non-Resident Title Agent/Agy	2				2	
Paper	Non-Resident Consultant	1					
Paper	Public Adjuster	1		1		4	
Paper	Res. Bail Agent/Agency	28		40		46	
Paper	Res. Bail Enforcement Agt/Agy	9		10		4	
Paper	Res. Bkr Viatical Settle	2		2			
Paper	Res. Escrow Officer	29		24		20	
Paper	Res. Fraternal Agent/Agency	7		6		2	
Paper	Res. General Agt/Agy for Bail	1				1	
Paper	Res. Managing General Agt/Agy	3		4		4	
Paper	Res. Motor Club Agent/Agency	82		73		65	
Paper	Res. Specialty Agent/Agency	27		25		25	
Paper	Res. Surplus Lines Broker	92		97		64	
Paper	Resident Consultant	2				1	
Paper	Resident Title Agent/Agency	180		161		146	
Total Count		**646**		**697**		**700**	

Licensing Types Converted to On-Line Processing

Individual renewals		2008		2009		2010	
Submitted	License Type	Count	% Electronic	Count	% Electronic	Count	% Electronic
Sircon	Non-Res Producer/Producer Firm	7,560	78.89%	9,216	82.67%	10,557	87.66%
Paper	Non-Res. Surplus Lines Broker	34		36		51	
Sircon	Non-Res. Surplus Lines Broker	103	75.18%	204	85.00%	213	80.68%
Paper	Res. Producer/Producer Firm	2,301		1,448		1,133	
Sircon	Res. Producer/Producer Firm	73	3.07%	1,250	46.33%	1,453	56.19%
Total Count		**10,071**		**12,154**		**13,407**	
Total Count Combined		**10,717**		**12,851**		**14,107**	

2010 information provided through December 10, 2010

Exhibit IV

Firm Renewal Applications
Processed Annually

Firm (Business entity) license renewals		2008		2009		2010	
Submitted	License Type	Count	% Electronic	Count	% Electronic	Count	% Electronic
Paper	External Review Organization	4		3		4	
Paper	Independent Adjuster	16		16		25	
Paper	Non-Res TPA Prior to 10/1/2009	72		60		9	
Paper	Non-Res. Bkr Viatical Settle	22		29		9	
Paper	Non-Res. General Agnt for Bail	2		2		2	
Paper	Non-Res. Fraternal Agent/Agy			1			
Paper	Non-Res. Managing Gen. Agt/Agy	12		8		6	
Paper	Non-Res. Motor Club Agent/Agy	1		1		1	
Paper	Non-Res. Prv. Viatical Settle	11		16		13	
Paper	Non-Res. Re. Intermediary Bkr	2		1		1	
Paper	Non-Res. Re. Intermediary Mgr	1					
Paper	Non-Res. Third Party Admin.					69	
Paper	Non-Res. Specialty Agent/Agy	2		1			
Paper	Non-Resident Title Agent/Agy	2		5		1	
Paper	Public Adjuster	1				2	
Paper	Res TPA Prior to 10/1/2009	8		14		1	
Paper	Res. Bail Agent/Agency	17		10		18	
Paper	Res. Bail Enforcement Agt/Agy	2					
Paper	Res. General Agt/Agy for Bail					1	
Paper	Res. Bkr Viatical Settle	2		1			
Paper	Res. Managing General Agt/Agy	5		4		1	
Paper	Res. Motor Club Agent/Agency	16		8		13	
Paper	Res. Prv. Viatical Settle	2		2		2	
Paper	Res. Reins. Intermediary Bkr			1			
Paper	Res. Specialty Agent/Agency	7		7		4	
Paper	Res. Surplus Lines Broker	41		39		29	
Paper	Res. Third Party Administrator					4	
Paper	Resident Consultant	1				1	
Paper	Resident Title Agent/Agency	11		13		12	
Paper	Utilization Review	121		115		116	
Total Count		**381**		**357**		**344**	

Licensing Types Converted to On-Line Processing

Firm (Business entity) license renewals		2008		2009		2010	
Submitted	License Type	Count	% Electronic	Count	% Electronic	Count	% Electronic
Paper	Non-Res Producer/Producer Firm	822		424		436	
Sircon	Non-Res Producer/Producer Firm	471	36.43%	983	69.86%	1,181	73.04%
Paper	Non-Res. Surplus Lines Broker	51		28		27	
Sircon	Non-Res. Surplus Lines Broker	26	33.77%	86	75.44%	108	80.00%
Paper	Res. Producer/Producer Firm	412		325		248	
Sircon	Res. Producer/Producer Firm	12	2.83%	118	26.64%	160	39.22%
Total Count		**1,794**		**1,964**		**2,160**	
Total Count Combined		**2,175**		**2,321**		**2,504**	

2010 information provided through December 10, 2010

Exhibit V

Adjuster licenses issued since January 1, 2008

	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Total
Independent Adjuster	0	2	0	0	0	4	0	1	3	2	2	3	
Associate Adjuster	3	2	9	2	3	1	2	0	21	8	9	2	
Public Adjuster	0	0	0	0	1	0	0	0	0	0	0	0	
Total	**3**	**4**	**9**	**2**	**4**	**5**	**2**	**1**	**24**	**10**	**11**	**5**	**80**
	Jan-09	**Feb-09**	**Mar-09**	**Apr-09**	**May-09**	**Jun-09**	**Jul-09**	**Aug-09**	**Sep-09**	**Oct-09**	**Nov-09**	**Dec-09**	
Independent Adjuster	1	4	3	1	3	1	0	1	0	0	2	2	
Associate Adjuster	3	10	3	4	6	9	1	1	3	13	3	10	
Public Adjuster	0	0	0	0	0	0	0	0	0	0	0	0	
Total	**4**	**14**	**6**	**5**	**9**	**10**	**1**	**2**	**3**	**13**	**5**	**12**	**84**
	Jan-10	**Feb-10**	**Mar-10**	**Apr-10**	**May-10**	**Jun-10**	**Jul-10**	**Aug-10**	**Sep-10**	**Oct-10**	**Nov-10**	**Dec-10**	
Independent Adjuster	0	2	22		94	36	88	238	89	93	X	X	
Associate Adjuster	7	4	3	218	1	2	1		1	0	X	X	
Public Adjuster	0	0	1	1	16	1	0	6	21	15			
Total	**7**	**6**	**26**	**219**	**111**	**39**	**89**	**244**	**111**	**108**	**0**	**0**	**960**

PROPERTY & CASUALTY SECTION

Introduction

The Property & Casualty (P&C) Section strives to protect consumers through the review of rates, rules and forms for all personal lines insurance, including personal automobile, homeowners' and personal umbrella insurance, as well as the commercial lines of medical malpractice and workers' compensation insurance. The Section also reviews policy forms and related documents for most commercial lines of coverage. Additional regulatory activities include review and approval of premium finance rates and forms, motor club forms and title insurance and escrow rates and forms. With its review of these rates and forms, the P&C Section strives to protect Nevada consumers by ensuring:

- The rates are not excessive, inadequate, or unfairly discriminatory
- The rates do not have the effect of destroying competition or creating a monopoly
- The forms provide a clear description of the insurance coverage, and such coverage is not illusory
- The form provisions, such as cancellation and non-renewal conditions, comply with Nevada law

The outcome of the review of a rate or form filing can affect a large segment of Nevadans, as approved rates or forms are then marketed by the insurance company throughout the state.

Helping Consumers

The P&C Section provides assistance to consumers with complex complaints escalated from the Division's Consumer Services Section. In addition, the P&C Section develops and publishes consumer guides to assist consumers, including the *Consumer's Guide to Auto Insurance Rates*, *Consumer's Guide to Homeowners Insurance*, *Consumer's Guide to Earthquake Insurance*, and *Consumer's Guide to Title Insurance*.

The regulation of the service contract industry (extended warranties on items such as home appliances, electronics or vehicles) also falls within the P&C Section. The P&C Section is responsible for the licensing and annual renewal of service contract providers, including verifying the financial responsibility of the company in accordance with existing laws. All service contract forms are reviewed to ensure compliance with Nevada law. While service contracts are not considered insurance, they are subject to the provisions of Chapter 690C of NRS and NAC and certain other provisions of the insurance code.

Other Functions

Another area within the P&C Section is cost stabilization. In other words, the Section conducts surveys and collects and analyzes data to help develop and support a healthy, competitive insurance market. It also processes the fraud assessment, a fee charged to all active insurers in Nevada, which was created to provide funding for the investigation and prosecution of insurance fraud. Eighty-five percent of the assessment proceeds are provided to the Attorney General's Fraud Unit and 15 percent of the assessment is retained by the Division of Insurance.

The P&C Section also provides actuarial and informational support to the Division's Corporate and Financial Section for market conduct and financial examinations of insurers. It reviews the workers' compensation insurance portion of consolidated insurance programs which, at the time of publication, included 12 approved projects with an estimated combined construction cost of $14 billion.

Property & Casualty Section Statistics:

The below statistics reflect performance by the P&C staff for fiscal year 2010 (July 1, 2009 – June 30, 2010, unless indicated differently):

Number of Property & Casualty Companies Licensed as of 6/30/10: 877

P&C Fees Collected	Number of Filings	Amount Collected
Filings Fees	4,415	$285,157

% of Rate and Form Filings Processed within 60 Days	Percentage
Fiscal Year 2010	87%
1/1/10 – 10/31/10	93%

Assessments & Fines	FY 2009	FY 2010
Fraud Assessment	$1,207,475	$1,204,440
Cost Stabilization Assessment	$185,125	$177,183

Service Contract Providers	Number Licensed	Fees Collected (Application and Renewal Fees)
Licensed as of June 30, 2010	163	$183,415

The P&C Section continually strives to improve its efficiency and performance. During this past biennium, the Section moved forward with clarifying filing procedures for easy reference as noted in Bulletin 09-007. This same bulletin promoted electronic filing of rates and forms through the System for Electronic Rate and Form Filing (SERFF) to help expedite and streamline the filing process and also announced that group filings would be accepted under most conditions. Another improvement in efficiency was mandating that rate and form filings must be submitted electronically through SERFF and that payment for the filings must be submitted using the EFT function within SERFF beginning December 31, 2010. This mandate benefits the Division by streamlining the work process but, more importantly, it benefits both industry and consumers. SERFF is a Web-based real-time system that allows a product to be introduced to market sooner, enhancing competition among insurers and product choice for consumers.

Nevada Insurance Market Report

The Property & Casualty Section has faced many challenges in the economic climate of the past two years. The property and casualty articles in this year's Insurance Market Report highlight this point and discuss the state of the market and its effect on Nevada's consumers. For example:

- The *Homeowners' Insurance* article discusses why the estimated cost to rebuild a home is increasing when the selling value of the home has decreased.
- The *Private Passenger Automobile Insurance* article discusses a new cutting-edge rating methodology called "usage-based" or "pay-as-you-drive" insurance, which was recently introduced in Nevada. It also discusses credit-based insurance scoring (CBIS), a methodology used by many insurers to calculate auto insurance premiums.
- The *Surplus Lines Insurance* article reviews the federal Financial Services Reform Act signed by President Obama in July 2010, which could dramatically affect the amount of premium tax coming into Nevada.

CONSOLIDATED INSURANCE PROGRAMS

Consolidated Insurance Programs (also known as a “wrap up”) allows either an owner or contractor controlling a construction project to purchase a “master” insurance program that may be extended to cover all qualified parties for the duration of the project term. During the 1999 Legislative Session, Senate Bill 133 was passed in order to establish uniform provisions governing the safety and treatment of work-related injuries and claims administration of the consolidated insurance programs (CIP).

The framework for which a private company, a public entity, a utility, or a general contractor may establish and administer a CIP (also known as a “wrap up”) is found in the Nevada Revised Statutes (NRS) 616B.710. All eligible contractors and subcontractors who will be engaged in the construction of the project are required to participate in the CIP. Additionally, the Legislature initially established the minimum project value threshold at $150,000,000, which is adjusted annually by the Commissioner on June 30 to reflect the present value of the initial threshold with respect to the construction cost index. NRS 616B.710(4)(a) defines the construction cost index as “. . . the construction cost index published by *Engineering News-Record* as a measure of inflation.” The annually published minimum thresholds for the last three years were established as follows: 2007 – $195 million, 2008 – $200 million, 2009 – $210 million.

There are two types of CIPs that may be approved: (1) a Contractor Controlled Insurance Program (CCIP), which is controlled by the principal contractor; and (2) an Owner Controlled Insurance Program (OCIP), which is controlled by the owner. The CIP provides coverage for the employees of all eligible contractors working on a project. A CIP may include insurance for workers’ compensation, builders’ risk, general liability, umbrella liability or any combination of coverage; however, the Division is only authorized to regulate the workers’ compensation portion of the program. NRS 616B.712 requires the owner or principal contractor of a CIP to contract with an authorized private carrier to provide the workers’ compensation insurance. It should be noted there are only a handful of insurers that actually have the capacity to insure these large projects.

The purpose of designing a master policy program is to eliminate the uncertainties of varying policy limits by relying on each individual contractor’s policy, which can leave owners or principal contractors uninsured or underinsured in key areas. Benefits of incorporating multiple contractors into a consolidated, or wrap-up, insurance program include:

- Consistent, unified coverage for all contractors on the project, which may result in lower insurance costs.
- Increased control over project-related insurance costs.
- Improved safety as a result of a mandated safety program.
- Reduced costs for claims administration resulting from having a claims administrator on site.
- A consistency of coverage enhancements that may not be readily available on an individual contractor basis.

Ineligible contractors are excluded from coverage. The excluded parties performing labor or services at the project site are responsible to procure their own insurance outside of the CIP program. Excluded services or operations may include:

- Hazardous materials remediation, removal and/or transport companies and their consultants.
- Vendors, suppliers, fabricators, material dealers, truckers, haulers, drivers and others who merely transport, pickup, deliver or carry materials, personnel, parts or equipment or any other items or persons to or from the project site.
- Contractors / subcontractors who do not perform any actual labor on the project site.

The statutes require that a primary and alternate safety representative must be approved for each project. The CIP safety personnel and safety program must be approved by the Division of Industrial Relations (DIR). The owner or principal contractor must also provide a written statement that the primary and alternate safety representatives will not be working on any other CIP project. Safety personnel are responsible to oversee and enforce the safety program for the construction project. In addition, *either the primary or alternate safety representative must be physically present on-site whenever any activity takes place.* For example, if only one person is present at the job site, it must be one of the approved (per the DIR) safety coordinators. Another vital position of a CIP project is the claims administrator. A similar limitation is required of the claims administrator to ensure that this position does not serve as a claims administrator for any other construction project. It is common practice that if two persons are present at the job site, the second must be the industrial insurance claims administrator.

Pursuant to Senate Bill 99 of the 2007 Legislature, NRS 616B.732 was amended to require that the workers' compensation loss experience under a CIP be attributed to the subcontractor or general contractor that is the employer of the injured worker. Prior to July 1, 2007, the workers' compensation loss experience under a consolidated insurance program was attributed to the owner or principal contractor of the project. The Commissioner adopted regulation R204-08 to clarify that the provisions of Senate Bill 99 apply to projects incepting on or after July 1, 2007. In addition, Bulletin 09-006 issued by the Commissioner reminded insurers, producers and project administrators that the loss experience for CIPs incepting on or after July 1, 2007 was to be reported on behalf of the employer of the injured worker.

In recent years, the Division has not received any new applications for consolidated insurance program projects. This is a confirmation of the construction slow down seen in the Nevada marketplace. However, a review of the historical data reveals the Division has approved 39 owner- or contractor-controlled projects since the statute was enacted, the first project being approved in 2000. A total value of approved projects was reported at $28,816,648,906. Currently, 12 projects remain open, for a total reported value of $14,060,180,438[1].

[1] Source: Insurance Division CIP Statistics

CONSTRUCTION LIABILITY UPDATE

Construction defect liability insurance provides coverage to builders, contractors and sub-contractors for property damage or bodily injury attributable to the defects identified in a construction project. In Nevada, stand-alone construction defect liability insurance policies are rare or non-existent. However, construction defect liability often is covered under commercial general liability (CGL) insurance policies. Additionally, a CGL policy may be incorporated into a larger commercial package policy (CPP), a customized combination of coverage forms that also frequently includes property and business income coverages. While construction defect liability coverage is just one of numerous CGL coverages, it has played a significant role in the market for CGL insurance in Nevada.

During the middle of the last decade, most construction defect liability coverage was written in the Nevada surplus lines market. Surplus lines insurers are eligible to provide coverage for insureds who cannot find the desired coverage in the admitted traditional market. Since 2006, there has been a considerable movement away from surplus lines insurers providing construction defect liability insurance. Correspondingly, the admitted market has been writing more of this insurance than previously. At the same time, the perceived need for construction defect liability coverage has substantially declined among contractors due to the recent slowdown in construction. Overall, despite evidence of a larger admitted market for construction defect liability coverage, the total market for the coverage has declined.

Prior to the recent decline of the housing market, rising premiums for CGL insurance were primarily attributable to the increasing costs of construction defect litigation. This may be because the "duty to defend" clause within a typical CGL policy requires an insurer to defend the insured against the entirety of a suit or claim if even one allegation within the suit or claim may be covered by the policy. However, the insurer might not be required to defend the insured if no coverage for any part of the suit or claim is afforded by the policy, or if the policy's applicable limit of liability has already been exhausted in paying judgments or settlements.

In 2009, the Nevada Supreme Court ruled in *Terracon Consultants Western, Inc. v. Mandalay Resort Group* that the "economic loss doctrine applies to professional negligence actions against design professionals in commercial property construction defect actions."[1] This means that design professionals who did not partake in the construction of a building cannot be held liable under tort law for defects resulting from their advice, provided that there was no breach of contract. This case significantly limits the scope of construction defect liability. It implies that *only* parties that actually participated in the physical construction can be held liable – not parties that gave design advice but did not actually do the physical work. As such, this case possibly eliminates the need for design professionals who do not do physical work in the course of construction to seek out construction defect liability coverage.

Surplus Lines and Admitted Market Trends

As indicated above, the amount of construction defect coverage placed with surplus lines insurers has been steadily declining since 2006. Exhibit I provides data from the Nevada Surplus Lines Association (NSLA), pertaining to premium written in construction-related classifications pertaining to liability insurance provided through the Nevada surplus lines market. The exhibit shows that the year-to-year declines in construction liability Nevada surplus lines written premium from 2007 to 2008 and from 2008 to 2009 were near 40%. In 2009, the surplus lines market for construction defect liability insurance was only about 36.43% of the size of the 2007 market.

[1] *Terracon Consultants W., Inc. v. Mandalay Resort Group*, 125 Nev. Adv. Op. No. 8 (March 26, 2009). Information on this case was obtained from the following article: Houston, Ian. "Terracon Consultants W., Inc. v. Mandalay Resort Group, 125 Nev. Adv. Op. No. 8 (March 26, 2009)." Nevada Law Journal. Available http://nevadalawjournal.org/pdf/Terracon.pdf. Accessed 7 Aug. 2009.

Exhibit I: Nevada Written Premium for Surplus Lines of Construction Defect Liability Insurance: 2007-2009

Written Premiums (in Dollars) in Nevada – Construction Defect Liability Insurance – Surplus Lines (Data from the Nevada Surplus Lines Association)

Risk	2007 Premium	2008 Premium	2009 Premium
Construction-other than listed	37,357,026.01	26,564,009.61	12,797,457.74
General (Paper) Contractor	14,327,113.54	12,122,545.43	9,454,783.53
Construction Managers-Residential	2,720,790.63	1,400,403.90	437,803.46
Carpentry-Residential	5,684,816.16	1,866,201.11	981,555.59
Roofers	3,883,868.00	1,887,660.64	1,370,987.86
Concrete Construction-Residential	3,368,181.45	2,359,746.76	812,326.00
Real Estate Developers-Residential	5,773,079.65	-370,245.50	1,779,693.25
Excavation-Residential	1,966,212.56	547,648.82	658,139.74
Plumbing-Residential	2,444,292.50	1,746,245.16	1,038,066.95
Plastering and Stucco Work-Residential	1,943,858.18	1,092,530.29	332,111.68
Grading of Land-Residential	2,421,393.67	533,268.20	Classification Discontinued
Dry Wall or Wall Board Installation	2,071,512.15	1,154,185.65	927,471.27
Total	**83,962,144.50**	**50,904,200.07**	**30,590,397.07**
Dollar Difference from 2007		-33,057,944.43	-53,371,747.43
Percent Difference from 2007		-39.37%	-63.57%
Dollar Difference from 2008			-20,313,803.00
Percent Difference from 2008			-39.91%

Exhibit II: Nevada Written Premium for Surplus Lines of Construction Defect Liability Insurance: First Half of 2009 vs. First Half of 2010

Written Premiums (in Dollars) in Nevada – Construction Defect Liability Insurance – Surplus Lines (Data from the Nevada Surplus Lines Association)

Risk	Premium for First Six Months of 2009	Premium for First Six Months of 2010	Percent Change
Construction-other than listed	7,099,929.24	4,617,939.22	-34.96%
General (Paper) Contractor	6,027,155.91	853,842.54	-85.83%
Construction Managers-Residential	232,678.00	382,319.75	64.31%
Carpentry-Residential	339,186.06	327,000.82	-3.59%
Roofers	343,421.40	441,497.96	28.56%
Concrete Construction-Residential	579,322.50	299,392.00	-48.32%
Real Estate Developers-Residential	1,534,397.25	87,291.00	-94.31%
Excavation-Residential	326,403.00	83,091.42	-74.54%
Plumbing-Residential	524,847.22	207,374.55	-60.49%
Plastering and Stucco Work-Residential	301,803.48	120,413.60	-60.10%
Dry Wall or Wall Board Installation	400,843.60	27,079.30	-93.24%
Total	**17,709,987.66**	**7,447,242.16**	**-57.95%**
Dollar Difference from First Six Months of 2009		-10,262,745.50	

Exhibit II further shows a comparison of construction liability Nevada surplus lines written premium between the first half of 2009 and the first half of 2010. The 2010 figures document a further notable decline; during the first half of 2010, the construction liability surplus lines written premium was only about 42.05% of its level during the first half of 2009. For classifications related to residential real estate, the decreases in written premium have been particularly precipitous, with some declines exceeding 90% in magnitude. These changes accompany the significant and ongoing slowdown in new residential construction in Nevada.

