

## SENATE JUDICIARY COMMITTEE

## MINUTES

Meeting was called to order at 9:35 a. m. on Saturday, April 19th by Chairman Monroe.

Committee members present: Chairman Monroe  
Senator Hug  
Senator Swobe  
Senator Bunker  
Senator Christensen  
Senator Dodge  
Senator Young

Guests: Mr. Virgil Anderson, Staff Attorney, AAA  
Mr. Lou Mastos, Nevada State Insurance Commissioner  
  
Mr. George Vargas, Counsel for Mobile Oil Company  
Mr. Clyde Burkhardt, Service Station Owner, Reno, Nevada  
Mr. Bob Britton, Service Station Owner, Reno, Nevada  
Mr. Al Maddalena, Service Station Owner, Reno, Nevada

Legislative Counsel: Frank Daykin

Mr. Anderson and Mr. Mastos were present to testify on AB 606 (Authorized formation of limited reciprocal insurers for medical malpractice).

Mr. Anderson, at the request of Chairman Monroe, checked into the tax aspects of reciprocal insurance. Reciprocal insurers are subject to the same Federal Income Tax laws as many other businesses. All of the income is subject to taxes and also investment income.

Coinsurance is a standard provision in all standard policies. In the event of loss that is covered under two policies, each company would pay their pro-rata portion of the loss. Under the present law reciprocal insurers must have a minimum of \$300,000 to go into business. Under the new insurance code proposed this was increased by \$750,000. Under AB 606 this would be reduced considerably. The only potential Mr. Anderson could see for this bill would be that it would open the gates for adverse effects for any one participating in reciprocal insurance.

Senator Dodge asked the difference in the breadth of scope between AB 606 and SB 39.

Mr. Lou Mastos stated that 606 is a very limited bill. He could not recommend the passage of it. Under the present law there is no control over reciprocal insurance however this bill does not provide necessary control. There is danger in 606.

Senator Young asked Mr. Mastos to explain the danger.

As an example, Mr. Mastos stated a person could have a fleet of trucks valued from \$40,000 to \$80,000 each. The entire fleet could be damaged or destroyed by a comprehensive claim and the owner would collect far more than he had deposited. The partners would most likely object to him collecting more than he had put up and would probably wind up in court.

Senator Dodge mention that the committee had been told that "umbrella" or excess insurance from Lloyds could be purchased.

Mr. Mastos said it would be available but he doubted if any reinsuror is going to allow a \$100,000 company to be reinsured for \$1,000,000.00.

Senator Monroe pointed out that it had been mentioned that the money deposited would probably not be used for any claims, but they would pay individually for their own losses.

Senator Dodge stated it was admitted that this was mainly a tax bill and not an insurance /bill.

Mr. Mastos said there was a lot more involved in going into the insurance business than just forming a corporation. There were four types of reciprocal insurance. In California, where reciprocal is permitted there are four cases in the hands of receivership now. Most reciprocal corporations go bankrupt within a short period of time.

Senator Dodge asked the difference between a reciprocal and mutual company.

Mr. Mastos advised it was the difference in the law. Reciprocal insurors insure themselves and mutual companies insure a third party.

Mr. Mastos also advised he was going to have a conference with the insurance companies to see what could be done with the malpractice rates in Nevada. The medical profession has never contacted his office and asked for assistance in solving the problems of malpractice insurance in this state.

Chairman Monroe thanked Mr. Anderson and Mr. Mastos for their testimony. They left the meeting.

The Chairman asked if anyone wanted to make a motion on this.

Senator Young moved to "Hold".

Senator Swobe seconded the motion.

Ayes: Senators Bunker, Dodge, Swobe, Young, Hug and Monroe

Nays: Senator Christensen

AB 706 - Prohibits service station games and contests.

Senator Swobe introduced Mr. Clyde Burkhardt, Mr. Bob Britton and Mr. Al Maddalena, all service station owners from Reno.