Admitted Market Trends

It is important to note that this written premium decrease in the surplus lines of construction defect liability insurance was to some degree compensated for by increases in construction defect liability coverage available through the admitted market. Construction defect liability coverage is now available on the admitted market for commercial or industrial contractors, but remains scarce for residential contractors. While construction defect liability coverage is not widely provided for residential contractors in Nevada, some relaxation of the admitted market's treatment of this insurance product has occurred. About one decade ago, there was no available admitted market coverage for incidental operations performed by a subcontractor within a residential house – including plumbing, electrical work and maintenance of air conditioning systems. Interviews with Nevada brokers suggest that, at present, some insurers cover such work when it is performed on existing residences; however, the brokers interviewed are not aware of any such coverage being offered in the course of new construction.

High Premiums

Premiums for construction defect liability coverage remain high, and underwriting criteria are generally restrictive. As an example, one agency in Nevada advertised in 2010 that it could procure general liability insurance for construction contractors. According to this agency, premiums could be, at minimum, $1,350 per year for $500,000 of coverage. Coverage limits of $1,000,000 and $2,000,000 were also advertised as available for higher premiums.

However, observations from agents selling the insurance suggest that the typical premiums an insured would pay for construction defect liability coverage have declined since 2006. While, in 2006, most subcontractors could not purchase CGL insurance in the admitted market and saw a need to seek coverage in the surplus lines market, CGL insurance – including coverage for construction defect liability – has become significantly more affordable since then. Although it is difficult to state precisely how much coverage for construction defect liability coverage would cost in the present market, due to lack of precise data, Division staff members' conversations with agents suggest that, in 2009, per-housing-unit premiums for CGL insurance – while still high – were around 35% of what they had been in 2006. While this trend makes the insurance considerably more affordable, it is also largely driven by reduced demand for construction defect liability coverage.

Nevada's Economic Climate

Factors accounting for the decrease in written premium for construction defect liability insurance include the recent economic downturn, with severe effects on the number of new construction projects in Nevada. The NSLA has indicated that, because of the state of the economy and the abundance of available residential housing and commercial rental space, construction in Nevada has slowed significantly. This phenomenon has reduced the perceived need of many contractors for construction defect liability insurance. Those contractors that have maintained coverage have paid lower premiums if they reduced payroll and receipts due to the construction slowdown. Moreover, the majority of contractors' insurance needs are now provided by admitted providers of commercial general liability insurance, as well as alternative mechanisms such as captives and risk retention groups (RRGs), in which Nevada is a national leader.

Even with the shift of business to the admitted market, however, the total size of the market for construction defect liability coverage can be reasonably said to have declined considerably since 2006. Detailed data on the admitted market in this coverage are not available, as insurers generally report their data by line of insurance written, not by type of coverage. However, the recent dramatic slowdown in construction in Nevada has significantly reduced contractors' *need* for construction defect liability coverage, as new construction is a small fraction – in some areas a tenth or less, according to comments by Nevada brokers – of what it had been in 2006. Many of the policies written in 2007 and 2008 covering construction defect liability were written on construction projects that were never completed, and so the insurers returned substantial portions of the originally paid premiums to the insureds.

Toxic Drywall

The issue of defective/toxic drywall has its origins in drywall imported from China to the United States from 2001 to 2007. The drywall becomes defective when mixed with humidity and heat, at times causing home and property damage, as well as health problems for homeowners. It is estimated that 50 million pounds of defective Chinese drywall came through West Coast ports during the aforementioned time period. Most of this defective drywall was transported to the Southeastern states, and there does not appear to be definitive evidence that the drywall was used in Nevada.

According to the Consumer Product Safety Commission, there have been over 2,833 reports of defective drywall in 37 states. Most complaints have arisen in areas of the Southeast, such as Florida and Louisiana, likely due to the hurricanes in 2004 and 2005. Claims for the defective drywall are emerging in some Southeastern states, and multi-million-dollar damages have been awarded by juries in states such as Florida and Louisiana to homeowners adversely affected by the drywall. Lawsuits pertaining to defective drywall have primarily been directed against manufacturers of the drywall, but construction contractors have occasionally been named as defendants as well.

As of December 2009, there have been two reports of defective/toxic drywall in the State of Nevada. However, these reports have not been conclusively verified. Nevada is unique in that most drywall suppliers in the state obtain their product from companies such as Pabco Gypsum, Calply and Winroc, which have their own plants in Nevada. Gypsum mines are found throughout Southern Nevada and the Western United States, so it is not likely that the defective/toxic drywall was imported or used in Nevada. Lennar Group, a builder of homes in Nevada, has done volunteer testing in its homes and *has found nothing signaling the presence of defective/toxic drywall*.

The Division does not foresee defective/toxic drywall having a significant effect on the Nevada homeowners' insurance market. As stated above, most builders in Nevada receive their drywall from local manufacturers due to the abundance of gypsum mines in Nevada and California. While reports of the defective drywall are sporadic across the United States, 95 percent of complaints to date have been from the Southeastern States of Florida, Louisiana, Virginia, Alabama and Mississippi. The defective drywall also reacts to humidity and moisture. Nevada is located in the desert, and the weather to which the tainted drywall reacts is not typically found in Nevada.

In the unlikely event that defective/toxic drywall manifests itself in Nevada, owners of affected residential homes and commercial structures may be able to file a claim against the commercial general liability (CGL) insurance policy or other liability insurance policy of the contractor that constructed the building or the manufacturer that produced the defective drywall. They may also be able to recover money from the performance bonds posted by contractors with the Nevada Attorney General's Office to guarantee that work on the property was completed in accordance with required standards and specifications. As in many other situations where damage to health or property occurs, Nevadans always have the ability to seek recourse for their grievances through the court system. A class-action lawsuit was filed in August 2009 on behalf of

Nevada homeowners in two neighborhoods of Las Vegas. The lawsuit indicated the defendants as being construction companies such as US Home Corporation, Georgia-Pacific LLC, Georgia-Pacific Gypsum LLC, Lennar Nevada, and Greystone Nevada LLC.[2] These builders, however, have uniformly denied using toxic drywall anywhere in Nevada. The case remains pending.

The Property and Casualty Section has recently been receiving form filings requesting approval of endorsements excluding coverage for losses due to “foreign drywall” for commercial lines of insurance. Exclusions for “toxic drywall” and “defective drywall” were also filed. These exclusions have been approved, and consultation with regulators from other states suggests that other states are also largely approving the exclusions. No explicit drywall-related exclusions have been encountered to date in filings for personal lines – such as homeowners’ insurance. This is likely due to existing exclusionary language in many homeowners’ policies, which would appear to apply to cases of defective/toxic drywall as well.

[2] Source: AboutLawsuits.com. http://www.aboutlawsuits.com/chinese-drywall-class-action-lawsuit-filed-in-nevada-5586/

EARTHQUAKE INSURANCE

In recent years, various parts of the world have experienced several large and deadly earthquakes. One of the most devastating earthquakes was experienced by citizens of Haiti, where a magnitude 7.0 earthquake caused severe loss of life and property. It was followed by an 8.8 magnitude earthquake in Chile. According to the Nevada Seismological Laboratory, Nevada is one of the most active states for seismological activity in the United States. In fact, Nevada ranks third, after Alaska and California, in the number of earthquakes of magnitude 5.0 or greater and ranks fourth in earthquakes of magnitude 3.5 or smaller. Historical experience and seismic analyses strongly suggest that no area of Nevada is completely safe from the dangers of earthquakes. The earthquake activity of the various faults in Nevada, as displayed in Exhibit I, serve as a stark reminder that Nevadans live in an area of high earthquake activity.

United States Geological Survey estimates[3] show that within the next 50 years the probability of a major earthquake occurring within the close vicinity of Las Vegas is 12 percent, Reno/Sparks is 67 percent, and Carson City is 70 percent. However, it is important to remember that probabilities are estimates based upon historical data and are not certainties. The next earthquake in Nevada may strike in any place at any time. Wells, which was given a 9 percent probability of a major earthquake occurring within the next 50 years, experienced a magnitude 6.3 earthquake in 2008.

To better understand how the risk of an earthquake may be estimated, the actuaries from the Property and Casualty section of the Division met with several modelers from a leading analytical company that specializes in risk modeling. Using historical data to perform future trend selections, the company uses various mathematical techniques to analyze and model risks from various perils such as earthquakes, hurricanes and floods. The estimates are utilized, in part, by the insurance and reinsurance industry. Division actuaries came away with a better understanding of how such risks are modeled and with a validation that earthquakes pose a serious risk in Nevada.

Earthquake insurance provides coverage for damage to buildings, structures and personal property due to movement of ground during an earthquake. It also covers events related to the movement of earth and seismic shocks including landslide, settlement, mudflow and the rising, sinking and contracting of earth if the damage is attributable to an earthquake. Damages or losses from floods and tidal waves that may have been caused by an earthquake are generally excluded from such insurance coverage.

Most homeowners', dwelling, condominium owners', mobile home owners', renters' and commercial policies exclude coverage for earthquakes and earth movement. Earthquake insurance is difficult to purchase as a "stand-alone coverage," which is separate from homeowners' insurance. However, earthquake insurance is available from several homeowners' insurers in Nevada that offer earthquake coverage as a special endorsement to a homeowners', dwelling, condominium owners', mobile home owners', or renters' policy at the request of the policyholder.

While earthquake insurance is readily available in Nevada, the decision to obtain earthquake insurance is an individual decision and is dependent on a consumer's understanding and tolerance of the risks associated with not having earthquake coverage. With an objective to better inform Nevada consumers, in February 2010, the Division of Insurance published "*Earthquake Insurance – Nevada Consumer's Guide*[4]". The guide contains helpful tips for Nevada consumers about what earthquake insurance is, what it covers, when it should be purchased, how much the insurance would cost and what to do after a loss from a seismic event. In addition, the guide also contains a list of insurers offering earthquake coverage in Nevada.

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[3] *Earthquake risk probability data obtained from the "2002 Earthquake Probability Mapping" of the United States Geological Survey: http://eqint.cr.usgs.gov/eqprob/2002/index.php*
[4] http://doi.nv.gov/scs/doc/EarthquakeInsurance.pdf

In April 2010, the Division conducted a survey of the top-25 earthquake insurers[5] in Nevada by premium written in 2009. The survey results showed that almost every insurer who responded to the survey offered coverage for both building and for contents as well as for various types of structures like frame, masonry, stone or brick. This indicates a wide availability of earthquake insurance options to Nevada homeowners as well as for commercial interests. None of the responding insurers excluded any specific geographical area in Nevada from earthquake coverage. For personal lines of insurance, the deductible for earthquake insurance ranges from 5 percent to 25 percent of the dwelling value with no insurer offering a dollar amount deductible. In contrast, the deductible for earthquake insurance for commercial interests varied from 5 percent to 40 percent with some insurers offering dollar amount deductibles from $1,000 to $25 million.

Consumers who may be considering purchasing this protection may be deterred by the high deductible levels associated with earthquake insurance. The deductible is in the form of a percentage of the amount of insurance purchased on the property rather than a dollar value. Not all policies are alike and the deductible may apply separately to the loss of contents, structure, or unattached structures. As the Division's survey indicates, the deductible may range from 5 to 25 percent of the structure's policy limit and may be higher for locations that are considered to have a higher than average risk of earthquakes. Since insurers are responsible for payment only for damages that exceed the deductible, a modest damage to the structure or contents may provide no benefit for the insured consumer due to the high level deductibles. For example:

> *If a home is insured for $100,000 (Coverage A – Dwelling) with an earthquake policy deductible of 10 percent, the homeowner will be responsible for the first $10,000 of damages with the insurance coverage paying for damages in excess of $10,000.*

A common myth among consumers is that, in the event of a devastating earthquake, federal aid would pay for all of the incurred loss. Division staff continues to inform consumers that federal disaster aid is usually limited to cover basic needs and that more comprehensive assistance is available in the form of low-interest loans and not full compensation for the loss of structure or contents. In Nevada, limited monetary aid up to a maximum of $28,000 is available to Nevadans who are adversely affected by a natural disaster. The Homeowners' Disaster Assistance program (HDAP) is offered by Nevada Department of Public Safety (DPS) and Nevada Department of Emergency Management (DEM) to help homeowners pay for repair and restoration of damages caused by a natural disaster.

The premiums for earthquake insurance can differ by location, likelihood of earthquakes, insurer, type of covered structure and the amount of deductible. A homeowners' or commercial building policy will not provide coverage for any damage to personal or commercial vehicles caused by an earthquake – even if the vehicles are parked in a garage. The comprehensive coverage provision of a typical automobile policy, also listed as "other than collision" in some contracts of insurance, generally provides coverage to damaged vehicles caused by earthquakes, subject to any applicable deductible.

For earthquake insurance, the primary cost factor for consumers is the high deductible, not the additional cost of the premium for this coverage. Consumers must determine if they can afford to replace a structure or repair a structural damage in the event of sustaining significant damage from an earthquake versus the cost of the policy and deductible when weighing whether to purchase earthquake insurance.

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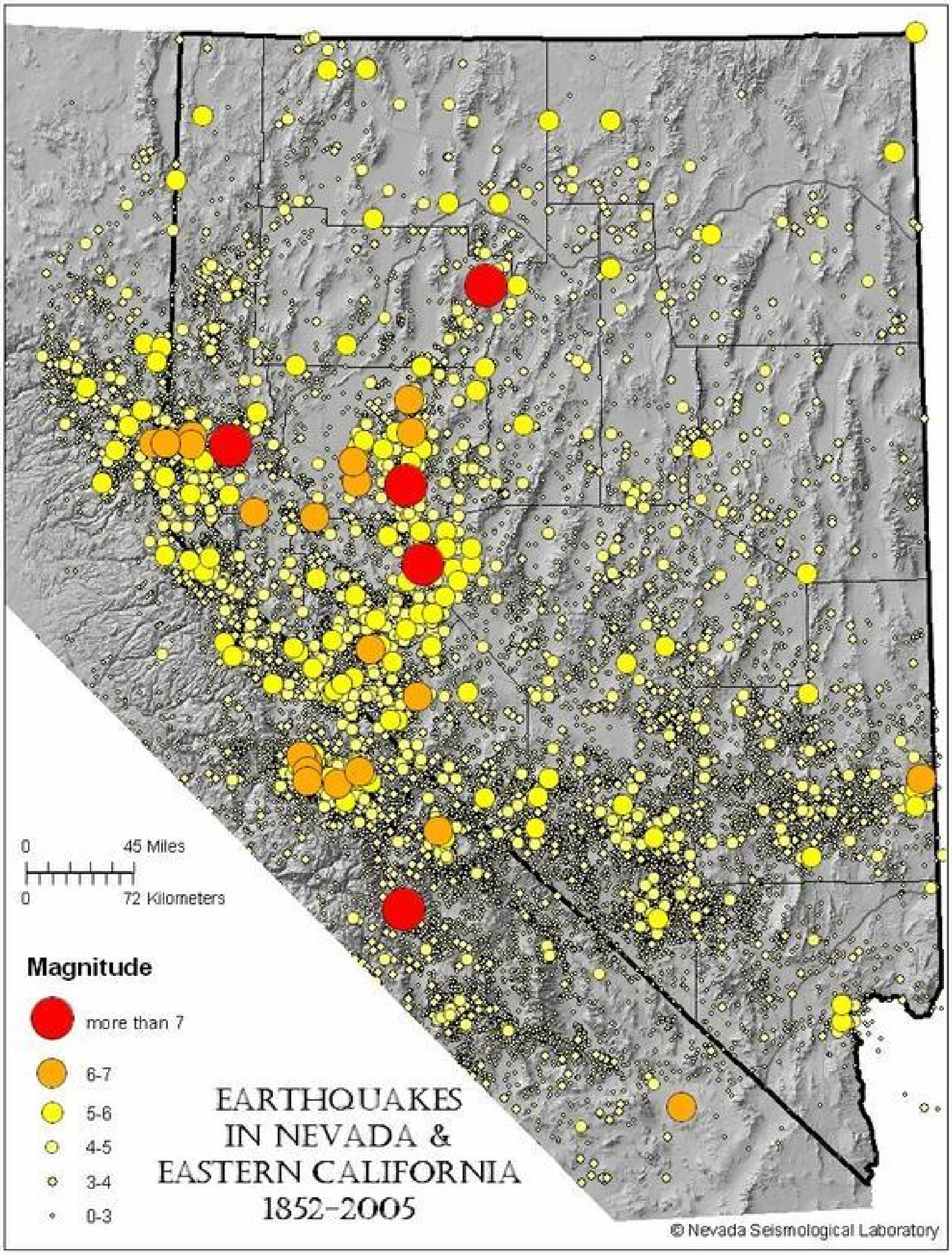
[5] *Per Direct Written Premium for 2009 obtained from the National Association of Insurance Commissioners (NAIC) database I-SITE.*

To ensure that the structure and contents of a building are adequately protected, the Division recommends purchasing earthquake insurance before an earthquake happens. In the event of a major earthquake resulting in significant losses or a swarm of earthquakes even without large losses, insurers will often declare a moratorium on new sales of earthquake insurance in the affected area. Many insurers also place a moratorium if an earthquake is of a certain magnitude or higher. Such a moratorium on the sale of earthquake policies, which typically lasts 30 to 60 days, is often lifted once the likelihood of damaging aftershocks has diminished.

Exhibit II shows the 2009 Nevada earthquake insurance market share report for the top 25 earthquake insurers in Nevada. The total premium written by 108 insurers was just under $18 million, of which the top 25 companies wrote approximately 85 percent. The top earthquake insurance carrier had over 18 percent of the market share with just over $3.3 million of premium written. The earthquake insurance market remains stable and competitive and this catastrophic coverage is available through most homeowners' insurers in Nevada.

EXHIBIT I



Source: Nevada Seismological Laboratory, University of Nevada, Reno

EXHIBIT II

EARTHQUAKE INSURANCE
TOP-25 COMPANIES in 2009
BY WRITTEN PREMIUM (000's)

Group Code	NAIC Code	Company Name	Domicile	Premium Written
176	25143	STATE FARM FIRE & CAS CO	IL	$3,353
3548	25658	TRAVELERS IND CO	CT	$1,168
200	25941	USAA	TX	$1,115
212	21660	FIRE INS EXCH	CA	$1,013
212	26247	AMERICAN GUAR & LIAB INS	NY	$996
12	19437	LEXINGTON INS CO	DE	$920
1278	10921	ACA INS CO	IN	$914
212	21652	FARMERS INS EXCH	CA	$503
111	23035	LIBERTY MUT FIRE INS CO	WI	$474
473	19275	AMERICAN FAMILY MUT INS CO	WI	$426
922	27847	INSURANCE CO OF THE WEST	CA	$412
200	25968	USAA CAS INS CO	TX	$372
1279	21199	ARCH SPECIAITY INS CO	NE	$361
38	20397	VIGILANT INS CO	NY	$351
1285	24554	XL INS AMER INC	DE	$306
91	34690	PROPERTY & CAS INS CO OF HARTFORD	IN	$303
212	32220	AMERICAN INTL INS CO	NY	$301
2898	37850	PACIFIC SPECIALTY INS CO	CA	$291
3548	25674	TRAVELERS PROP CAS CO OF AMER	CT	$281
212	16535	ZURICH AMER INS CO	NY	$271
626	10172	WESTCHESTER SURPLUS LINES INS CO	GA	$270
4684	37745	MAIDEN SPECIALTY INS CO	NC	$183
761	35300	ALLIANZ GLOBAL RISKS US INS CO	CA	$171
111	24740	SAFECO INS CO OF AMER	WA	$170
3548	29696	TRAVELERS EXCESS & SURPLUS LINES CO	CT	$166

Source: NAIC I-SITE – Market Share and Loss Ratio Summary Report, Calendar Year 2009

FLOOD INSURANCE

Floods are one of the hazards facing Nevadans because of their potential to cause unexpected yet significant property damage. Heavy sudden rains, flash floods, new land development that can change natural drainage and the spring thaw of winter snow are some of the most common causes of flooding in Nevada. Additionally, other unexpected reasons – such as the 2008 levee breach in the city of Fernley – also can lead to unexpected and often rapid flooding. Despite the existence of this high risk hazard, approximately one-third of homeowners have not purchased flood insurance. This is partly attributable to the myth that homeowners' insurance or commercial property insurance covers loss or damage caused by flood. It does not.

Nevadans can protect their dwellings and personal property against damage from flood by purchasing a flood insurance policy from the National Flood Insurance Program (NFIP), which is administered by the Federal Emergency Management Agency (FEMA). Congress established the NFIP to make flood insurance available and to minimize the disastrous consequences of flooding. In Nevada, trained insurance agents are authorized to sell this type of insurance, or consumers can purchase flood insurance directly from insurance companies upon request.

Property owners residing in high-risk flood zones with federally guaranteed mortgages are required to purchase flood insurance. A similar requirement may be placed by other mortgage lenders. It is important to note that homeowners can only purchase flood insurance through the NFIP if their community participates in the NFIP program. If a community does not participate in the NFIP program, flood insurance is not available from the NFIP and the community is ineligible for federal financial assistance if that community is declared a federal disaster area due to flooding. Exhibit I lists all Nevada communities that participate in the NFIP program.

FEMA estimates that about 25 percent of flood-related disasters occur in low to moderate flood hazard areas and encourages residents in these areas to buy flood insurance. Additional flood insurance related information is available on the NFIP Web site (http://www.floodsmart.gov/floodsmart/), which also provides flood risk information based on a property address. Also available is a recently created interactive "flood impact map" (www.floodsmart.gov/noaa) that features localized, searchable data about past flood events in an area and the amount of damage (in dollars) caused by these events in recent years. This interactive "flood impact map" is developed and maintained by FEMA and the National Oceanic and Atmospheric Administration (NOAA).

Generally, a standard flood policy for a homeowners' residence can be written to insure structural damage up to a limit of $250,000, including the furnace, water-heater, air-conditioner, floor surfaces and debris clean-up. For an additional premium, Nevada homeowners' may purchase contents coverage of up to $100,000 for damage caused by a flood. Non-residential or commercial buildings' flood insurance policies may be purchased to provide coverage up to $500,000 for the property and its contents.

While the cost of NFIP policies is standardized, the actual pricing of a policy may vary based upon the flood zone designation, the amount and type of coverage selected and the level of deductible. Flood policies are generally written with a minimum deductible of $500, but higher deductibles also are available. It is important to note that the deductible is generally applied separately to a structure and its contents, and Nevadans have the option to choose different deductible amounts for these coverages.

Similar to the claims covered under a homeowners' insurance policy, flood related claims are generally reimbursed on the basis of either Replacement Cost Value (RCV) or Actual Cash Value (ACV). The RCV is the cost to *replace* damaged property to the owners of a single-family, primary residence insured to within 80 percent of the building's replacement cost. All other buildings and personal property (i.e., contents) are valued at ACV, which is the value of the property less depreciation. Personal property is always valued using the ACV.

Exhibit II provides a comparison of water-related perils covered under a standard homeowners' insurance policy and a standard flood insurance policy. A standard homeowners' policy generally provides coverage for various perils other than water damage.

In the past few years, the NFIP has been allowed to expire and then has been temporarily extended several times by Congress for short durations. In 2009 and 2010, NFIP lapsed several times, with the largest lapse spanning about a month. Congress recently granted a one-year extension of the program through September 2011. While the NFIP has been reinstated several times on a retroactive basis, the lapse of NFIP can create chaos for certain potential homebuyers in Nevada who cannot secure a mortgage loan without securing a flood insurance policy first. There is an on-going attempt in Congress to reauthorize this program on a long-term multi-year basis. Division staff continues to monitor the status of any NFIP-related bill that is introduced in the Congress.

With an objective to better inform Nevada consumers, in March 2010, the Division published "*Flood Insurance – Nevada Consumer's Guide.*"[6] The guide contains helpful tips for Nevada consumers about what flood insurance is, what it covers, when it should be bought, how much it would cost, and what to do after a loss from water or flood. In addition, the guide also suggests alternatives to purchasing flood insurance if NFIP is lapsed. It is critical to understand that a flood insurance policy usually will not become effective until **30 days** after purchase.

[6] http://doi.nv.gov/scs/doc/FloodInsurance_A.pdf

EXHIBIT I

Federal Emergency Management Agency
Community Status Book Report
NEVADA
Communities Participating in the National Flood Program

CID	Community Name	County	Init FHBM Identified	Init FIRM Identified	Curr Eff Map Date	Reg-Emer Date	Tribal
320004#	BOULDER CITY, CITY OF	CLARK COUNTY	06/28/74	09/16/81	12/04/07	09/16/81	No
320015#	CALIENTE, CITY OF	LINCOLN COUNTY	03/29/74	06/01/82	08/05/10(>)	06/01/82	No
320009#	CARLIN, CITY OF	ELKO COUNTY	05/03/74	02/01/84	02/19/92	02/01/84	No
320001#	CARSON CITY, CITY OF	INDEPENDENT CITY	05/24/74	03/04/86	01/16/09	03/04/86	No
320030#	CHURCHILL COUNTY *	CHURCHILL COUNTY	12/27/77	11/15/85	09/26/08	11/15/85	No
320003#	CLARK COUNTY *	CLARK COUNTY	08/30/74	09/29/89	12/04/07	09/29/89	No
320008#	DOUGLAS COUNTY *	DOUGLAS COUNTY	01/03/75	03/28/80	01/20/10	03/28/80	No
320027#	ELKO COUNTY *	ELKO COUNTY	07/11/78	02/01/84	11/16/95	02/01/84	No
320010#	ELKO, CITY OF	ELKO COUNTY	01/25/74	02/01/84	11/16/95	02/01/84	No
320023#	ELY, CITY OF	WHITE PINE COUNTY	02/15/74	06/15/84	06/15/84	06/15/84	No
320028#	EUREKA COUNTY*	EUREKA COUNTY	12/21/82	04/01/88	02/18/98	04/01/88	No
320002#	FALLON, CITY OF	CHURCHILL COUNTY	02/08/74	01/06/99	09/26/08	01/06/99	No
320038#	FERNLEY, CITY OF	LYON COUNTY		09/30/82	01/16/09	06/04/03	No
	USE THE LYON COUNTY [320029] FIRM PANELS 0035 AND 0055.						
320036	FORT MOJAVE INDIAN TRIBE	CLARK COUNTY			01/01/50	03/18/96	Yes
	SEE ENTRY FOR FORT MOJAVE INDIAN TRIBE UNDER CID 060743, CALIFORNIA. MAILING ADDRESSEE IS IN THE STATE OF CALIFORNIA.						
320005#	HENDERSON, CITY OF	CLARK COUNTY	06/28/74	06/15/82	12/04/07	06/15/82	No
320011#	HUMBOLDT COUNTY*	HUMBOLDT COUNTY		05/04/87	03/17/10	05/04/87	No
320013#	LANDER COUNTY*	LANDER COUNTY	07/26/74	04/05/83	09/28/90	04/05/83	No
325276#	LAS VEGAS, CITY OF	CLARK COUNTY	12/02/72	09/30/80	12/04/07	09/30/80	No
320014#	LINCOLN COUNTY*	LINCOLN COUNTY	02/22/83	03/01/84	08/05/10(>)	03/01/84	No
320029#	LYON COUNTY*	LYON COUNTY	01/31/78	09/30/82	01/16/09	09/30/82	No
320035#	MESQUITE, CITY OF	CLARK COUNTY	11/01/85	09/28/90	12/04/07	09/28/90	No
320017#	MINERAL COUNTY *	MINERAL COUNTY		05/01/84	07/19/00	05/01/84	No
320007#	NORTH LAS VEGAS, CITY OF	CLARK COUNTY	02/15/74	01/16/80	12/04/07	01/16/81	No
320018#	NYE COUNTY *	NYE COUNTY	10/18/74	04/12/83	02/17/10	04/12/83	No
320032#	PERSHING COUNTY *	PERSHING COUNTY		06/17/91	09/25/09(M)	06/17/91	No
320020#	RENO, CITY OF	WASHOE COUNTY	03/29/74	01/05/84	03/16/09	01/05/84	No
320021#	SPARKS, CITY OF	WASHOE COUNTY	02/08/74	12/01/83	03/16/09	12/01/83	No
320033#	STOREY COUNTY*	STOREY COUNTY	01/10/78	02/19/87	01/16/09	10/04/89	No
320019#	WASHOE COUNTY*	WASHOE COUNTY	12/27/74	08/01/84	03/16/09	08/01/84	No
320024#	WELLS, CITY OF	ELKO COUNTY	07/26/74	12/07/82	07/16/91	12/07/82	No
320037#	WEST WENDOVER, CITY OF	ELKO COUNTY	07/11/78	02/01/84	06/16/99	04/14/08	No
320022#	WHITE PINE COUNTY*	WHITE PINE COUNTY		09/18/87	09/18/87(M)	08/25/08	No
320012#	WINNEMUCCA, CITY OF	HUMBOLDT COUNTY	06/28/74	08/15/90	03/17/10	09/04/85	No
320016#	YERINGTON, CITY OF	LYON COUNTY	12/28/73	09/30/82	01/16/09	09/30/82	No

Summary:

Total In Flood Program	34
Total In Emergency Program	0
Total In the Regular Program	34
Total In Regular Program with No Special Flood Hazard	0
Total In Regular Program But Minimally Flood Prone	2

Source: National Flood Insurance Program, Federal Emergency Management Agency (http://www.fema.gov/cis/NV.pdf) as of August 5, 2010

EXHIBIT II
Comparison of Covered Water-Related Perils

Standard Homeowners' Insurance Policy

Covers	Excludes
Direct loss by fire, explosion or theft resulting from any water-related peril.	o Flood, surface water, waves, tidal water, overflow of a body of water, or spray from any of these, whether or not driven by wind. o Water or water-borne material which backs up through sewers or drains or which overflows or is discharged from a sump, sump pump or related equipment (coverage may be purchased as a special endorsement); o Water or water-borne material below the surface of the ground, including water which exerts pressure on or seeps or leaks through a building, sidewalk, driveway, foundation, swimming pool or other structure. o Escape, overflow or discharge, for any reason, of water or waterborne material from a dam, levee, seawall or any other boundary or containment system.

Standard Flood Insurance Policy

Covers	Excludes
o A flood, meaning "[a] general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or of two or more properties (at least one of which is your property) from: ▪ Overflow of inland or tidal waters; ▪ Unusual and rapid accumulation or runoff of surface waters from any source; ▪ Mudflow; or ▪ Collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood as defined above." o The pressure or weight of water if there is a flood in the area and the flood is the proximate cause of the damage from the pressure or weight of water. o Overflow of inland or tidal waters. The reasons for the overflow are not restricted.	o Loss due to theft, fire, explosion, wind, or windstorm o Water or waterborne material that: ▪ Backs up through sewers or drains; ▪ Discharges or overflows from a sump, sump pump or related equipment; or ▪ Seeps or leaks on or through the covered property unless there is a flood in the area and the flood is the proximate cause of the sewer or drain backup, sump pump discharge or overflow, or seepage of water. o The pressure or weight of water unless there is a flood in the area and the flood is the proximate cause of the damage from the pressure or weight of water. o Damage caused by moisture, mildew, or mold that could have been avoided by the property owner.

Source: Nevada Division of Insurance, Property and Casualty rate/rule/form filings.

HOMEOWNERS' INSURANCE

Homeowners' insurance – also known as homeowners' multi-peril insurance – generally provides a wide range of coverages to owners of residential homes. Similar insurance is also available for tenants and owners of condominiums and manufactured or mobile homes. For convenience, references in this report to "homeowners' insurance" are generally applicable to all products classified under this type of insurance.

The most common coverage form used for owner-occupied homeowners' insurance is the HO-3 form. This form primarily offers protection for dwelling, other detached structures, personal property, loss of use, personal liability, medical payments to others and other additional coverages as selected by the homeowner. The dwelling coverage, also known as Coverage A, is the primary coverage, and the amount of insurance is generally based upon the replacement cost value of the dwelling as estimated by the insurance company. The amount of insurance for some of the other coverages is calculated as a percentage of the amount of insurance for Coverage A. Each coverage is subject to a set of conditions and exclusions that apply to many or all of the coverages.

Some insurance policies provide coverage on a named perils basis – meaning that a particular cause of loss must be listed in the policy in order to be covered. Other policies provide coverage on an open perils basis, where any peril is covered as long as it is not specifically excluded in the policy. Insurance policies can employ a combination of open perils coverage for dwelling and other structures, and only named perils coverage for the insured's personal property.

Nevada homeowners face a variety of perils that can lead to loss of their home and personal property. Subject to policy conditions, the HO-3 form covers homeowners against most common perils such as fire or lightning, windstorm or hail, explosion, riot or civil commotion, aircraft, vehicles, smoke, vandalism and malicious mischief, theft, falling objects, weight of ice/snow/sleet, collapse of building, etc. Some notable perils excluded under most homeowners' insurance policies are flood, earthquake, war and nuclear accidents. Separate flood insurance and earthquake insurance are typically available to homeowners, and more information regarding these coverages is available in the "Flood Insurance" and "Earthquake Insurance" articles included in this report.

Real Estate Value versus Replacement Cost

Division staff continues to field complaints and inquiries from Nevada homeowners regarding the increase in their Coverage A limits or amount of insurance. In many areas of Nevada, real estate values of homes have declined by double digits. At the same time, insurance companies' estimates for Coverage A appear to increase each year, thereby directly resulting in an increased overall homeowners' insurance premium.

Division actuaries note that typical homeowners' insurance policies determine the insurable value of a home on a replacement cost basis. Replacement cost, which does not consider depreciation, is the amount of funds that would be needed to completely re-build a home in the same location, with the same size of home and construction quality, if it were to be completely destroyed due to a covered peril. The cost of rebuilding may be more or less than the former, current, or future real estate value of the house. The increase in the estimate of a dwelling's replacement cost can be triggered by various factors, including increases in the cost of material or skilled labor in the area. The insurance replacement cost value is generally higher than the cost of building a new home due to the non-availability of bulk discounts on labor and materials that a builder may receive during a tract development.

Most insurers have fee-based contractual agreements with property valuation service providers to obtain estimates of the value of the insured home. These third-party vendors, who are currently not regulated by any state or federal agency, collect local-area data for construction materials and labor cost and use the updated information to derive a rebuilding estimate for a home. The Division is concerned that some Nevada homeowners might consider higher coverage as unnecessary when viewed in light of the greatly diminished real estate prices of their homes. Since the majority of the insurers in Nevada base their valuations upon the services of only the top two property valuation service vendors, staff from the Division's Property and Casualty section initiated communications with these vendors. Staff was provided high-level statistics and a graph (see Exhibit I) showing that, in Nevada from 2000 to 2009, the average of all costs for construction materials has declined while the cost for construction labor appears to have marginally increased. At the same time, at least one vendor stated that reconstruction costs are about 17 percent higher than the cost of new construction. The vendors also claim that they are only providing estimates for reconstruction costs and that it is the insurance companies who determine the amount of Coverage A based upon estimates and other criteria. Concerned about the significant, and sometimes unexplainable, differences between real estate values versus replacement cost estimates for some Nevada homeowners, Division actuaries continue to inquire with the home valuation vendors, as well as with the insurance companies, about valuation models, data elements, and the establishment of Coverage A limits for Nevada homeowners.

Consumer Knowledge

To enhance Nevada consumers' knowledge of various aspects of a homeowners' insurance policy, the Division recently published "*Homeowners' Insurance: Nevada Consumer's Guide*". The guide emphasizes the importance of maintaining a coverage limit amount that provides for replacement of the home in the event of a total loss. These tips and more are included in the guide which is available on the Division's website at http://doi.nv.gov.

Division staff was invited to, and participated in, three community awareness events in 2010 with a target audience of homeowners. The *"Nevada Wildland-Urban Interface Fire Summit"* hosted at Lake Tahoe, Nevada, and at Reno, Nevada, by the University of Nevada, Reno, and the *"Disaster Prep: What's Next"* workshop hosted jointly by the Nevada and California Fire Safe Councils in Lake Tahoe, Nevada. Property and Casualty staff utilized these opportunities to make presentations providing important information on various aspects of homeowners' insurance, what factors may impact insurance premiums, consumer protection laws established by the Nevada Legislature, and the availability of Division staff to assist consumers with questions or complaints. Staff also stressed the importance of obtaining adequate insurance to protect homes and possessions. Feedback from organizers, as well as several members of the audience, indicated that the information provided by the Division was well received and was deemed to be helpful.

In early 2010, Division staff investigated the concerns related to existence of toxic drywall as reported in some other states. The toxic drywall was alleged to have been imported from another country, primarily for use in southeastern states. Staff found that most builders in Nevada receive their drywall from local manufacturers due to the abundance of gypsum mines in Nevada and California. In addition, the extremely low humidity and moisture in Nevada's climate makes it even more unlikely that drywall will turn toxic. Staff's interpretation of most homeowners' policy language is that "defective materials" are generally excluded from coverage. While the Division has received and approved several endorsements that specifically exclude coverage for "toxic/defective/foreign drywall" for commercial lines insurers, staff has not yet received a request for approval of exclusionary language for any personal lines insurance product in Nevada.

Market Share and Rate Trends

A summary of Nevada's homeowners' insurance marketplace is provided in Exhibit II, which shows the 2009 direct premium written, direct premium earned, and direct losses incurred for the top 25 carriers by direct written premium volume. For comparison purposes, Exhibit III provides the same market information for 2007. Exhibit IV contains market share data for the top 5 homeowners' insurance groups for 2009 and 2007.

Total Nevada homeowners' insurance direct written premium declined marginally by about 0.5 percent from 2007 to 2009. Direct earned premium declined marginally by about 0.7 percent during the same time period. Direct incurred losses, however, declined substantially by about 13 percent. The pure direct loss ratio – the proportion of earned premium which is used to pay for insured losses – also declined from 42 percent in 2007 to 37 percent in 2009. Overall, the Nevada homeowners' insurance market is stable, and recent loss experience has generally been favorable for insurers. Division actuaries believe that the improving loss experience may partially be attributable to the lack of catastrophic events in the last two years.

In terms of market share, Zurich Insurance Group, State Farm Group, and Allstate Insurance Group continue to remain the top three Nevada homeowners' insurance groups with a combined market share of about 53 percent. From 2007 to 2009, the direct written premium of Zurich Insurance Group and Allstate Insurance Group declined by approximately 6 percent and 4 percent respectively. However, State Farm Group experienced an increase of approximately 8 percent in direct written premium, indicating a slight shift in market share within the top three groups.

Beyond the top three groups, there have been some changes in the groups possessing the fourth-largest and fifth-largest homeowners' insurance market shares in Nevada. With an increase of about 15 percent in each of their direct written premiums, California State Insurance Group and Hartford Fire and Casualty Group moved up to respectively become the fourth and fifth largest homeowners' insurers in Nevada. Experiencing a decline of about 19 percent in its direct written premium, American Family Insurance Group dropped by two places to become the sixth-largest homeowner insurer in Nevada. Despite the movement in rankings, the market share of the top five Nevada homeowners' insurance groups has also remained relatively stable at 63 percent.

Looking at individual homeowners' insurance companies in Nevada, the market share of the top five companies declined from approximately 50 percent in 2007 to approximately 46 percent in 2009. The market share of the top three companies declined from 39 percent in 2007 to 36 percent in 2009. These declines, however, may be attributed to an internal redistribution of business within the Zurich Insurance Group – which shifted a substantial fraction of its written premium from Fire Insurance Exchange to Farmers Insurance Exchange. As a result, Farmers Insurance Exchange became the fourth-largest homeowners' insurer in Nevada in 2009, whereas it had the thirteenth-largest market share in 2007. The direct written premium of Farmers Insurance Exchange increased a staggering 163 percent during this time. Fire Insurance Exchange remained the second-largest homeowners' insurer in Nevada, but its direct written premium declined by 30 percent.