Mr. Britton urged passage of this bill. He advised there was a similar one introduced in the Senate but it did not come out of committee so it was introduced in the Assembly. He felt there was indirect coercion by the oil companies against the dealers. The companies spend millions on advertising these games before they are offered to the dealers and it is indirect blackmail as the dealer is practically forced to participate. They are supposed to have a choice but if they do not participate they could lose business. The business for the station will go up during the first part of the contest however will taper off after it has been going for a while. The general public indirectly pays for the games as the station owner will pass his cost onto the public. The oil companies do not advertise and let the people know the dealers have to pay at least one or two cents for each "handout".

The dealer has to spend a lot of time preparing for one of these games. Has to explain the rules to his employees, has to set up the advertising and also has to take time to explain it to the customer and he is not reimbursed for the time it has cost him. Many customers are unhappy when you hand them an envelope of coin and may not come back until the contest is over.

The companies advertise a prize of \$2500 but that is a come-on, He has never known anyone in the Reno-Sparks area that has won more than \$1.00.

There is also a problem administering the game as many employees will take home tickets and try to win or will pass them out to their friends.

Senator Dodge asked if there had ever been a complaint made to the Companies?

Mr. Britton stated many had tried but they had been turned down.

Mr. Burkhardt stated the companies usually called two meetings the same day to start one of the games. They would not advise what the meeting was being held for. They divided the station owners into two groups so one group would not know how many in the other group had signed up.

Senator Bunker advised he had received many telegrams from the Las Vegas area from service station owners urging passage of AB 706. He previously thought the station owners were in favor of the games and was not aware of the problems until it was brought to his attention recently.

Senator Dodge asked how the service stations felt about the stamps given with purchases.

Mr. Maddalena, a Gulf Oil Company station owner advised that Gulf Oil Company reimbursed them for 50% of the cost of the stamps and in the Reno area, the Gulf distributor reimbursed an additional 20%. The public did not resent the stamps as they could turn them in for something of value. Many places that have given up giving stamps have lost customers.

Senator Young asked how much per month does participating in one of these games cost?

Mr. Maddalena figured it cost about \$600.00 for a thirteen week period.

Senator Dodge asked which states prohibited the games.

Senator Swobe had material showing Maryland had declared it unconstitutional so they corrected the bill and it has just passed both houses in Maryland. Washington, Georgia, Michigan and Massachusetts forbid the games. Kansas required a \$6,000 bond be put up before one could participate. There had been a federal hearing by the Federal Trade Commission regarding games. The oil companies were against any federal control.

Mr. George Vargas, Counsel for major oil companies in this area, stated the majority of the oil companies felt there was a question as to whether it would be constitutional to prohibit contests by state legislation as it would violate the 14th amendment to the constitution and interfere with private enterprise.

Mr. Vargas read a letter from an executive of the Mobile Oil Company in defense of the station games and contests. There has been over \$5,000,000 given in cash prizes in service station contests and games. The Federal Trade Commission is considering issuing guidelines for advertising for these games. There has been a suit filed in Massachusetts to test the constitutionality of their law.

The dealers sign up for the games voluntarily and the cost with the Mobile Oil games to their dealers is about 1/4¢ per customer. The contests have increased the volume of business of all dealers. They have no effect on the gas prices as the states without the games charge the same for a gallon of gas as the states that have the games.

Mr. Vargas also had a statement from Standard Oil Company who were opposed to this bill.

Senator Dodge asked Mr. Daykin to come in regarding the constitutionality of the bill.

Senate

Judiciary Committee Minutes

April 19, 1969

Mr. Daykin stated the question of this being constitutional would apply to the equal protection clause of Article 14. It may or may not be constitutional under this clause. It would be if it were applied to all sellers and included gas sellers. If you considered them in a sub-class as a retail merchant then they are singled out and it would not be constitutional.

Chairman Monroe thanked those present for testifying.

Mr. Vargas, Mr. Britton, Mr. Burkhardt and Mr. Maddalena left the meeting.

Chairman Monroe asked if someone wanted to make a motion for AB 706.

Senator Swobe moved "Do Pass".  
Senator Bunker seconded the motion.  
Motion carried.

There being no further business, the meeting was adjourned at 10:30 a. m.