Among individual insurers, State Farm Fire and Casualty Company remains the top homeowners' insurer in Nevada with an 8 percent increase in its direct written premium. ACA Insurance Company, belonging to the California State Insurance Group, rose in market share ranking from fifth to third on the basis of a direct written premium increase of 5 percent. At the same time, the ranking of American Family Mutual Insurance Company slipped from third to fifth due to a direct written premium decrease of 19 percent. The decline in Allstate Indemnity Company's ranking (from fourth to sixth) and its direct written premium (negative 23 percent) is mostly attributable to a shift of its written premium to Allstate Property and Casualty Company within the Allstate Insurance Group.

Exhibit V provides the rate trend of the top 5 homeowners' insurance companies in Nevada for the past 3 years (Farmers Insurance Exchange is combined with Fire Insurance Exchange). The exhibit suggests that Nevada homeowners' insurance rates were generally stable until the latter half of 2009. In late 2009, some major insurers began implementing slight overall increases. At the same time, the largest homeowners' insurer in Nevada implemented an overall rate decrease. Given the favorable recent loss experience of most Nevada insurers, as presented elsewhere in this report, Division actuaries believe that it is unlikely that a significant pattern of rate increases has been established on a forward-going basis.

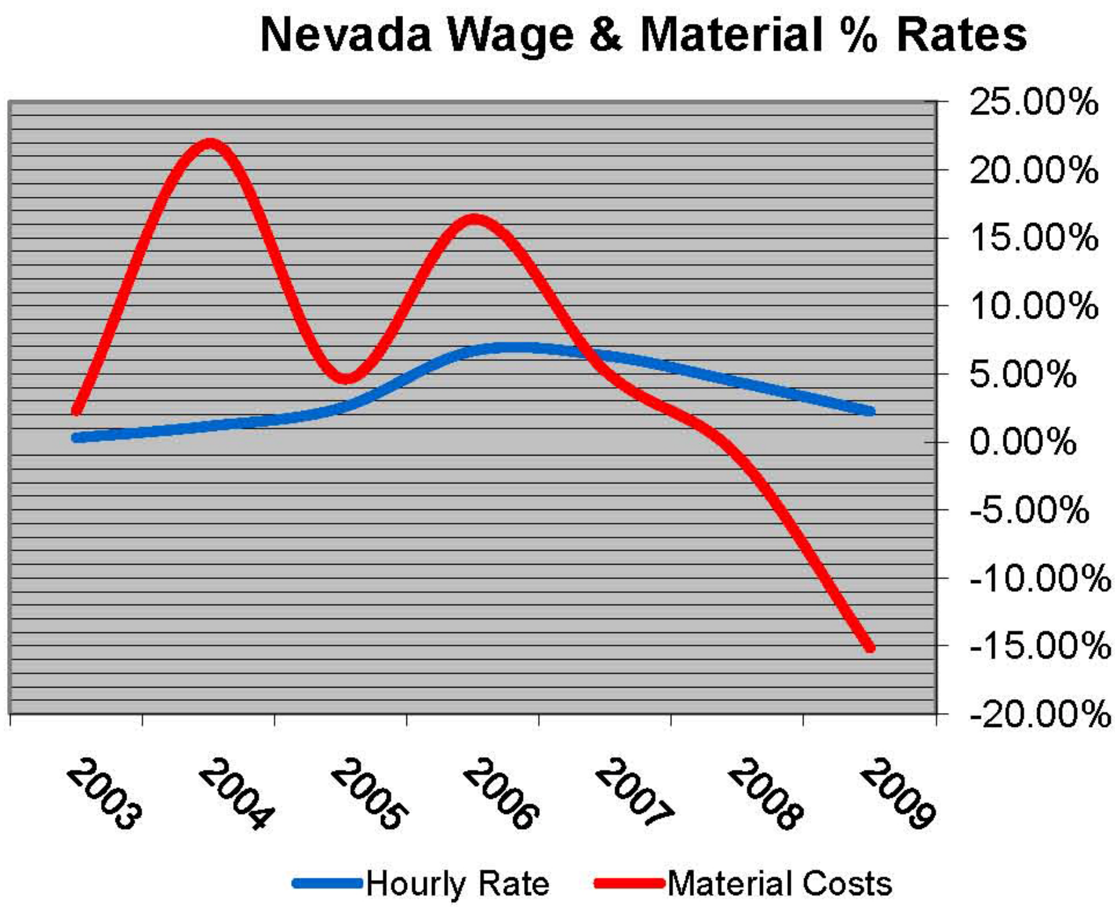
In an effort to streamline review of rate filings for homeowners' insurance, the Property and Casualty staff deployed new filing requirements and guidelines in 2010. In addition to requiring insurers to submit a profitability report for the most recent three to five years, new exhibits ask for trends in dwelling (Coverage A) amount of insurance levels. Staff expects these exhibits to augment the information regarding estimated replacement costs and their real estate values. These and other new requirements aim to obtain quicker access to data and documentation to allow for expediting the rate filing review process.

The Herfindahl-Hirschman Index (HHI) is a measure of market concentration, calculated using the market share percentages of all the firms in the market. For homeowners' insurance *companies*, the HHI declined significantly from 0.0744 to 0.0677 in the last two years. The U.S. Department of Justice considers any market where the *company-based* HHI is below 0.1 to be relatively un-concentrated.[7] A company-based calculation of the HHI is particularly informative regarding market concentration, because different companies within the same insurance group often offer different insurance programs in terms of coverage options, underwriting guidelines, rating structures, and targeted segments of the market.

The Property and Casualty actuaries continue to review and approve filings from new entrants to the Nevada homeowners' insurance market, not just for owner-occupied homeowners' programs, but also for programs pertaining to owners of manufactured homes, owners of condominiums, tenants, and owners of homes with high market values. The influx of new programs into Nevada and the HHI trend are good indicators that the Nevada homeowners' insurance market continues to be healthy and competitive, providing Nevada homeowners with varied options for fulfilling their coverage needs.

[7] Source: Department of Justice: http://www.justice.gov/atr/public/testimony/hhi.htm

Exhibit I



Source: Response to Division of Insurance from one of the home valuation vendors

Exhibit II

Homeowners' Insurance by Premium – Top 25 Insurers – 2009
(Monetary figures are in thousands of dollars)

RANK	NAIC Group Code	NAIC Company Code	Company Name	State of Domicile	Direct Premium Written	Direct Premium Earned	Direct Loss Incurred	Pure Direct Loss Ratio	Market Share
1	176	25143	State Farm Fire and Casualty Company	IL	$89,700	$86,645	$33,360	38.50%	18.93%
2	212	21660	Fire Insurance Exchange	CA	$53,005	$57,709	$16,548	28.67%	11.19%
3	1278	10921	ACA Insurance Company	IN	$27,255	$26,073	$16,811	64.48%	5.75%
4	212	21652	Farmers Insurance Exchange	CA	$23,869	$20,874	$9,213	44.14%	5.04%
5	473	19275	American Family Mutual Insurance Company	WI	$22,438	$23,258	$11,553	49.67%	4.74%
6	8	19240	Allstate Indemnity Company	IL	$21,247	$22,434	$6,877	30.65%	4.48%
7	8	17230	Allstate Property & Casualty Insurance Company	IL	$20,530	$18,324	$6,847	37.37%	4.33%
8	8	19232	Allstate Insurance Company	IL	$19,261	$20,288	$5,700	28.10%	4.07%
9	91	34690	Property and Casualty Insurance Company of Hartford	IN	$14,414	$13,851	$4,451	32.14%	3.04%
10	111	23035	Liberty Mutual Fire Insurance Company	WI	$12,281	$12,920	$4,593	35.55%	2.59%
11	200	25941	USAA (United Services Automobile Association)	TX	$11,487	$10,837	$4,776	44.07%	2.42%
12	50	20990	Country Mutual Insurance Company	IL	$10,773	$10,698	$4,234	39.58%	2.27%
13	3548	26905	Century National Insurance Company	CA	$10,159	$11,137	$3,067	27.54%	2.14%
14	212	27998	Travelers Home & Marine Insurance Company	CT	$9,505	$8,015	$1,947	24.29%	2.01%
15	200	11185	Foremost Insurance Company of Grand Rapids, MI	MI	$8,759	$8,714	$4,186	48.04%	1.85%
16	38	25968	USAA Casualty Insurance Company	TX	$7,870	$7,681	$1,751	22.79%	1.66%
17	408	20397	Vigilant Insurance Company	NY	$7,553	$7,743	$530	6.85%	1.59%
18	212	28401	American National Property and Casualty Company	MO	$5,450	$5,426	$2,563	47.24%	1.15%
19	3548	21326	Empire Fire and Marine Insurance Company	NE	$5,219	$5,127	-$138	-2.69%	1.10%
20	111	19062	Automobile Insurance Company of Hartford, CT	CT	$5,001	$5,592	$1,411	25.23%	1.06%
21	241	24740	Safeco Insurance Company of America	WA	$4,699	$4,736	$2,648	55.91%	0.99%
22	800	26298	Metropolitan Property & Casualty Insurance Company	RI	$4,522	$4,323	$570	13.19%	0.95%
23	91	13625	Western Mutual Insurance Company	CA	$4,421	$4,489	$1,680	37.43%	0.93%
24	91	30104	Hartford Underwriters Insurance Company	CT	$3,652	$3,754	$1,890	50.34%	0.77%
25	501	11000	Sentinel Insurance Company, Ltd.	CT	$3,461	$3,197	-$442	-13.82%	0.73%
Totals for Top 25 Companies					*$406,531*	*$403,845*	*$146,627*	*36.31%*	*85.80%*
Totals for All Companies (110 Active Companies)					*$473,816*	*$469,822*	*$174,456*	*37.13%*	*100.00%*

Source: NAIC I-SITE – Market Share and Loss Ratio Summary Report, Calendar Year 2009

Exhibit III

Homeowners' Insurance by Premium – Top 25 Insurers – 2007
(Monetary figures are in thousands of dollars)

RANK	NAIC Group Code	NAIC Company Code	Company Name	State of Domicile	Direct Premium Written	Direct Premium Earned	Direct Loss Incurred	Pure Direct Loss Ratio	Market Share
1	176	25143	State Farm Fire and Casualty Company	IL	$82,957	$83,916	$34,226	40.79%	17.43%
2	212	21660	Fire Insurance Exchange	CA	$76,086	$81,996	$31,622	38.56%	15.98%
3	473	19275	American Family Mutual Insurance Company	WI	$27,647	$27,661	$13,268	47.96%	5.81%
4	8	19240	Allstate Indemnity Company	IL	$27,483	$29,377	$11,659	39.69%	5.77%
5	1278	10921	ACA Insurance Company	AK	$23,618	$22,874	$13,347	58.35%	4.96%
6	8	19232	Allstate Insurance Company	IL	$23,516	$24,405	$11,716	48.01%	4.94%
7	200	25941	USAA (United Services Automobile Association)	TX	$13,642	$13,251	$5,042	38.05%	2.87%
8		26905	Century National Insurance Company	CA	$13,325	$13,762	$5,454	39.63%	2.80%
9	111	23035	Liberty Mutual Fire Insurance Company	WI	$12,732	$11,983	$4,939	41.22%	2.67%
10	8	17230	Allstate Property and Casualty Insurance Company	IL	$12,012	$9,316	$2,989	32.08%	2.52%
11	91	34690	Property and Casualty Insurance Company of Hartford	IN	$11,911	$10,879	$4,337	39.86%	2.50%
12	50	20990	Country Mutual Insurance Company	IL	$11,368	$10,855	$5,579	51.40%	2.39%
13	212	21652	Farmers Insurance Exchange	CA	$9,063	$4,630	$1,988	42.93%	1.90%
14	212	11185	Foremost Insurance Company of Grand Rapids, MI	MI	$8,798	$8,673	$4,125	47.56%	1.85%
15	38	20397	Vigilant Insurance Company	NY	$8,109	$7,862	$4,031	51.28%	1.70%
16	200	25968	USAA Casualty Insurance Company	TX	$7,251	$7,169	$2,427	33.85%	1.52%
17	3548	19062	Automobile Insurance Company of Hartford, CT	CT	$7,201	$7,901	$2,670	33.79%	1.51%
18	408	28401	American National Property and Casualty Company	MO	$6,800	$7,255	$3,918	54.00%	1.43%
19	212	21326	Empire Fire and Marine Insurance Company	NE	$5,151	$5,063	-$217	-4.29%	1.08%
20	163	24740	Safeco Insurance Company of America	WA	$4,890	$4,926	$1,446	29.36%	1.03%
21	3548	27998	Travelers Home and Marine Insurance Company	CT	$4,448	$3,071	$754	24.56%	0.93%
22	800	13625	Western Mutual Insurance Company	CA	$4,395	$4,101	$1,287	31.37%	0.92%
23	140	19100	Amco Insurance Company	IA	$4,381	$4,436	$1,862	41.98%	0.92%
24	1330	24821	Meritplan Insurance Company	CA	$4,262	$4,278	$1,637	38.26%	0.90%
25	91	30104	Hartford Underwriters Insurance Company	CT	$3,925	$3,985	$1,588	39.83%	0.82%
Totals for Top 25 Companies					*$414,971*	*$413,624*	*$171,692*	*41.51%*	*87.16%*
Totals for All Companies (100 Active Companies)					*$476,081*	*$473,201*	*$199,559*	*42.17%*	*100.00%*

Source: NAIC I-SITE – Market Share and Loss Ratio Summary Report, Calendar Year 2007

Exhibit IV

Homeowners' Insurance by Premium
Top 5 Insurance Groups by Market Share in 2007 and 2009
(Monetary figures are in thousands of dollars)

2009 – Top 5 Groups

RANK	NAIC Group Code	Group Name	Direct Premium Written	Direct Premium Earned	Direct Loss Incurred	Pure Direct Loss Ratio	Market Share
1	212	Zurich Insurance Group	$96,116	$98,663	$32,259	32.70%	20.29%
2	176	State Farm Group	$89,700	$86,645	$33,360	38.50%	18.93%
3	8	Allstate Insurance Group	$64,189	$64,461	$20,367	31.60%	13.55%
4	1278	California State Auto Group	$27,255	$26,073	$16,592	63.64%	5.75%
5	91	Hartford Fire and Casualty Group	$22,824	$22,198	$6,066	27.33%	4.82%
Totals for Top 5 Groups			**$300,083**	**$298,040**	**$108,644**	**37.59%**	**63.33%**
Totals for All Groups (56 Active Groups)			**$473,816**	**$469,822**	**$174,456**	**37.13%**	**100.00%**

2007 – Top 5 Groups

RANK	NAIC Group Code	Group Name	Direct Premium Written	Direct Premium Earned	Direct Loss Incurred	Pure Direct Loss Ratio	Market Share
1	212	Zurich Insurance Group	$102,484	$103,769	$38,706	37.30%	21.53%
2	176	State Farm Group	$82,957	$83,916	$34,226	40.79%	17.43%
3	8	Allstate Insurance Group	$67,059	$67,250	$27,698	41.19%	14.09%
4	473	American Family Insurance Group	$27,647	$27,661	$13,268	47.96%	5.81%
5	1278	California State Auto Group	$23,618	$22,874	$13,791	60.29%	4.96%
Totals for Top 5 Groups			**$303,765**	**$305,470**	**$127,689**	**41.80%**	**63.81%**
Totals for All Groups (50 Active Groups)			**$476,081**	**$473,201**	**$199,559**	**42.17%**	**100.00%**

Source: NAIC I-SITE – Market Share and Loss Ratio Summary Report, Calendar Years 2009 and 2007

Exhibit V

3-YEAR HOMEOWNERS' INSURANCE RATE CHANGE HISTORY

State Farm Fire and Casualty Company

Effective Date	**Overall Rate Change**
04/01/2008	0.0%
04/01/2009	0.0%
04/15/2010	-1.0%

Farmers Insurance Exchange/Fire Insurance Exchange

Effective Date	**Overall Rate Change**
08/16/2008	0.0%
12/16/2008	0.0%

ACA Insurance Company

Effective Date	**Overall Rate Change**
02/15/2010	+6.0%

American Family Mutual Insurance Company

Effective Date	**Rate Change**
09/01/2008	0.0%
03/20/2009	0.0%
10/01/2009	+2.3%
10/01/2010	+4.5%

Allstate Indemnity Company

Effective Date	**Overall Rate Change**
04/14/2008	0.0%
06/08/2009	+2.7%

Source: Division of Insurance personal lines rate filing database

PRIVATE PASSENGER AUTOMOBILE INSURANCE

The public policy on personal lines insurance rates, including private passenger auto rates, has been established by the Nevada Legislature through the enactment of chapter 686B of the Nevada Revised Statutes (NRS), which generally establishes the framework to protect consumers while encouraging price competition among insurance companies. The Commissioner of Insurance is responsible for the evaluation of rates prescribed by “ratemaking standards” (NRS 686B.050) and “rating criteria” (NRS 686B.060) to ensure that insurance rates are not excessive, inadequate or unfairly discriminatory.

Auto Insurance Rating

Each insurance company writing private passenger automobile (auto) insurance in Nevada determines its auto insurance rates based upon its loss experience and develops proposed changes to its auto insurance rates, rules or forms. The Nevada Division of Insurance (Division) does not establish or mandate across-the-board rate changes for auto insurance. However, any proposed changes to auto rates, rules and forms by an insurer are required to be filed with, reviewed and approved by the Division prior to introduction into the Nevada auto insurance marketplace. These filings, which can result in a rate decrease for some consumers and a rate increase for others, are reviewed by Division staff to the extent that the insurer has collected and interpreted the related underlying data to support the requested rate change (NRS 686B.160). This process has helped the auto insurance marketplace stay reasonably healthy, which allows Nevada consumers to shop around in a competitive environment.

Chapter 686B of the Nevada Administrative Code (NAC) establishes various provisions and filing requirements for rates and essential insurance. The requirements for filing rates for auto insurance, as codified in NAC 686B.700 through NAC 686B.765, inclusive, generally require a profitability report, an investment income report, a rate disruption analysis and actuarial exhibits containing an insurer’s loss experience and rate-adequacy-based indications be included. Any algorithm, or rule, used to calculate the total insurance premium paid by an insured for a given coverage is also filed with and approved by the Division prior to its use.

The insurance base rates are only one measure that contributes toward the formulation of auto insurance premiums. An insured’s auto insurance premium is affected by the rate variables and rules the insurer uses which are applied to new business and renewal offers. Some of the traditional rating variables used by the auto insurers include territory or zip code, driving record, claims history, vehicle make and model, liability rating groups or symbols, miles driven, and selected coverage/deductible levels. Over the last several years, many auto insurers in Nevada have also begun using newer rating variables such as credit-based insurance scoring, education and occupation. Depending upon the business model of an individual insurer, one rating variable may receive more or less emphasis compared to another. Insurers apply rate factors associated with several of these rating variables to the “base rate” to derive an auto insurance premium. The primary basis for the derivation of the rating factors is the individual insurer’s unique underlying statistical data, including loss experience in Nevada.

The selection of certain rating variables, as well as the emphasis given to one rating variable compared to another, has been a topic of discussion in recent years. More insurance companies in Nevada have begun using rating variables, such as composition of a household and credit-based insurance scoring, which are considered controversial. The use of these rating variables in insurance underwriting and rating continues to experience a high level of scrutiny and debate, both at state and national levels. A newer rating variable named usage-based insurance has also been introduced and approved for use in Nevada.

Household Composition Factors

More auto insurers are now using a rating variable called "household composition." This variable primarily considers the composition of the household in the form of number of drivers, the age of the drivers, number of vehicles, the age of the vehicles, number of adult drivers versus youthful drivers, and homeownership. Any changes to this mix, attributable to the addition or deletion of a driver, change in the age of a driver, addition or deletion of a vehicle, or change in the age of a vehicle, can change the rating factor applied to the calculation of the auto premium.

Division actuaries have questioned the sensitivity of some of the ranges defined in the variables being used in household composition. Changes in the age of the driver(s) and vehicle(s) can cause the auto insurance premium to increase for the policyholders. Household composition rating variables and associated rating factors have only been approved after insurers were able to submit credible statistical data as justification.

Credit-Based Insurance Scoring (CBIS)

Most auto insurers in Nevada continue to use a generally controversial methodology called credit-based insurance scoring (CBIS) as one aspect of calculating auto insurance premiums. Most large insurers use their own proprietary CBIS models, while other insurers have contractual agreements to use CBIS models developed by third-party vendors.

The current economic downturn appears to have contributed to declines in the credit-based insurance scores of some Nevadans due to foreclosures or the adverse impact of involuntary unemployment on consumers' credit histories. However, some insurers and third-party vendors have provided the Division with studies showing that the mean credit-based insurance scores in Nevada have remained roughly the same as pre-recession levels. The variability in scores has also essentially remained unchanged. Since each insurer uses its own customized CBIS model, different CBIS models can vary significantly from insurer to insurer. Division actuaries caution against accepting the results of such studies without recognizing those studies' limitations. The studies do not track data from all available CBIS models in the marketplace. Trends in scores from one model do not necessarily reflect trends in scores from other models.

Often, adverse events are the result of circumstances beyond the individuals' control, such as severe illnesses, involuntary unemployment, divorce or identity theft. Such events are reported negatively on credit history and create the potential for the decline in the credit-based insurance score. This causes auto insurance premiums to increase. Several auto insurers in Nevada have filed, and received approval for, a rating rule to exclude the impact of such extraordinary life events (ELEs) on an individual's auto insurance premium. The National Council of Insurance Legislators (NCOIL) has recently amended its "*Model Act Regarding Use of Credit Information in Personal Insurance*" to include exceptions for negative credit items attributable to ELEs in insurance rating. This includes ELEs such as catastrophes, serious illnesses or injuries, deaths in the family, involuntary unemployment, overseas military deployment, and other events as determined by the insurer. In response to NCOIL's model act update, the Division's bill draft request for the 2011 Legislative Session includes an amendment to Chapter 686A of the NRS to adopt the NCOIL's amendments relating to ELEs.

Pursuant to NRS 686A.680(7), insurers are required to update consumers' credit information and re-calculate credit-based insurance scores at least once every 36 months. Citing the economic downturn and its adverse impact on consumers' credit information, at least two insurers have invoked NRS 686A.680(7)(a) to request an exception to the mandatory 36-month re-scoring requirement. Under the proposed rule, these two insurers will only update credit-based insurance scores upon request from their insureds. During the course of approving these requests, Division actuaries also reviewed and amended disclosure notices informing the insureds of their right to request a re-score. A disclosure notice will be mailed to the insureds separately and prior to renewal of their policies.

Since mid-2009, Division actuaries have undertaken an in-depth examination of the CBIS models used by Nevada-licensed insurers. Insurers who submitted a rate filing were requested to submit their CBIS models as well. Each submitted model was closely examined by Division actuaries with several rounds of questions. If the insurers or third-party vendors were unable to justify a specific treatment in the model through statistical data, they worked with the actuaries to amend their CBIS models to remedy treatments that were found to be unfairly discriminatory, contrary to good public policy, or punitive toward responsible consumer choices. This process extended to each of the three well-known third-party vendors of CBIS models, with each vendor implementing consumer-friendly changes to its models.

To the Division's knowledge, this ongoing review of CBIS model inputs, variables, weights, factors and associated justifications for using consumers' credit information by insurers in Nevada is one of the most in-depth and comprehensive efforts conducted by state insurance regulators nationwide.

Usage-Based Insurance (UBI)

A new cutting-edge methodology called usage-based insurance, also referred to as pay-as-you-drive insurance, was recently introduced in Nevada. This new methodology, which uses individual driving statistics as a factor in auto insurance premium determination, was filed by two insurers in Nevada in 2009. Both filings were approved after a close scrutiny of the UBI algorithm, rating plan and privacy-related concerns by the Division actuaries.

Usage-based auto insurance utilizes the miles driven in each policy period and other driving-related statistics to create potential discounts, giving Nevada drivers an opportunity to save on their auto insurance policies. Policyholders who voluntarily participate in a UBI program receive a discount on their auto insurance for their participation. This process also allows the insurance companies an opportunity to gather data for future refinements to the methodology. To participate, policyholders agree to self-install a small device in their vehicles' secondary on-board diagnostics port. Such a device, which lacks any GPS features and cannot track the actual location of the vehicle, records and transmits driving information such as miles driven, frequency of driving, different speeds and hard/soft braking instances back to the insurance company. At least one insurer has indicated that the data collected will be made available to the policyholders via the internet. This will allow the policyholders to review their driving habits and initiate any changes to become safer drivers. Policyholders have the ability to select the vehicles in which they prefer to install the non-GPS data collection device(s).

Because this is a new methodology, during the initial implementation the insurers have established very broad mileage bands. Currently, one insurer has mileage bands of above 10,000 miles and below 10,000 miles. As more consumers utilize this technology, the collected data may allow the insurers to re-define the mileage bands to a finer level. Any such changes will have to be filed with, and reviewed by, the Division prior to implementation.

Consumer Matters

The Division assists Nevada consumers by responding to their inquiries and investigating insurance-related complaints. Given the current economic conditions, consumers have expressed a concern about their auto insurance premiums increasing. Nevada consumers have several avenues to assist them in lowering the cost of their auto insurance. Some rating factors are in the direct control of the consumer. Being a safe driver and establishing a clean driving record, not filing smaller claims which may provide minimal insurance benefits, reducing the number of miles the vehicles are driven by car-pooling, types of vehicles the consumer opts to own and drive, and making a decision on the amount of coverage and deductible levels, are some of the measures that consumers can review and act upon to help lower their auto insurance premiums. Nevada's healthy and competitive insurance marketplace also allows the consumer to shop around to find competitive rates. As cited earlier in this report, the introduction and approval of usage-based insurance, which rewards less driving and safer driving behavior, provides another option for premium reduction for certain Nevadans.

The Division considers consumer knowledge to be an important aspect of the regulation of auto insurance in Nevada. The rating methodologies employed by auto insurers have become increasingly complex; making it more difficult for consumers to understand an insurer's rating variables and the application of these variables to calculate the premium of a specific individual. At the same time, complaints filed by consumers reveal that often the initial explanations about premium adjustments provided by insurance companies are substantially inadequate.

In accordance with statutory requirement, and to educate Nevada consumers, the Division annually publishes the *Nevada Consumer's Guide to Auto Insurance Rates*. In addition to providing information encompassing common auto insurance terms, types of coverages available under the auto insurance policy, and information used for auto insurance underwriting and rating, the guide also provides rate comparisons from top writers of auto insurance in Nevada for several hypothetical situations. The guide is available at the Carson City and Las Vegas offices of the Division and is also available on the Division's Website[8].

Market and Rate Trends - Auto

General trends in rates and ratemaking, availability of insurance, affordability of insurance, market concentration, and ease of entry for new insurers are traditionally considered measures to gauge an insurance market's overall health and help determine whether a competitive insurance market exists.

The Nevada auto insurance market is comprised of insurers who offer auto insurance products for monthly, six-month and annual policies. Many insurers also allow installment payment plans at monthly or quarterly levels. In addition to payment plans, Nevada consumers have various avenues to purchase their auto insurance. Consumers can purchase auto insurance via the internet, by telephone, or through a personal visit to an insurance agent's office. This variability gives the insurers an opportunity to expand their market share while allowing consumers a choice when purchasing auto insurance.

State of the Market

In 2009, approximately 150 companies actively wrote business in the auto insurance market in Nevada, which is a slight increase from 2007. Exhibit I provides a summary of the top 25 insurers in Nevada along with their market share based upon direct written premiums. In terms of premium volume, the top three insurers represent 27 percent of the direct written premium, and the top five carriers represent 39 percent. Comparing the 2009 market share data with 2007[9] (Exhibit II) reveals a slight drop in the market share of the top insurers in 2009, indicating a more even spread of business among insurers.

Exhibit III contains market share information for the top five auto insurance groups for 2007 and 2009. While the top three groups remain the same, the combined market share for the top three groups declined slightly. At the same time, the State Farm Group increased its market share from 2007 and became the largest auto insurance group in Nevada. Another change occurred when Progressive Group became the fourth-largest auto insurer group, surpassing the California State Auto Group. Division actuaries note that, as a relatively new entrant into the

[8] *Consumer's Guide to Automobile Insurance Rates:* http://doi.state.nv.us/scs/doc/AutoGuide2009.pdf

[9] *Nevada Division of Insurance's 2009 Report on the Nevada Insurance Market submitted to the 2009 Nevada Legislature*

Nevada auto insurance market nine years ago, American Family Insurance Group had made significant gains in market share and direct written premiums. However, in 2009, American Family Insurance Group dropped out of the top-five ranking.

Auto Rate Trends

The Division has observed an upward trend in statewide average base rates among auto insurers. Insurers are documenting worsening loss experience in certain types of coverages, leading to overall losses for their auto programs. Exhibit IV provides a summary of the rate changes for the top five auto insurance companies in Nevada for the last 3 years (2008-2010). Base rate changes are on an average statewide basis and may not reflect the impact on individual consumers. Rate filings that are submitted as revenue-neutral with a statewide average rate change of 0.0 percent, meaning that the aggregate of increases and decreases has no effect on total premium collected, may contain a spread of rate factors that have a significant impact on individual insureds with certain characteristics.

An auto insurance policy is generally comprised of various types of coverages. Some coverages provide protection for bodily injury to the insured or to others while other types of coverages provide protection for damage to property.

Coverages that provide medical treatment benefits due to bodily injury include:

- **Bodily Injury Liability**: This coverage pays damages, including medical expenses, for injuries to a third party if the accident is caused by an insured.
- **Medical Payments**: This coverage pays reasonable and necessary medical expenses, without regard to legal liability, resulting from accidental bodily injury while operating or occupying an insured vehicle or being struck as a pedestrian by a motor vehicle.
- **Uninsured/Underinsured Motorist (UM/UIM)**: This coverage protects the insured and occupants in an insured vehicle if they get injured in an accident in which the owner or operator of another motor vehicle is legally liable and does not have insurance (uninsured) or does not have enough insurance (underinsured).

Rate trends can be measured by the actions of the largest insurers in Nevada. Recent rate filings reviewed by Division staff for the top auto insurers reveal that auto insurance base rates for coverages related to bodily injuries that pay for medical treatment are on an upward trend. The underlying statistical data, submitted as part of the rate filing process, for bodily injury, medical payments and UM/UIM coverages shows worsening loss experience in the form of higher frequency and severity (claims payments made) of losses/claims for most of the top insurers in the last three years. The data supports the rate need/indication being requested by the insurers, and the following three reasons are generally cited by insurers to explain these trends:

- *Medical Costs*: Insurers attribute the rising cost of these coverages to the increasing trend in medical costs including hospital stays, emergency room treatments, prescription drug costs and general medical expenditures.
- *Uninsured/Underinsured Drivers*: In the last few years, insurers are also reporting an increase in claims related to the UM/UIM coverages. The general belief is that the severe economic recession in Nevada, with one of the highest unemployment and foreclosure rates in the U.S., may be forcing more Nevadans to either opt for reduced amounts of auto coverage (underinsured) or forego auto insurance completely (uninsured). Payments for damages resulting from an accident caused by an uninsured or underinsured driver are generally paid by the insurers whose insureds are victims of such accidents and have UM/UIM coverage on their insurance policies. This leads to

worsening loss experience for this coverage and causes the rates to increase in order to cover the sustained losses.

- *Fraud*: Some insurers have also alluded to the possibility of insurance fraud contributing to the worsening loss experience related to medical-based coverages. It is generally very difficult to conclusively ascertain whether a medical treatment/procedure is a reasonable and necessary expense or possible insurance fraud. Insurers are statutorily required to report suspected fraud instances to the Nevada Attorney General's office with a copy to the Division.

Coverages that provide repair or replacement benefits for damage to property include:

- **Property Damage Liability**: This coverage pays to repair the physical damage to a third party's property, including a vehicle.

- **Comprehensive**: This coverage insures consumers against theft or other damage to their vehicles, resulting from causes such as wind damage, falling objects, fire, flood and vandalism.

- **Collision**: This coverage protects against damage to an insured vehicle resulting from a collision, regardless of who is at fault, and provides for repair of the damage to the insured vehicle or a monetary payment to indemnify the insured for the loss.

While the coverages involving medical treatment are seeing an upward trend in premiums, rate filing data also indicates that the rates for comprehensive and collision coverage are generally on a downward trend. This is due to a reduced number of claims (frequency) and/or claim payments made (severity). Some possible contributory factors in support of this trend include a reduction in auto insurance fraud related to consumers causing physical damage to their own vehicles to collect insurance payments, a reduction in auto theft and vandalism cases, and safety measures undertaken by consumers to better protect their vehicles from perils that can lead to a comprehensive or collision claim. In addition, the price of petroleum combined with incentive-based programs like "Cash for Clunkers" can contribute to a temporary change in fleet composition whereby consumers opt to purchase newer, smaller, fuel-efficient vehicles.

However, another aspect of this trend is that consumers may be opting to increase their deductible levels to lower their premium payments. This would result in fewer small losses being reported to or paid by the insurers, thereby lowering the loss frequency data of auto insurers.

Division actuaries believe that denying reasonable rate increase requests that are supported by deteriorating loss experience data provided by the insurers would be in violation of NRS 686B.050 (which requires that rates not be inadequate) and could have a detrimental impact on the availability of competitive auto insurance products for Nevada consumers.

Exhibit I

Private Passenger Automobile Insurance by Premium
Top 25 Insurers – 2009
(Monetary figures are in thousands of dollars.)

RANK	NAIC Group Code	NAIC Company Code	Company Name	State of Domicile	Direct Premium Written	Direct Premium Earned	Direct Loss Incurred	Pure Direct Loss Ratio	Market Share
1	176	25178	State Farm Mutual Automobile Insurance Company	IL	$205,541	$203,780	$135,396	66.44%	12.41%
2	212	21652	Farmers Insurance Exchange	CA	$138,505	$142,921	$74,994	52.47%	8.36%
3	1278	37770	Western United Insurance Company	IN	$114,413	$115,797	$71,646	61.87%	6.91%
4	473	19275	American Family Mutual Insurance Company	WI	$104,811	$112,811	$73,825	65.44%	6.33%
5	8	29688	Allstate Fire and Casualty Insurance Company	IL	$84,655	$81,637	$48,145	58.97%	5.11%
6	155	16322	Progressive Direct Insurance Company	OH	$62,782	$61,594	$30,984	50.30%	3.79%
7	8	19232	Allstate Insurance Company	IL	$48,855	$51,012	$31,508	61.77%	2.95%
8	200	25941	USAA (United Services Automobile Association)	TX	$44,664	$44,687	$25,686	57.48%	2.70%
9	111	23035	Liberty Mutual Fire Insurance Company	WI	$44,618	$44,433	$22,682	51.05%	2.69%
10	31	35882	GEICO General Insurance Company	MD	$43,088	$42,832	$25,697	59.99%	2.60%
11	155	38628	Progressive Northern Insurance Company	WI	$43,004	$39,851	$21,576	54.14%	2.60%
12	31	22055	GEICO Indemnity Company	MD	$37,398	$37,773	$21,339	56.49%	2.26%
13	212	21687	Mid-Century Insurance Company	CA	$32,742	$35,944	$20,111	55.95%	1.98%
14	8	17230	Allstate Property and Casualty Insurance Company	IL	$32,690	$34,757	$20,459	58.86%	1.97%
15	91	37478	Hartford Insurance Company of the Midwest	IN	$31,703	$30,726	$18,302	59.57%	1.91%
16	176	25143	State Farm Fire and Casualty Company	IL	$31,248	$30,988	$23,012	74.26%	1.89%
17	200	25968	USAA Casualty Insurance Company	TX	$29,813	$30,012	$19,796	65.96%	1.80%
18	3495	11738	Infinity Auto Insurance Company	OH	$22,781	$24,601	$13,937	56.65%	1.38%
19	31	22063	Government Employees Insurance Company	MD	$20,707	$20,635	$12,567	60.90%	1.25%
20		10730	American Access Casualty Company	IL	$17,709	$17,359	$11,218	64.62%	1.07%
21	408	28401	American National Property and Casualty Company	MO	$17,528	$17,377	$16,107	92.69%	1.06%
22	91	34690	Property and Casualty Insurance Company of Hartford	IN	$16,230	$17,181	$11,383	66.25%	0.98%
23	212	25089	Coast National Insurance Company	CA	$16,083	$15,286	$7,739	50.63%	0.97%
24	91	11000	Sentinel Insurance Company, Ltd.	CT	$15,738	$14,828	$10,865	73.27%	0.95%
25	169	13137	Viking Insurance Company of Wisconsin	WI	$15,072	$13,893	$7,025	50.57%	0.91%
Totals for Top 25 Companies					**$1,272,378**	**$1,282,715**	**$775,999**	**60.50%**	**76.80%**
Totals for All 151 Companies					**$1,656,780**	**$1,676,243**	**$1,015,103**	**60.56%**	**100.00%**

Source: NAIC I-SITE – Market Share and Loss Ratio Summary Report, Calendar Year 2009

Exhibit II

Private Passenger Automobile Insurance by Premium
Top 25 Insurers – 2007
(Monetary figures are in thousands of dollars.)

RANK	NAIC Group Code	NAIC Company Code	Company Name	State of Domicile	Direct Premium Written	Direct Premium Earned	Direct Loss Incurred	Pure Direct Loss Ratio	Market Share
1	176	25178	State Farm Mutual Automobile Insurance Company	IL	$203,658	$206,806	$131,275	63.48%	11.71%
2	212	21652	Farmers Insurance Exchange	CA	$181,620	$187,068	$116,928	62.51%	10.44%
3	473	19275	American Family Mutual Insurance Company	WI	$143,613	$144,269	$127,582	88.43%	8.26%
4	1278	37770	Western United Insurance Company	CA	$119,826	$116,395	$98,725	84.82%	6.89%
5	8	19232	Allstate Insurance Company	IL	$70,068	$73,163	$37,079	50.68%	4.03%
6	155	16322	Progressive Direct Insurance Company	OH	$59,102	$59,989	$33,517	55.87%	3.40%
7	212	21687	Mid-Century Insurance Company	CA	$57,783	$58,001	$41,004	70.70%	3.32%
8	8	17230	Allstate Property and Casualty Insurance Company	IL	$57,244	$62,078	$33,261	53.58%	3.29%
9	200	25941	USAA (United Services Automobile Association)	TX	$44,634	$44,407	$33,181	74.72%	2.57%
10	8	29688	Allstate Fire and Casualty Insurance Company	IL	$43,937	$35,945	$23,950	66.63%	2.53%
11	111	23035	Liberty Mutual Fire Insurance Company	WI	$40,704	$38,677	$24,482	63.30%	2.34%
12	31	35882	GEICO General Insurance Company	MD	$40,686	$40,423	$28,232	69.84%	2.34%
13	200	25968	USAA Casualty Insurance Company	TX	$30,935	$30,973	$22,289	71.96%	1.78%
14	31	22055	GEICO Indemnity Company	MD	$30,570	$28,757	$21,060	73.23%	1.76%
15	176	25143	State Farm Fire and Casualty Company	IL	$26,193	$26,630	$17,819	66.91%	1.51%
16	155	38628	Progressive Northern Insurance Company	WI	$23,964	$22,518	$13,264	58.90%	1.38%
17	91	37478	Hartford Insurance Company of the Midwest	IN	$23,163	$18,727	$13,927	74.37%	1.33%
18	31	22063	Government Employees Insurance Company	MD	$20,489	$20,506	$13,606	66.35%	1.18%
19	91	34690	Property and Casualty Insurance Company of Hartford	IN	$20,128	$20,944	$13,915	66.44%	1.16%
20	12	40258	American International South Insurance Company	PA	$19,721	$19,400	$16,143	83.21%	1.13%
21	155	37834	Progressive Preferred Insurance Company	OH	$19,282	$20,554	$11,562	56.25%	1.11%
22	408	28401	American National Property and Casualty Company	MO	$18,475	$19,028	$11,116	58.42%	1.06%
23	91	30104	Hartford Underwriters Insurance Company	CT	$18,314	$19,285	$12,779	66.26%	1.05%
24	169	21164	Dairyland Insurance Company	WI	$17,955	$18,431	$8,560	46.44%	1.03%
25	3495	11738	Infinity Auto Insurance Company	OH	$17,377	$12,885	$10,040	77.92%	1.00%
Totals for Top 25 Companies					**$1,349,441**	**$1,345,859**	**$915,296**	**68.01%**	**77.58%**
Totals for All 146 Companies					**$1,739,366**	**$1,738,608**	**$1,167,907**	**67.17%**	**100.00%**

Source: NAIC I-SITE – Market Share and Loss Ratio Summary Report, Calendar Year 2007

EXHIBIT III

Private Passenger Automobile Insurance by Premium
Top 5 Insurance Groups by Market Share in 2007 and 2009
(Monetary figures are in thousands of dollars.)

2009 – Top 5 Groups

RANK	NAIC Group Code	Group Name	Direct Premium Written	Direct Premium Earned	Direct Loss Incurred	Pure Direct Loss Ratio	Market Share
1	176	State Farm Group	$236,789	$234,768	$158,408	67.47%	14.29%
2	212	Zurich Insurance Group	$205,934	$211,236	$113,135	53.56%	12.43%
3	8	Allstate Insurance Group	$181,827	$183,919	$111,196	60.46%	10.97%
4	155	Progressive Group	$126,597	$123,902	$62,502	50.44%	7.64%
5	1278	California State Auto Group	$114,413	$115,797	$72,019	62.19%	6.91%
Totals for Top 5 Groups			**$865,560**	**$869,622**	**$517,260**	**59.48%**	**52.24%**
Totals for All Groups (68 Active Groups)			**$1,656,780**	**$1,676,243**	**$1,015,103**	**60.56%**	**100.00%**

Source: NAIC I-SITE – Market Share and Loss Ratio Summary Report, Calendar Year 2009

2007 – Top 5 Groups

RANK	NAIC Group Code	Group Name	Direct Premium Written	Direct Premium Earned	Direct Loss Incurred	Pure Direct Loss Ratio	Market Share
1	212	Zurich Insurance Group	$245,475	$250,108	$161,094	64.41%	14.11%
2	176	State Farm Group	$229,851	$233,436	$149,094	63.87%	13.21%
3	8	Allstate Insurance Group	$193,656	$194,895	$107,055	54.93%	11.13%
4	473	American Family Insurance Group	$145,219	$145,815	$128,879	88.39%	8.35%
5	1278	California State Auto Group	$119,826	$116,395	$96,257	82.70%	6.89%
Totals for Top 5 Groups			**$934,027**	**$940,649**	**$642,379**	**68.29%**	**53.70%**
Totals for All Groups (62 Active Groups)			**$1,739,366**	**$1,738,608**	**$1,167,907**	**67.17%**	**100.00%**

Source: NAIC I-SITE – Market Share and Loss Ratio Summary Report, Calendar Year 2007

Exhibit IV

3-YEAR PRIVATE PASSENGER AUTOMOBILE INSURANCE RATE CHANGE HISTORY

State Farm Mutual Automobile Insurance Company

Effective Date	Overall Rate Change*
01/01/2008	0.0%
08/25/2008	-0.5%
01/01/2009	0.0%
01/18/2010	+2.5%

Farmers Insurance Exchange

Effective Date	Overall Rate Change
05/01/2008	+7.7%
12/01/2008	0.0%
07/01/2009	0.0%
02/15/2010	-3.0%

Western United Insurance Company

Effective Date	Overall Rate Change
06/23/2008	+3.0%
06/23/2009	+2.3%
01/15/2010	0.0%
10/01/2010	+3.5%

American Family Mutual Insurance Company

Effective Date	Overall Rate Change
07/19/2008	+8.0%
09/01/2009	+4.1%
08/15/2010	0.0%
09/01/2010	+5.7%

Allstate Fire and Casualty Insurance Company

Effective Date	Overall Rate Change
01/28/2008	0.0%
06/23/2008	+5.0%
12/07/2009	+7.9%
04/05/2010	0.0%
05/03/2010	-0.7%
07/05/2010	-1.3%

Source: Division of Insurance personal lines rate filing database

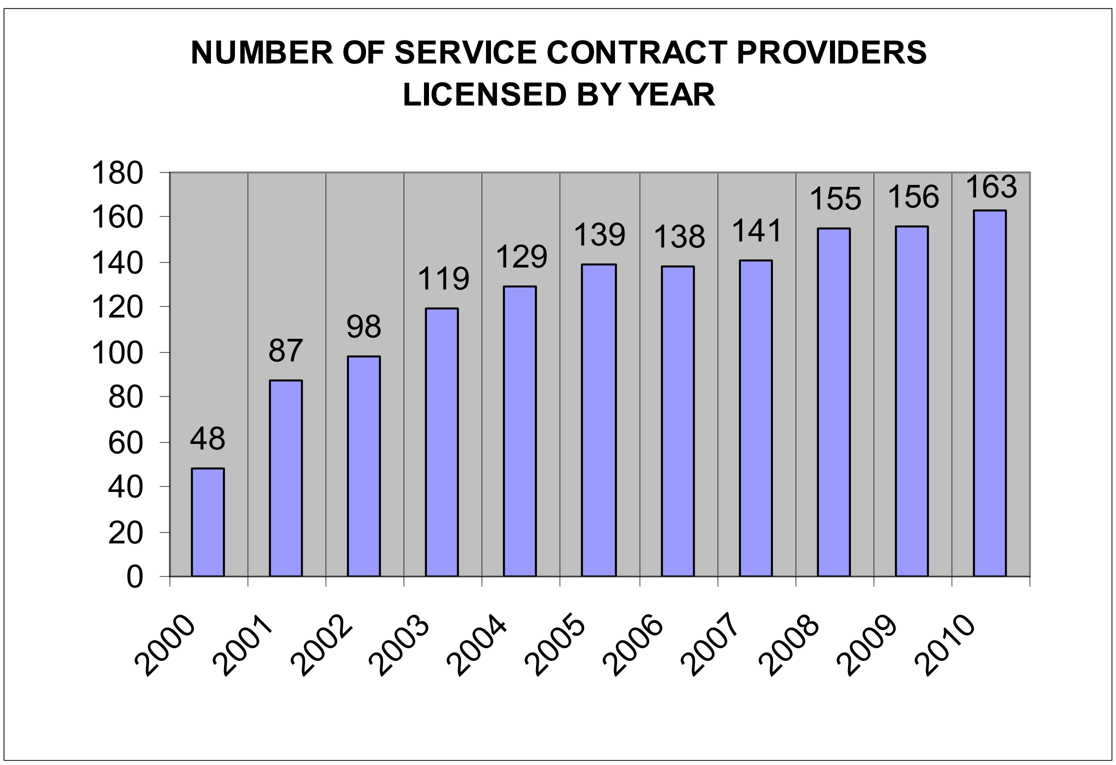
* *Overall rate change reflects statewide average impact. Some consumers may experience a rate increase, some may experience a rate decrease and some may not experience any change.*

SERVICE CONTRACTS

Oftentimes, consumers purchasing items such as automobiles, computers, consumer electronics and homes also choose to purchase a service contract for that item or, in the case of a homeowner, a service contract that will cover home systems and home appliances. A "service contract" is a written agreement in which the provider selling the agreement agrees to repair, replace or perform maintenance on personal, family or household goods described in the contract that are owned by the person who purchases the contract.

The contract covers a specific period, and is activated when the product covered in the contract has an operational or structural failure as a result of a defect in materials, workmanship or normal wear and tear. It is important to note, however, that service contracts do not cover accidental events or incidents occurring by chance as does the typical property and casualty insurance product. Additionally, service contracts do not cover any component of the physical structure of a home, whether a site-built home or a manufactured home.

The selling of service contracts in Nevada has continued to expand since 1999, when Chapter 690C of the Nevada Revised Statutes (NRS) was adopted. The number of service contract providers selling service contracts in this state also has increased during this time, with 163 service contract providers licensed to issue, sell or offer service contracts for sale in Nevada today.



Source: Division of Insurance
2010 Service Contract Providers licensed as of 12/13/2010

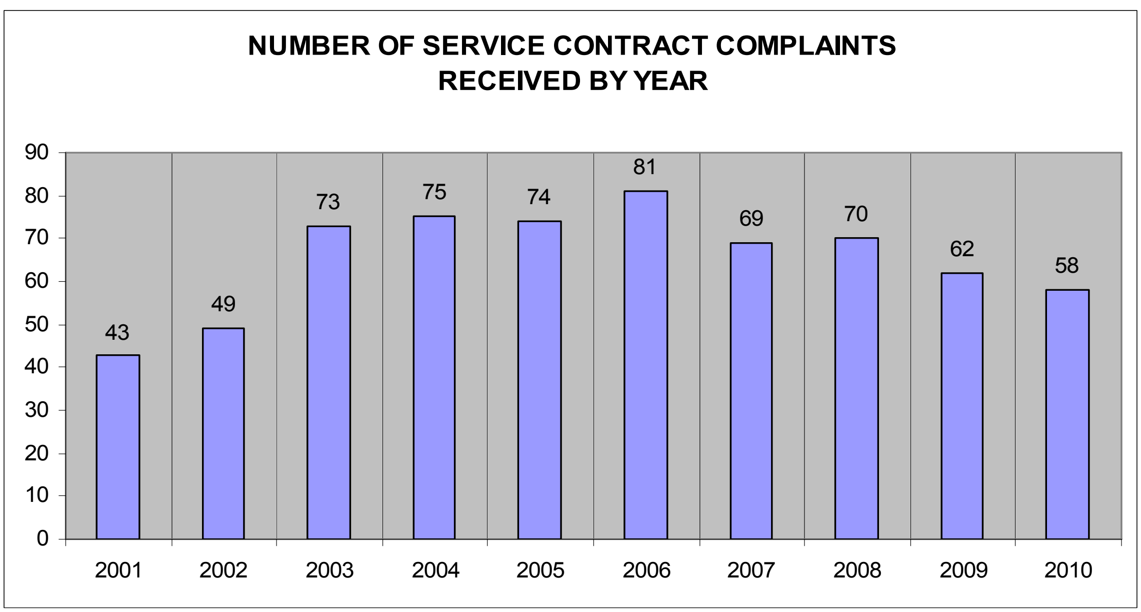
Home Warranties

One type of service contract is a "home warranty." A home warranty is a contract in which the provider agrees to repair or replace systems in the home, such as heating and air conditioning, plumbing and electrical systems as well as home appliances such as refrigerators and dishwashers. It may also provide limited coverage for roof repairs. In the past, home warranties could only be sold as "insurance for home protection" pursuant to Chapter 690B of NRS. The home protection chapter was amended in the 2003 Legislative Session to allow certain home warranty products to be regulated under Chapter 690C of NRS, Service Contracts. Since that chapter was amended, many home warranty companies have registered with the Division as service contract providers and have begun selling their home warranties as service contracts. These service contracts are not considered "insurance" and, unlike insurance for home protection, they do not cover the structural elements of a site-built home or a manufactured home.

An important facet of home warranty service contracts is to ensure that goods essential to the health and safety of the service contract purchaser are repaired promptly in emergency situations. In 2008 the Commissioner adopted a new regulation requiring service contracts to provide improved protection. In addition to requiring that emergency repairs begin within 24 hours (or as soon as reasonably practicable), it also requires providers to regularly and completely update service contract holders as to claim status and estimated time of repair completion, including the delivery status of parts required to complete the repair. With the adoption of this regulation, the Division believes that consumers who purchase home warranty service contracts are now better served.

Complaints

Annually, the Division receives approximately 65 formal complaints related to service contracts. The complaints include customer service, contract disputes and misunderstood coverage. Many of the complaints concern claim denials. All complaints received by the Division are submitted to the service contract provider so that we may obtain a written provider response to the complainant. With rare exception, the Division is able to negotiate a resolution satisfying both the consumer and the provider.



Source: Division of Insurance
2010: Complaints received as of 10/13/10

Recent concerns

Provider bankruptcies have become a more frequent issue in this current economic climate. In such cases, the Division assists consumers concerning reimbursement for repairs as they pertain to either service contracts purchased or the claim process.

Unfortunately, the Division anticipates that these failures in the service contract market in Nevada are likely to continue. This is why the Division has introduced legislation this session to tighten the financial responsibility requirements for service contract providers, so the Division can be better prepared to assist consumers in the event of bankruptcy on the part of a provider.

SURPLUS LINES INSURANCE

The traditional insurance market, also known as the admitted insurance market, may not be able to supply insurance for every type of risk. These risks are addressed in the surplus or non-admitted market. A few examples of coverage generally written in the surplus lines market include child or adult day care facilities liability, and property insurance on vacant buildings. When coverage is unavailable and has been rejected in the admitted market, the surplus lines market is an option for insurance placement.

Surplus lines is generally defined as a statutory provision in state insurance codes that allow insurance buyers to have access to non-admitted/unauthorized insurance companies through specially licensed brokers, when the state's admitted/authorized insurers are unable to fulfill the buyer's insurance needs.

There are key differences between an admitted and a non-admitted insurer. The surplus lines insurer does not hold a certificate of authority nor does the Commissioner regulate its rates or policy forms. However, the Commissioner does deem a surplus lines insurer eligible to receive business, pursuant to NRS 685A.070. Surplus lines insurance is governed under the provisions of Chapters 685A of the Nevada Revised Statutes ("NRS") and the Nevada Administrative Code ("NAC").

Historically, surplus lines insurance was limited to providing coverage for hard-to-place risks when admitted insurers were unwilling or unable to write such risks. The types of hazards written may have included high-risk, unique or complex businesses (such as errors & omissions liability), an account with an excessive loss history (such as contractors' liability) or a risk that required higher policy limits (such as extremely high-valued residences) unavailable in the admitted market.

In today's surplus lines environment that is no longer the case. Competition is getting tougher between the admitted and non-admitted market. Many admitted insurers are changing their underwriting requirements to accept risks previously considered uninsurable in that market, in order to maintain market share and remain profitable.

In 1995, legislation was enacted authorizing the formation of a surplus lines association, resulting in the establishment of the Nevada Surplus Lines Association ("NSLA"). The NSLA has no regulatory power and reports to the Commissioner violations of Chapters 685A and 685B. The main objective of the NSLA is to provide surplus lines brokers with a simplified reporting venue in order to report the surplus lines premium tax due to the State of Nevada since – like traditional insurance - surplus lines insurance is subject to the 3.5 percent premium tax. Additionally, a fee of .4 percent is imposed by the NSLA for the review of the surplus lines coverage. The filing fees are used to fund the organization.

National Spotlight

Surplus lines has been a topic of great discussion within the Federal legislative process. H.R. 1065, known as the "Non-admitted and Reinsurance Reform Act of 2007" ("NRRA") was introduced in the House of Representatives ("House") on February 15, 2007 and passed on June 25, 2007. This legislation granted sole regulatory authority for multi-state surplus lines transactions to the insured's home state so that each transaction would only be subject to one set of rules, oversight and taxation. The bill was received in the Senate on June 26, 2007, where it was referred to the Committee on Banking, Housing and Urban Affairs. A companion bill, S. 929, based on a 2006 version of the legislation, was introduced in the Senate on March 20, 2007, and was referred to the Committee on Banking, Housing and Urban Affairs.

Bill History

On May 21, 2009, during the 111th session of Congress, the NRRA bill was reintroduced on May 21, 2009. On September 9, 2009, the bill passed the House without amendment and was referred to the Senate. The bill was referred to the Committee on Banking, Housing, and Urban Affairs. A companion bill, S. 1363, was introduced in the Senate on June 25, 2009, and was also referred to the Committee on Banking, Housing and Urban Affairs. Neither of these bills progressed past the Committee; therefore, the provisions of the NRRA were incorporated into H.R. 4173, The Wall Street Reform and Consumer Protection Act of 2009. This bill was introduced in the House on December 2, 2009. Several amendments were added to this bill with the final bill signed into law by President Obama on July 21, 2010.

New Provisions

A component of the enacted legislation requires the Treasury Department to establish the Federal Insurance Office ("FIO"). The FIO has the duty to: monitor the insurance industry; recommend to the Financial Services Oversight Council when it is necessary to designate an insurer to stricter standards; assist in administering the Terrorism Insurance Program; and perform other related duties. The intent of Congress was to ensure that each state adopt nationwide uniform requirements. This includes the NRRA portion of the bill that addresses forms and procedures to provide for the reporting, payment, collection and allocation of premium taxes for non-admitted insurance.

The National Association of Insurance Commissioners ("NAIC") established a task force to respond to the NRRA portion of H.R. 4173. Nevada is one of 12 members of this task force which is responsible for developing and overseeing the implementation of a state-based solution addressing surplus lines. The task force has drafted and vetted different agreement options to comply with the requirements of the act that include: the Surplus Lines Insurance Multistate Compliance Compact ("SLIMPACT"); the Non-admitted Insurance Compact; the Surplus Lines Insurance Multi-State Agreement ("SLIMA"); and the Non-admitted Insurance Multi-State Agreement ("NIMA"). Members of the task force have voted to pursue implementing the NIMA option, in order to provide a process to satisfy the multi-state premium tax collection and allocation issues of the bill in a prompt manner. The mandated date contained within the NRRA to implement a state-based system to address the collection and allocation of multi-state risk premium tax is July 21, 2011. Other requirements of NRRA will be addressed once the agreement is finalized and executed by participating states.

Consideration for Brokers

All surplus lines policies must be placed by a licensed surplus lines broker and "exported" to an eligible surplus lines insurer. This requirement has been modified by H.R. 4173, in that the broker writing multi-state risks is only required to be licensed within the home state of the insured; previously, a surplus lines broker was required to be licensed in all states where business exposure existed. Under these new reforms, the broker will continue to be responsible for filing an affidavit and paying the required tax; however, that will now be processed through a "clearinghouse" (as determined within the multi-state agreement), rather than through the individual state's stamping office or process. Of course, the brokers still must attest to the insurer's solvency and eligibility.

Economic Impact on Nevada

There are aspects of the NRRA that may adversely affect State revenue levels. Attached is a report from the NSLA revealing surplus lines premiums, taxes and late filings, filing fees and late filing penalties for the prior three calendar years and year to date through September 30, 2010. Pursuant to the proposed NIMA agreement, promulgated by the NAIC, all filings will be received by the home state and allocated to each participating state according to each participating state's fee and tax schedule. A state must be a NIMA participant to receive the state's respective portion of the multi-state risk premium tax. Since much of Nevada's surplus lines business is written on business operations whose corporate offices are domiciled in other jurisdictions (home state), Nevada will be a participating state to ensure it receives its portion of the premium tax generated from this multi-state business.

As previously mentioned, a clearinghouse will be created for the purpose of having a single point for allocating and auditing non-admitted multi-state insurance premium taxes to the participating states. The clearinghouse and appropriate computer software are required to be in place by the imposition of NRRA reforms by July 21, 2011. Additionally, pursuant to the NIMA draft, tax payments to participating states are proposed on a quarterly basis utilizing the following dates: February 15 for the quarter ending the preceding December 31; May 15 for the quarter ending the preceding March 31; August 15 for the quarter ending the preceding June 30; and November 15 for the quarter ending the preceding September 30. The home state will agree to enforce unpaid tax, interest or fees due, together with applicable penalties, and will follow the methods of collection governed by the laws of the home state and any administrative procedures of NIMA.

At this time, the affect of the NRRA is difficult to quantify regarding premium tax, fees and penalties, but there should be little change in revenue produced from these sources. However, the collection of surplus lines broker license fees will be greatly reduced, as these brokers now only must be licensed in the home state of the insured. Negotiations of NIMA are continuing.

The Division has proposed legislation to address the logistics of H.R. 4173, in order to comply with the uniformity requirements of the federal legislation and to be able to participate in a multi-state agreement such as NIMA.

Broker information highlighting the potential financial impact resulting from H.R. 4173 is discussed under the Producer Licensing section of this report.

SURPLUS LINES **PREMIUM AND TAX**

DESCRIPTION	2007		2008		2009		2010	
							1/1/10 THRU 9/30/2010	
	PREMIUM	TAX	PREMIUM	TAX	PREMIUM	TAX	PREMIUM	TAX
AUTOMOBILE	$8,282,805	$289,899	$4,825,237	$168,883	$4,012,571	$140,440	$4,224,122	$147,844
AVIATION LIABILITY	1,242,813	43,499	1,471,976	51,519	298,621	10,452	350,930	12,283
FIRE AND ALLIED	50,455,242	1,765,937	59,115,053	2,069,031	65,362,763	2,287,700	68,683,859	2,398,847
GENERAL LIABILITY	147,360,630	5,157,640	104,207,522	3,647,279	73,889,780	2,586,158	41,717,174	1,459,873
GEN LIAB-CONTRACTORS	86,882,806	3,040,903	52,027,782	1,820,976	30,722,541	1,075,292	13,356,411	467,477
INLAND MARINE	1,837,643	64,318	12,475,994	436,660	1,194,467	41,807	-1,457,551	-51,014
MISC SPECIAL LINES	6,630,761	232,077	10,057,590	352,016	4,120,684	144,225	3,547,774	124,173
MULTI PERIL	14,909,364	521,833	13,055,093	456,934	18,211,781	637,417	7,311,173	255,895
PERSONAL LINES	2,415,322	84,538	1,612,405	56,436	3,243,499	113,525	1,829,281	64,026
PROD & COMP OPERATIONS	716,025	25,061	552,578	19,340	1,239,957	43,399	262,298	9,180
PROFESSIONAL LIABILITY	39,421,452	1,379,754	33,720,566	1,180,223	29,493,524	1,032,277	21,094,610	738,314
TOTALS	$360,154,863	**$12,605,459**	$293,121,796	**$10,259,297**	$231,790,188	**$8,112,692**	$160,920,081	**$5,626,898**

TOTAL SURPLUS LINES PREM TAX COLLECTED FOR THE PERIOD 2007-2010: $36,604,346

TOTAL PENALTIES COLLECTED FOR THE PERIOD OF 2007-2010: $459,500

WORKERS' COMPENSATION

Workers' compensation insurance is industrial insurance, defined by NRS 616A.260 as ". . . insurance which provides the compensation required by chapters 616A to 617, inclusive, of NRS and employer's liability insurance incidental to and provided in connection with that insurance."

In Nevada, there are three workers' compensation insurance mechanisms: private insurers, associations of self-insured employers and individual self-insured employers. This segment focuses on private insurers.

Workers' Compensation Insurance and the Business Climate

Nevada workers' compensation insurance rates are expected to continue to decrease in 2011. Commissioner Barratt approved a 3.9 percent decrease in loss costs and a 2.2 percent decrease in assigned risk rates to be effective March 1, 2011. This follows the 7.6 percent decrease in loss costs and 3.7 percent decrease in assigned risk rates that were effective March 1, 2010.

This decrease is in stark contrast to some of the other western states, notably California and Washington, where workers' compensation insurance rates are increasing. In California, the rating bureau proposed a 29.6 percent increase in the pure premium rates to be effective January 1, 2011 to address rising claim costs. This increase was rejected by the California Commissioner of Insurance on the basis that insurers are not doing all that they can to control costs. In California, the pure premium rates filed by the rating bureau are advisory only; insurers are not obligated to base their rates on them. Given the inadequacy of the approved pure premium rates, it is likely that many California insurers will change rates that reflect higher pure premiums than the filed rates. In Washington, a 12 percent rate increase was pending as of mid-December.

Lower workers' compensation rates will give Nevada businesses a much-needed break in these difficult times. They will also provide an additional incentive for businesses in other states with rising workers' compensation costs to re-locate to Nevada.

Background and History

Private insurers are not required to insure every employer that applies for coverage. If an employer has had its application for coverage declined by at least two private insurers, that employer is generally eligible for coverage from the involuntary market, also known as the assigned risk plan. This assigned risk plan is a risk-sharing pool, in which three servicing carriers administer the policies, but the profits or losses from the assigned risk policies are allocated to the voluntary market insurers in proportion to their voluntary market share.

Since July 1, 2001, the National Council on Compensation Insurance, Inc. ("NCCI") has filed proposed "prospective loss costs" for the voluntary market. NRS 686B.17605 defines "prospective loss cost" as "the portion of a rate that is based on the historical aggregate losses and loss adjustment expenses, which are adjusted to their ultimate value and projected to a future point in time. . . the term does not include provisions for profit or expenses, other than loss adjustment expenses."

Once these loss costs are filed, insurers may then either file a loss cost multiplier ("LCM") to increase the loss cost for other expenses and profit (taking into account investment income), or file full rates based on the approved loss costs.

The NCCI also files proposed rates for the assigned risk plan. For the assigned risk plan, the NCCI files rates that include all expense provisions, including loss adjustment expenses, administrative expenses and commissions. The rates are a function of the loss costs and the assigned risk plan administrative expenses.

The NCCI administers the assigned risk plan. Every three years, there is a competitive bidding process to select the servicing carrier. Quality indicators and pricing are weighted in the selection process. Four carriers submitted bids to act as servicing carriers for the triennial period from January 1, 2009, through December 31, 2011. The servicing carriers that were selected are: Midwest Employers Casualty Company (W.R. Berkley Group), LM Insurance Corporation (Liberty Mutual Insurance Companies) and Travelers Indemnity Company (Travelers Group). The shares of the market awarded to each of these carriers were selected to minimize the overall costs to the system.

The Commissioner generally supports maintaining three servicing carriers to encourage continued competition to provide the best service and to reduce the disruption to the system that would result if a servicing carrier ceased providing its services to the Nevada assigned risk plan. That said, the size of the residual market has been decreasing. This decrease is the result of decreasing payrolls due to the economy and the willingness of private insurers to write business on a voluntary basis. The bid price per unit is typically lower the larger the projected size of the servicing carrier's share of the assigned risk plan. Therefore, it may be desirable to decrease the number of servicing carriers to two so as to maintain some economy of scale. This is an issue that the Division will continue to monitor.

The Commissioner strives to keep the operating costs of the assigned risk plan as low as possible to minimize costs to employers yet high enough to avoid any assessment on voluntary insurers. Such assessments would ultimately be passed on to employers in the voluntary market. The servicing carriers are encouraged to focus on employer safety and loss control. The most recent projections from the NCCI indicate that the Commissioner has been very successful with respect to this goal. No other state where NCCI administers the residual plan has avoided operating losses during this entire time span.

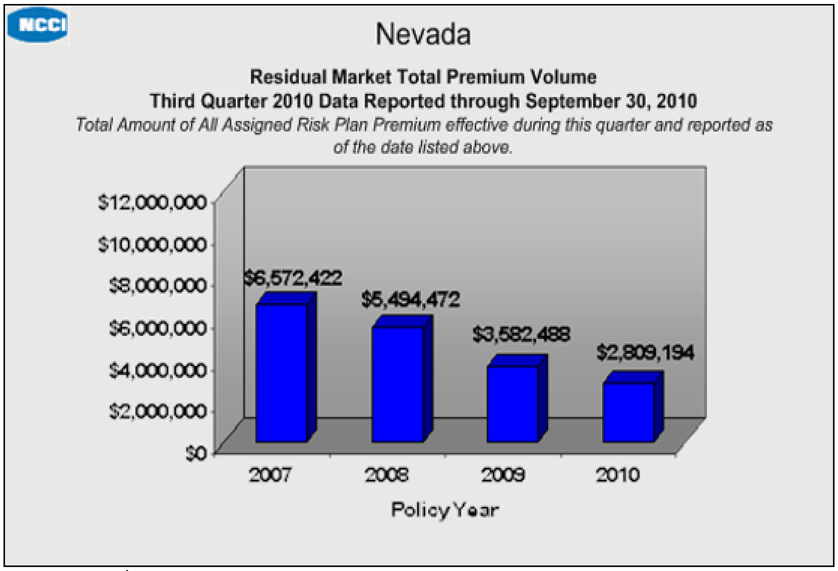
NCCI's Projected Residual Market Operating Gain
as a Percentage of Voluntary Market Written Premium

2001	2002	2003	2004	2005
1.3%	2.4%	3.6%	2.0%	2.5%

2006	2007	2008	2009
2.5%	1.4%	1.2%	0.0%

Source:
NCCI Residual Market Results as of Second Quarter 2010

Changes in the residual market size are indicative of the health of the market. The residual market started out very small but grew significantly in 2001. The residual market growth leveled off in 2004 but continued to increase at a slower rate through 2005. From 2006 to 2010 the size of the residual market has decreased. The following is a chart showing the size of the residual market over the past four years:



Source: RM Policy Data

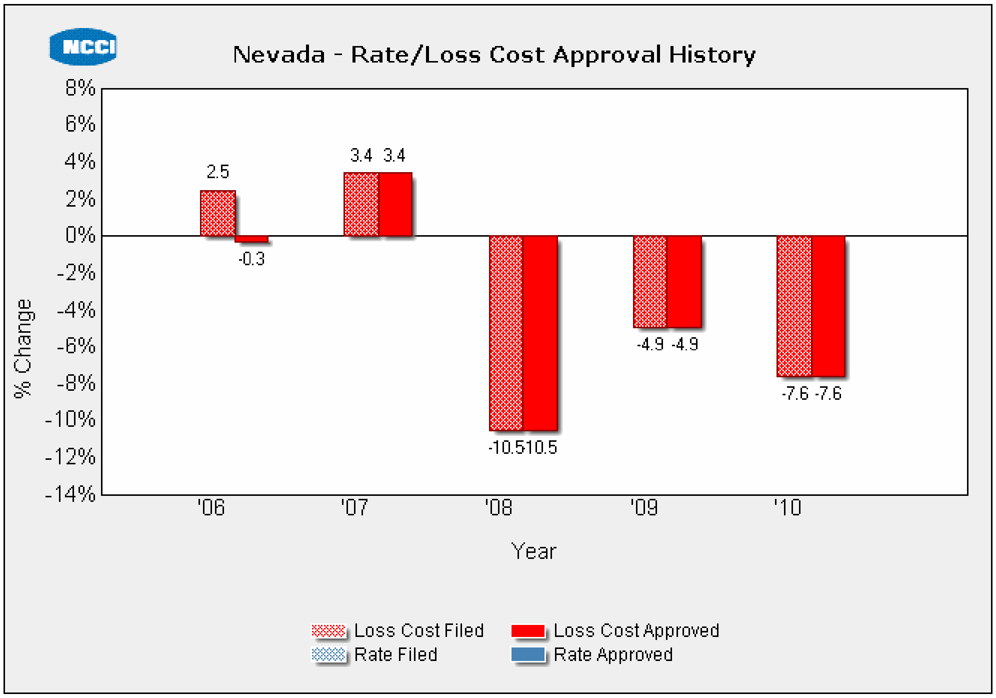
Current Economic Conditions and Decrease in Assigned Risk Plan

A contributing factor to the decrease in size of the market of the Assigned Risk Plan is the implementation of the Voluntary Coverage Assistance Program ("VCAP"). This program, implemented on July 1, 2006, allows participating insurers to review applications for assigned risk coverage. Risks that meet the participating insurers' underwriting guidelines are offered coverage by the participating insurer in the voluntary market, thus keeping new risks out of the assigned risk plan. Current market conditions also are contributing to the decline in assigned risk plan volume. Due to the weak economy, payrolls are down. To attempt to maintain premium volume, private insurers may be writing risks that would otherwise have been written in the assigned risk plan.

Healthy Workers' Compensation Insurance Market

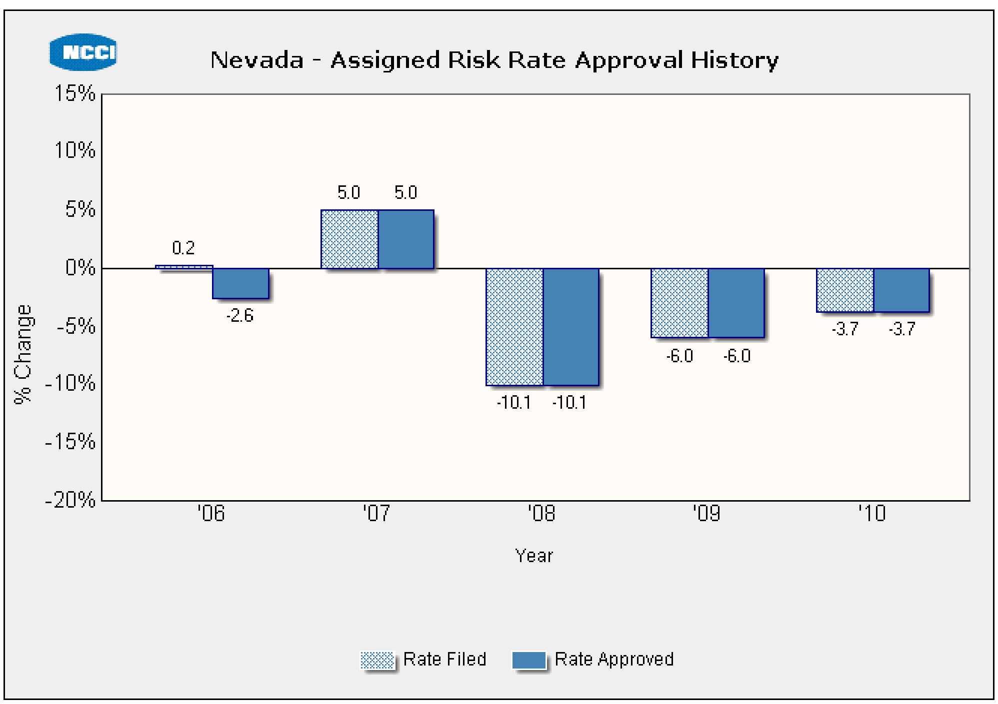
Workers' compensation insurers continue to enter the market. As of November 2010, 346 insurers were authorized to write workers' compensation coverage in Nevada; however, it is important to note that not every company that is authorized is actively writing. For calendar year 2009, the number of carriers with positive direct written premium increased to 200 companies, of which 136 underwrote at least $100,000 of premium. For calendar year 2008, there were 179 companies with positive direct written premium, of which 133 underwrote at least $100,000 of premium. In general, a healthy voluntary market leads to a smaller residual market.

The following chart displays loss cost filing activity in the voluntary market. The shaded bars represent what was requested by the NCCI, and the solid bars represent what was approved by the Commissioner.



Source: NCCI

The chart below illustrates the rate change history for the assigned risk plan:



Source: NCCI

The following table summarizes the loss cost and assigned risk changes for 2009 and 2010 by industry group and overall.

Approved NCCI Voluntary Loss Cost and Assigned Risk Rate Changes, 2009-2010

Industry Group	Voluntary Loss Cost Change, 2009	Voluntary Loss Cost Change, 2010	Assigned Risk Rate Change, 2009	Assigned Risk Rate Change, 2010
Contracting	-5.5%	-8.8%	-6.6%	-5.0%
Goods & Services	-5.6%	-4.6%	-6.7%	-0.6%
Manufacturing	-9.1%	-7.4%	-10.1%	-3.5%
Office & Clerical	-2.8%	-6.8%	-3.9%	-2.8%
Miscellaneous	-1.5%	-10.3%	-2.6%	-6.5%
Overall	**-4.9%**	**-7.6%**	**-6.0%**	**-3.7%**

Source: NCCI Rate Filings

The changes vary by classification and are as much as 20 percent above or below the average for the classification's industry group. For example, for classification 5645, "carpentry – detached one or two family dwellings," the approved change for the loss cost was -11.1 percent for 2009 and -11.5 percent for 2010. This classification falls within the larger contracting industry group, for which the loss costs had an average change of -5.5 percent in 2009 and -8.8 percent in 2010.

The changes for each year become effective as of March 1 of that year and apply to a risk as of its anniversary rating date, which usually is the policy effective date. Loss costs are the expected costs of medical and wage loss benefits including the costs to administer the benefits by employment classification. Insurers convert loss costs to full rates by factoring in the insurer specific loss cost multiplier which contemplates the insurers' administrative expenses and profit.

Claim Frequency and Payroll Caps

Decreasing claim frequency is responsible, in large part, for the loss cost and rate reductions. Decreasing claim frequency more than offsets increasing average indemnity and medical costs per claim, as well as the cost of living benefit adjustments that were enacted during the 2003 Legislative session, and the expected impact of recent legislation enacted during the 2009 Legislative session.

When comparing Nevada workers' compensation loss costs and loss cost changes to those in other jurisdictions, it is important to keep in mind that the Nevada exposure base – payroll – is capped at $36,000 per employee per policy year. An employee's earnings in excess of $36,000 per policy year would not contribute to the exposure data used in determining workers' compensation loss costs. In other states, the full payroll is generally used to compute the premium. Thus, if Nevada's workers' compensation insureds had the same actual payroll and loss experience but were located in another state that did not have the $36,000 payroll cap, the indicated loss costs would be different.

NCCI voluntary insurance loss costs are only one component of the rates charged by private insurers. Each insurer in the voluntary workers' compensation market must file a loss cost multiplier to include expenses and profit. As a result, not every insurer charges the same rate.

Nevada workers' compensation insurance is becoming less inflation-sensitive because workers' compensation payrolls are truncated by the impact of the $36,000 payroll cap, as well as the impact of the deemed wage laws for corporate officers, sole proprietors and others. While the payroll used to compute the premium is capped, benefits are not capped. Maximum wage loss benefits are a function of the average weekly wage, not the payroll cap. Medical benefits are unlimited and are not a function of payroll. For example, an injured worker whose premium was based on a $300 monthly deemed wage is eligible for full medical benefits. Wage loss and medical benefits each make up about half of overall workers' compensation claim costs. For 60 percent of the occupations in Nevada included in the state's annual wage survey (438 out of the 732 occupations for which median income was reported), the median wage is higher than the payroll cap (2010 Occupational Wage Estimates, Nevada Department of Employment, Training and Rehabilitation). That is, the majority of workers in these occupations earn more than $36,000.

The following table shows the loss cost multipliers for the 10 top voluntary workers' compensation insurers based on premium volume. The loss cost multipliers are applied to the loss costs filed by the advisory organization by classification to determine the rate. Several of the companies have multiple loss cost multipliers in place in order to segment their books of business by underwriting factors. The table illustrates there is a wide range of loss cost multipliers in-force. Employers, particularly those with desirable underwriting factors, may shop around to find lower cost coverage.

Top Ten Nevada Workers' Compensation Voluntary Insurers Loss Cost Multipliers:

Company Name	**Loss Cost Multiplier(s)**
American Home Assurance Company	1.611
Employers Insurance Company Of NV	1.2; 1.337; 1.595
Firstcomp Insurance Company	1.2; 1.65
Builders Insurance Company	1.2; 1.3; 1.4; 1.5
Insurance Company of the West	1.2; 1.3
New Hampshire Insurance Company	1.369
Liberty Insurance Corporation	1.233
Zurich American Insurance Company	1.438
Insurance Company of the State of PA	1.611
Illinois National Insurance Company	1.611

The following table represents Nevada workers' compensation experience reported on the insurers' 2009 annual statements. Workers' compensation has been a relatively profitable line of business for most of the Nevada insurers.

Group Code	Cocode	Company Name	Direct Premiums Written	Market Share	Direct Premiums Earned	Direct Loss Incurred	Pure Direct Loss Ratio
12	19380	American Home Assur Co	24,785	8.3%	36,799	28,590	77.7%
3363	10640	Employers Ins Co Of NV	19,604	6.6%	25,204	-20,625	-81.8%
	27626	Firstcomp Ins Co	12,369	4.1%	12,694	4,755	37.5%
1328	11025	Builders Ins Co Inc	12,191	4.1%	12,191	289	2.4%
922	27847	Insurance Co Of The West	11,804	4.0%	11,998	5,048	42.1%
12	23841	New Hampshire Ins Co	11,362	3.8%	13,162	6,575	50.0%
111	42404	Liberty Ins Corp	9,121	3.1%	9,172	5,670	61.8%
212	16535	Zurich Amer Ins Co	9,060	3.0%	8,783	9,588	109.2%
12	19429	Insurance Co Of The State Of PA	8,643	2.9%	12,932	8,093	62.6%

Group Code	Cocode	Company Name	Direct Premiums Written	Market Share	Direct Premiums Earned	Direct Loss Incurred	Pure Direct Loss Ratio
12	23817	Illinois Natl Ins Co	8,236	2.8%	3,690	1,812	49.1%
111	33600	LM Ins Corp	8,032	2.7%	8,787	6,257	71.2%
9	12338	Sequoia Ind Co	8,021	2.7%	7,961	2,282	28.7%
91	29459	Twin City Fire Ins Co Co	6,789	2.3%	6,710	3,466	51.7%
626	22667	Ace Amer Ins Co	6,696	2.2%	7,090	562	7.9%
748	18023	Star Ins Co	5,779	1.9%	6,973	2,633	37.8%
3548	25615	Charter Oak Fire Ins Co	5,594	1.9%	5,489	3,370	61.4%
	40517	Advantage Workers Comp Ins Co	5,422	1.8%	5,734	-718	-12.5%
3703	44300	Tower Ins Co Of NY	5,266	1.8%	4,628	3,114	67.3%
922	40029	Explorer Ins Co	4,692	1.6%	4,692	1,020	21.7%
150	24139	Old Republic Gen Ins Corp	4,647	1.6%	4,131	2,192	53.1%
12	19445	National Union Fire Ins Co Of Pitts	4,430	1.5%	7,114	10,996	154.6%
98	23612	Midwest Employers Cas Co	4,158	1.4%	2,721	1,731	63.6%
626	43575	Indemnity Ins Co Of North Amer	3,790	1.3%	4,184	212	5.1%
84	22179	Republic Ind Co Of Amer	3,699	1.2%	3,792	-3,387	-89.3%
91	19682	Hartford Fire In Co	3,649	1.2%	4,270	3,526	82.6%
38	20281	Federal Ins Co	3,536	1.2%	3,811	1,291	33.9%
91	30104	Hartford Underwriters Ins Co	3,474	1.2%	3,711	607	16.4%
111	26042	Wausau Underwriters Ins Co	3,454	1.2%	3,597	2,109	58.6%
91	11000	Sentinel Ins Co Ltd	3,311	1.1%	3,405	1,630	47.9%
3548	25658	Travelers Ind Co	3,184	1.1%	4,645	-506	-10.9%
	41394	Benchmark Ins Co	2,889	1.0%	2,886	7,502	259.9%
12	19410	Commerce & Industry Ins Co	2,862	1.0%	4,619	4,111	89.0%
748	25780	Williamsburg Natl Ins Co	2,743	0.9%	3,813	851	22.3%
218	20508	Valley Forge Ins Co	2,695	0.9%	3,085	1,157	37.5%
212	40142	American Zurich Ins Co	2,673	0.9%	3,562	2,824	79.3%
	15563	SeaBright Ins Co	2,607	0.9%	2,147	2,281	106.2%
3548	25682	Travelers Ind Co Of CT	2,541	0.9%	2,725	1,180	43.3%
212	21709	Truck Ins Exch	2,332	0.8%	2,477	1,245	50.3%
91	37478	Hartford Ins Co Of The Midwest	2,286	0.8%	1,465	780	53.2%
1279	11150	Arch Ins Co	2,225	0.7%	2,853	635	22.3%
111	23035	Liberty Mut Fire Ins Co	2,119	0.7%	1,463	2,976	203.4%
3548	25674	Travelers Prop Cas Co Of Amer	2,051	0.7%	2,128	2,318	108.9%
111	21458	Employers Ins of Wausau	2,002	0.7%	2,271	1,474	64.9%
4381	35408	Delos Ins Co	1,856	0.6%	1,941	788	40.6%
176	25143	State Farm Fire & Cas Co	1,845	0.6%	1,840	671	36.5%
212	21652	Farmers Ins Exch	1,792	0.6%	1,923	346	18.0%
212	21687	Mid Century Ins Co	1,641	0.5%	1,635	281	17.2%
1120	10120	Everest Natl Ins Co	1,401	0.5%	1,417	972	68.6%
98	15911	American Mining Ins Co Inc	1,386	0.5%	1,384	1,401	101.2%
111	23043	Liberty Mut Ins Co	1,325	0.4%	1,527	244	16.0%

Group Code	Cocode	Company Name	Direct Premiums Written	Market Share	Direct Premiums Earned	Direct Loss Incurred	Pure Direct Loss Ratio
150	24147	Old Republic Ins Co	1,260	0.4%	1,394	849	60.9%
84	43753	Republic Ind Co of CA	1,190	0.4%	1,210	737	60.9%
	42269	Majestic Ins Co	1,131	0.4%	1,132	230	20.3%
218	20494	Transportation Ins Co	1,126	0.4%	1,176	117	9.9%
91	29424	Hartford Cas Ins Co	1,095	0.4%	1,178	-68	-5.8%
1285	37885	XL Specialty Ins Co	1,071	0.4%	1,131	746	66.0%
218	20427	American Cas Co Of Reading PA	1,005	0.3%	935	216	23.1%
169	24988	Sentry Ins A Mut Co	974	0.3%	954	830	87.0%
457	19801	Argonaut Ins Co	931	0.3%	967	815	84.3%
212	26247	American Guar & Liab Ins	886	0.3%	597	252	42.2%
680	31895	American Interstate Ins Co	856	0.3%	882	686	77.8%
181	39845	Westport Ins Corp	852	0.3%	1,250	-317	-25.4%
218	20478	National Fire Ins Co Of Hartford	795	0.3%	839	343	40.9%
158	21113	United States Fire Ins Co	778	0.3%	767	444	57.9%
767	12262	Pennsylvania Manufacturers Assoc Ins	773	0.3%	957	298	31.1%
3548	19038	Travelers Cas & Surety Co	746	0.2%	734	350	47.7%
473	19275	American Family Mut Ins Co	741	0.2%	753	611	81.1%
767	41424	Pennsylvania Manufacturers Ind Co	695	0.2%	703	340	48.4%
218	20443	Continental Cas Co	690	0.2%	613	132	21.5%
572	12177	Compwest Ins Co	688	0.2%	686	423	61.7%
2538	42376	Technology Ins Co Inc	674	0.2%	480	452	94.2%
	38733	Alaska Natl Ins Co	642	0.2%	671	543	80.9%
31	11673	Redwood Fire & Cas Ins Co	638	0.2%	299	220	73.6%
336	13269	Zenith Ins Co	636	0.2%	668	174	26.0%
867	12416	Protective Ins Co	629	0.2%	629	294	46.7%
111	26069	Wausau Business Ins Co	627	0.2%	754	728	96.6%
	40134	Castlepoint Natl Ins Co	622	0.2%	639	246	38.5%
181	29874	North Amer Specialty Ins Co	586	0.2%	633	493	77.9%
38	12777	Chubb Ind Ins Co	580	0.2%	571	235	41.2%
111	41785	Colorado Cas Ins Co	542	0.2%	255	221	86.7%
626	20699	Ace Prop & Cas Ins Co	539	0.2%	469	54	11.5%
4680	11573	Accident Ins Co Inc	539	0.2%	450	205	45.6%
84	32620	National Interstate Ins Co	522	0.2%	333	696	209.0%
57	21261	Electric Ins Co	512	0.2%	512	-202	-39.5%
626	20702	Ace Fire Underwriters Ins Co	471	0.2%	507	275	54.2%
	18767	Church Mut Ins Co	453	0.2%	458	572	124.9%
1129	20648	Employers Fire Ins Co	447	0.1%	431	252	58.5%
761	21857	American Ins Co	444	0.1%	588	507	86.2%
91	22357	Hartford Accident & Ind Co	427	0.1%	395	297	75.2%
31	38865	California Ins Co	413	0.1%	413	-358	-86.7%
38	20346	Pacific Ind Co	405	0.1%	488	126	25.8%
212	19372	Northern Ins Co Of NY	398	0.1%	424	116	27.4%

Group Code	Cocode	Company Name	Direct Premiums Written	Market Share	Direct Premiums Earned	Direct Loss Incurred	Pure Direct Loss Ratio
93	12831	State Natl Ins Co Inc	389	0.1%	124	-353	-284.7%
3363	11512	Employers Compensation Ins Co	381	0.1%	284	139	48.9%
111	19704	American States Ins Co	369	0.1%	493	-182	-36.9%
3548	25666	Travelers Ind Co Of Amer	365	0.1%	388	130	33.5%
124	23396	Amerisure Mut Ins Co	349	0.1%	279	107	38.4%
	23108	Lumbermens Underwriting Alliance	341	0.1%	329	-19	-5.8%
12	23809	Granite State Ins Co	341	0.1%	275	216	78.5%
311	14788	NGM Ins Co	334	0.1%	137	146	106.6%
3548	25887	United States Fidelity & Guar Co	333	0.1%	447	-380	-85.0%
212	19305	Assurance Co Of Amer	331	0.1%	305	99	32.5%
309	24465	Western Natl Assur Co	326	0.1%	173	250	144.5%
	20613	Sparta Ins Co	308	0.1%	181	143	79.0%
781	37893	Ullico Cas Co	305	0.1%	282	181	64.2%
761	21873	Firemans Fund Ins Co	300	0.1%	47	-67	-142.6%
88	42552	Nova Cas Co	300	0.1%	294	106	36.1%
3548	36463	Discover Prop & Cas Ins Co	299	0.1%	479	-260	-54.3%
111	19690	American Economy Ins Co	278	0.1%	305	163	53.4%
1129	20621	OneBeacon Amer Ins Co	270	0.1%	263	162	61.6%
	21172	Vanliner Ins Co	269	0.1%	356	207	58.1%
212	19356	Maryland Cas Co	266	0.1%	336	-47	-14.0%
2978	20362	Mitsui Sumitomo Ins Co of Amer	264	0.1%	181	20	11.0%
	11118	Federated Rural Electric Ins Exch	229	0.1%	220	246	111.8%
1285	22322	Greenwich Ins Co	225	0.1%	185	81	43.8%
84	22136	Great Amer Ins Co of NY	207	0.1%	241	21	8.7%
7	13935	Federated Mut Ins Co	206	0.1%	204	-187	-91.7%
111	18333	Peerless Ind Ins Co	201	0.1%	88	36	40.9%
626	22748	Pacific Employers Ins Co	189	0.1%	204	720	352.9%
	36790	Springfield Ins Co Inc	188	0.1%	146	-15	-10.3%
62	21415	Employers Mut Cas Co	177	0.1%	217	216	99.5%
	31232	Work First Cas Co	177	0.1%	185	218	117.8%
3548	25623	Phoenix Ins Co	175	0.1%	371	197	53.1%
767	36897	Manufacturers Alliance Ins Co	175	0.1%	172	72	41.9%
158	21105	North River Ins Co	173	0.1%	230	-215	-93.5%
140	28223	Nationwide Agribusiness Ins Co	169	0.1%	119	-1	-0.8%
111	24732	General Ins Co Of Amer	158	0.1%	207	-34	-16.4%
	36234	Preferred Professional Ins Co	157	0.1%	148	47	31.8%
244	10677	Cincinnati Ins Co	157	0.1%	155	217	140.0%
201	25976	Utica Mut Ins Co	148	0.0%	123	20	16.3%
212	27855	Zurich Amer Ins Co Of IL	139	0.0%	72	147	204.2%
3098	12904	Tokio Marine & Nichido Fire Ins Co	133	0.0%	205	269	131.2%

Group Code	Cocode	Company Name	Direct Premiums Written	Market Share	Direct Premiums Earned	Direct Loss Incurred	Pure Direct Loss Ratio
572	10166	Accident Fund Ins Co of Amer	124	0.0%	197	139	70.6%
626	18279	Bankers Standard Ins Co	121	0.0%	131	22	16.8%
98	40045	Starnet Ins Co	109	0.0%	36	18	50.0%
761	21865	Associated Ind Corp	102	0.0%	114	-11	-9.6%
111	33588	First Liberty Ins Corp	99	0.0%	67	-42	-62.7%
3219	11126	Sompo Japan Ins Co of Amer	96	0.0%	74	257	347.3%
	11398	Guarantee Ins Co	95	0.0%	55	16	29.1%
761	21849	American Automobile Ins Co	88	0.0%	105	81	77.1%
98	25224	Great Divide Ins Co	86	0.0%	75	21	28.0%
291	13331	American Hardware Mut Ins Co	85	0.0%	56	22	39.3%
225	28886	Transguard Ins Co Of Amer Inc	80	0.0%	77	128	166.2%
796	24449	Regent Ins Co	73	0.0%	72	30	41.7%
501	11555	Employers Direct Ins Co	70	0.0%	50	68	136.0%
38	20397	Vigilant Ins Co	63	0.0%	148	20	13.5%
38	20303	Great Northern Ins Co	63	0.0%	58	2	3.4%
761	21881	National Surety Corp	60	0.0%	68	67	98.5%
84	26832	Great Amer Alliance Ins Co	60	0.0%	60	-37	-61.7%
228	24112	Westfield Ins Co	59	0.0%	45	14	31.1%
169	21180	Sentry Select Ins Co	55	0.0%	51	53	103.9%
111	24724	First Natl Ins Co Of Amer	53	0.0%	98	-97	-99.0%
	13528	Brotherhood Mut Ins Co	51	0.0%	43	257	597.7%
169	28460	Sentry Cas Co	50	0.0%	33	17	51.5%
775	13714	Pharmacists Mut Ins Co	49	0.0%	60	-9	-15.0%
150	11371	Great West Cas Co	49	0.0%	47	343	729.8%
88	22292	Hanover Ins Co	43	0.0%	40	-11	-27.5%
796	24414	General Cas Co Of WI	37	0.0%	38	-3	-7.9%
	10895	Midwest Ins Co	36	0.0%	27	-1	-3.7%
303	15032	Guideone Mut Ins Co	34	0.0%	36	10	27.8%
4279	11347	SFM Mut Ins Co	34	0.0%	36	157	436.1%
1631	32271	Dallas Natl Ins Co	33	0.0%	33	22	66.7%
3098	41238	Trans Pacific Ins Co	29	0.0%	18	63	350.0%
74	15105	Safety Natl Cas Corp	28	0.0%	27	-36	-133.3%
111	24066	American Fire & Cas Co	28	0.0%	19	53	278.9%
	10642	Cherokee Ins Co	26	0.0%	26	64	246.2%
796	37303	Redland Ins Co	24	0.0%	53	142	267.9%
349	13978	Florists Mut Ins Co	24	0.0%	20	14	70.0%
	11487	Imperial Cas & Ind Co	23	0.0%	23	-68	-295.7%
98	10510	Carolina Cas Ins Co	22	0.0%	4	2	50.0%
501	10472	Capitol Ind Corp	22	0.0%	3	1	33.3%
	13420	Badger Mut Ins Co	20	0.0%	29	-1	-3.4%
	18538	Bancinsure Inc	18	0.0%	15	15	100.0%
	28339	Gateway Ins Co	17	0.0%	1	5	500.0%
111	24082	Ohio Security Ins Co	16	0.0%	8	1	12.5%

Group Code	Cocode	Company Name	Direct Premiums Written	Market Share	Direct Premiums Earned	Direct Loss Incurred	Pure Direct Loss Ratio
108	30562	American Manufacturers Mut Ins Co	15	0.0%	15	3	20.0%
	12866	T H E Ins Co	15	0.0%	19	11	57.9%
169	23434	Middlesex Ins Co	15	0.0%	21	1	4.8%
	27073	Nipponkoa Ins Co Ltd US Br	13	0.0%	13	11	84.6%
84	26344	Great Amer Assur Co	13	0.0%	8	-7	-87.5%
661	12157	Companion Prop & Cas Ins Co	12	0.0%	3	0	0.0%
661	10794	Companion Commercial Ins Co	12	0.0%	12	14	116.7%
1129	21970	OneBeacon Ins Co	11	0.0%	5	11	220.0%
361	19720	American Alt Ins Corp	10	0.0%	22	329	1495.5%
309	40312	Pioneer Specialty Ins Co	8	0.0%	4	1	25.0%
517	20532	Clarendon Natl Ins Co	7	0.0%	7	384	5485.7%
	23663	National Amer Ins Co	7	0.0%	7	2	28.6%
1285	24554	XL Ins Amer Inc	7	0.0%	4	1	25.0%
140	13838	Farmland Mut Ins Co	6	0.0%	5	2	40.0%
108	22918	American Motorists Ins Co	6	0.0%	6	320	5333.3%
457	19828	Argonaut Midwest Ins Co	5	0.0%	8	4	50.0%
158	31348	Crum & Forster Ind Co	3	0.0%	2	-3	-150.0%
1332	11030	Memic Ind Co	2	0.0%	2	1	50.0%
594	19984	ACIG Ins Co	2	0.0%	2	1	50.0%
175	45934	American Compensation Ins Co	2	0.0%	2	0	0.0%
3703	43702	Tower Natl Ins Co	1	0.0%	0	0	0.0%
218	35289	Continental Ins Co	1	0.0%	-1	-582	58200.0%
212	39306	Fidelity & Deposit Co Of MD	1	0.0%	-3	-22	733.3%
84	16691	Great Amer Ins Co	1	0.0%	0	155	0.0%
12	19399	AIU Ins Co	1	0.0%	1	0	0.0%
	24899	Alea North America Ins Co	0	0.0%	0	-27	0.0%
3548	41769	Athena Assur Co	0	0.0%	0	-1	0.0%
24	19895	Atlantic Mut Ins Co	0	0.0%	0	-44	0.0%
24	19909	Centennial Ins Co	0	0.0%	0	23	0.0%
31	32280	Commercial Cas Ins Co	0	0.0%	0	-813	0.0%
31	44784	Fairfield Ins Co	0	0.0%	0	-20	0.0%
111	24740	Safeco Ins Co Of Amer	0	0.0%	8	-16	-200.0%
140	23787	Nationwide Mut Ins Co	0	0.0%	0	115	0.0%
158	25534	TIG Ins Co	0	0.0%	0	-90	0.0%
553	24678	Arrowood Ind Co	0	0.0%	0	92	0.0%
572	29157	United WI Ins Co	0	0.0%	0	-66	0.0%
626	10172	Westchester Surplus Lines Ins Co	0	0.0%	0	-43	0.0%
626	20710	Century Ind Co	0	0.0%	0	8	0.0%
626	22713	Insurance Co of N Amer	0	0.0%	0	-3	0.0%
785	35378	Evanston Ins Co	0	0.0%	0	3	0.0%
1129	27154	Atlantic Specialty Ins Co	0	0.0%	0	-13	0.0%
1326	33855	Lincoln Gen Ins Co	0	0.0%	0	215	0.0%

Group Code	Cocode	Company Name	Direct Premiums Written	Market Share	Direct Premiums Earned	Direct Loss Incurred	Pure Direct Loss Ratio
3548	19070	Standard Fire Ins Co	0	0.0%	0	-252	0.0%
3548	24775	St Paul Guardian Ins Co	0	0.0%	0	-6	0.0%
3548	24791	St Paul Mercury Ins Co	0	0.0%	0	2	0.0%
3548	31194	Travelers Cas & Surety Co Of Amer	0	0.0%	0	100	0.0%
3548	41483	Farmington Cas Co	0	0.0%	0	-5	0.0%
7	28304	Federated Serv Ins Co	0	0.0%	0	-14	0.0%
212	41181	Universal Underwriters Ins Co	-1	0.0%	-1	-79	7900.0%
796	37257	Praetorian Ins Co	-2	0.0%	103	73	70.9%
74	11123	Safety First Ins Co	-3	0.0%	-3	-5	166.7%
12	26883	Chartis Specialty Ins Co	-7	0.0%	-2	14	-700.0%
212	34347	Colonial Amer Cas & Surety Co	-11	0.0%	-11	-3	27.3%
12	19402	Chartis Prop Cas Co	-35	0.0%	260	266	102.3%
3548	24767	St Paul Fire & Marine Ins Co	-40	0.0%	-40	224	-560.0%
4254	40827	Virginia Surety Co Inc	-188	-0.1%	-188	313	-166.5%
108	22977	Lumbermens Mut Cas Co	-304	-0.1%	-304	195	-64.1%
3548	25879	Fidelity & Guar Ins Underwriters Inc	-453	-0.2%	-453	-176	38.9%
9	22985	Sequoia Ins Co	-516	-0.2%	-498	-498	100.0%
98	29580	Berkley Regional Ins Co	-829	-0.3%	2,395	-384	-16.0%
12	40258	Chartis Cas Co	-3,352	-1.1%	-3,338	-1,119	33.5%
3548	35386	Fidelity & Guar Ins Co	-6,246	-2.1%	-6,246	378	-6.1%
		237 Companies in Report	298,742	100.0%	330,728	144,004	43.5%

The number of carriers actively doing business in Nevada is continuing to increase gradually. In summary, the Nevada workers' compensation market is very healthy and well-placed to weather the current economic turbulence.

SELF-INSURED WORKERS' COMPENSATION SECTION

Introduction

The Self-Insured Workers' Compensation Section is tasked with the regulation of employers and groups of employers who choose to "self-insure" the requirement to maintain workers' compensation insurance coverage. These employers are comprised of two groups: self-insured employers (SIEs); and associations of self-insured employers or self-insured groups (SIGs). The Division provides comprehensive regulation of these entities to ensure that self-insured employers and self-insured groups are financially sound, thereby ensuring that adequate funds are available for the payment of claims to injured workers.

Insolvency Funds

Pursuant to Nevada Revised Statutes (NRS) 616B.309 and NRS 616B.443, insolvency funds are maintained for both SIEs and SIGs. These funds exist to provide for the payment of benefits, should an employer or a group become insolvent. Each of the funds is supported through annual assessments based upon the claims activity and the amount of the security deposit maintained for each SIE or SIG.

Over the many years of regulation, only a small number of SIEs have become insolvent. When this occurs, the Division has access to the security deposit as well as any excess insurance coverage in place at the time of the insolvency. The monies in the insolvency fund for SIEs have consistently been sufficient to meet all of the obligations of employers that become insolvent. No SIG has ever become insolvent since self-insured groups were first authorized in 1995. Nevada's self-insured group statutes and regulations are considered to be among the strongest and most comprehensive in the country.

Nevada Employers

There are presently 131 employers in Nevada who are SIEs, meaning that the Division has granted a certificate of authority for them to self-insure their workers' compensation obligation. These employers represent approximately 335,000 employees. In addition, Nevada has certified 13 SIGs, representing approximately 3,000 employers and 64,000 employees.

Financial Regulation

The regulation of SIEs requires that the Division perform regularly scheduled claim audits. Fifty-five audits were completed in FY10 and 50 in FY09. The regulation of SIGs requires that a financial examination be conducted by an independent auditor at least every three years. Nine examinations were conducted in FY08, two in FY09, and all SIGs are scheduled for examination in FY11. In all of the audits and examinations conducted in FY07 through FY10, no issues have been identified that would require regulatory action.

Both SIEs and SIGs are required to secure excess insurance coverage that protects that entity for losses incurred that exceed their self-insured "retention." The retention is the amount of financial exposure each entity assumes entirely. Losses that exceed this retention are then covered by a policy of excess insurance. Higher retention levels continue to be a trend for both SIEs and SIGs. Self-insured employers and groups who maintain higher retentions are required to post larger security deposits due to the increased exposure to the respective insolvency fund in the event of financial impairment.

For many years, Nevada's self-insured workers' compensation program has provided employers with an important alternative to traditional insurance. The Division's Self-Insured Workers' Compensation program has met the needs of employers while providing strong and stable regulatory oversight designed to protect the benefits of the injured worker.