

Vice-chairman Prengaman called the meeting to order at 2:11 p.m. in Room 200.

MEMBERS PRESENT: Mr. Brady
 Mr. DuBois
 Mr. Jeffrey
 Mr. Kovacs
 Mr. Prengaman
 Mr. Rusk

MEMBERS ABSENT: Mr. Bennett
 Mr. Bremner (Excused)
 Mr. Chaney
 Mr. Dini (Excused)
 Dr. Robinson (Excused)

Mr. Prengaman opened the public hearing on S.B. 535.

S.B. 535: PROHIBITS UNAUTHORIZED INTERCEPTION OF
 CODED TELEVISION SIGNALS.

Presenting the bill to the Committee was Jim Joyce, appearing on behalf of Harry Reid, HBO in Clark County. He stated that the bill would make stealing pay television signals a misdemeanor. Mr. Joyce added that the bill was a joint referral and had passed the Judiciary Committee on a 9-2 vote.

Also speaking for the bill was Assemblyman Danny Thompson. Mr. Thompson indicated that the Judiciary Committee had changed the language in the bill to refer to "multipoint distribution system" rather than "subscription TV." He said that the change was made because multipoint distribution systems used microwaves to beam their signals, while some other types of subscription systems used cables.

Mr. Joyce said that the bill excludes "earth dishes", the large dishes that pick up signals directly from the communication satellite. He said this was a very expensive device that was becoming very popular with those who could afford it.

Mr. Joyce remarked that the problem was that people were pirating signals from pay television, "and pirates are thieves." He said that people were buying antennas to put on their roofs specifically for the purpose of stealing the property rights from HBO, Showtime, and other pay TV companies. He added that he was not in agreement with the argument that the airwaves belong to everyone and indicated that companies like HBO had paid tens of millions of dollars for the "property right" of the air waves.

Mr. Joyce estimated that there are 10,000 pirates in Clark County now, and if the practice of pirating was not stopped, HBO would be forced out of business.

He went on to explain that a person could accumulate the parts

to build an antenna that could be used to pirate the TV signals. He also said that the bill may not be a long-term answer to the problem, but it was the answer for now until the people in the industry could work out a solution that would prevent people from pirating their signals.

He also handed out a copy of an article from U.S. News And World Report, which is attached as EXHIBIT A. Mr. Joyce stated that the article indicated that the practice of stealing TV signals from a pay TV operator violates the federal communications laws, but that the FCC did not have the manpower to enforce the law fully, therefore, he said, the state law was needed.

Next to testify on the bill was Dave Meehan. Mr. Meehan indicated that the bill had some far-reaching effects. He also said that the bill was defending the pay TV people while allowing the public to be left undefended. Mr. Meehan said that Congress had assigned the job of defending the air waves to the Federal Communications Commission and that S.B. 535 was in conflict with the federal laws.

Mr. Meehan said that the remedy to the pirating problem was to make the pay TV operators "scramble" their signals so that they could not be received without a decoding device.

He also indicated that the FCC had ruled that people could intercept signals directly from the communications satellites, so those individuals who could afford the large saucer-type earth dishes which cost \$7,500, would be able to receive the signals legally while the people who could only afford the smaller antennas that were available would be in violation of the state laws.

Mr. Meehan said that there were many people who felt that they should be able to pick up a signal if it was "sprayed" onto their property. He also said that multipoint distribution systems, (MDS) had no security system to prevent people from stealing their signals. Mr. Meehan added that the person selling the equipment is not guilty of stealing because all he is doing is selling the equipment, which could be put to uses other than just stealing pay TV signals. He equated the bill to making someone guilty of murder just because he sold a gun that was used to kill someone.

Mr. Meehan said that it would be much better to make it illegal to sell or use a decoding device rather than to make it illegal for someone simply to receive the air waves. He also said that the federal communications laws would supersede the state laws.

In answer to a question from Mr. Kovacs, Mr. Meehan explained the process of "scrambling" TV and radio signals. He said that the signals could be changed in such a way as to make it impossible for them to be received by a normal TV set without a decoding device. He added that this is what the pay TV operators ought to be doing instead of trying to pass a law that prohibits people from picking up unscrambled signals. He also said that there were many pay TV operators who did, in fact, scramble their signals, and in such cases, there was virtually no pirating.

Mr. Meehan noted that the law would prohibit people from purchasing equipment to receive educational and public TV signals, while the FCC regulations permit such equipment to be sold.

Mr. Meehan also commented that HBO could easily scramble their signals; however, there would be a cost factor involved and some of HBO's "fringe area reception" might be affected. He added that the operators who sold cable TV signals did not have the pirating problems that MDS systems did.

Also testifying on the bill was Renny Ashleman. Mr. Ashleman stated that he was not appearing as a lobbyist. He said that he purchased a home that already had a pirate TV receiver on it, which he removed. He then subscribed to HBO. He said that he was opposed to being forced to purchase a translator or decoding device in addition to paying for his subscription. He also expressed dissatisfaction over the possibility that such a decoding device would give him a worse signal than he now had. Mr. Ashleman returned later to clarify that he was in support of the bill.

Jacki Deitrich, President of Americans for Free Air Waves and a manufacturer of earth stations, testified in opposition to the bill. Ms. Deitrich pointed out to the committee that both the earth dishes, which are exempt from the bill, and the smaller antennas, which would become illegal by the passage of the bill, performed the identical operations. She said that both devices were designed to receive uncoded and unscrambled signals, and that subscription programs, such as HBO, were not the only signals and programs that the devices picked up. Ms. Deitrich provided the Committee members with a picture of the antenna that would be made illegal by the passage of S.B. 535. The picture is attached as EXHIBIT B.

Ms. Deitrich indicated that she was not advocating the pirating of any coded or scrambled signals, and that the courts had already ruled that reception of uncoded or unscrambled signals was legal. She added that passage of the bill would result in legal action based on the fact that it discriminates on the basis of money. The wealthy persons could afford to purchase a legal earth dish, while the less wealthy individuals could only purchase the illegal, smaller antennas that did the same thing, she said.

Ms. Deitrich referred to EXHIBIT B saying that the description of all of the signals that the small microwave antenna was capable of receiving showed much more than just MDS signals. She then said, "An antenna is an antenna, is an antenna, and the only thing that I can see is a discrimination based on price." She added that if one was wrong, the other is also wrong.

Ms. Deitrich also testified that amateur radio operators were using the type of antenna that is being made illegal by the bill, and that they had been using them long before there was HBO.

She added that the school district would be in violation of the law if the bill passed because they use the illegal types of antennas to receive their educational programs.

There being no further testimony, Mr. Prengaman opened the hearing on S.B. 468.

S.B. 468: AUTHORIZES FORMATION OF CAPTIVE INSURANCE COMPANIES.

Presenting the bill was Tom Stuart. He explained that a captive insurance company is one which insures the risk of its owners only. He presented a clipping from The New York Times which described what captive insurance companies do. The clipping is attached as EXHIBIT C. Mr. Stuart said that sections 2 through 8 of the bill define who can own a captive company and section 9 gives the authority to write insurance to cover the risk and liability of the owning company.

Mr. Stuart stated that there were presently 900 captive insurance companies in the world and that over 800 of those were "off shore." He also said that there were presently 3 states which allow captive insurance companies; Colorado, Tennessee, and Vermont.

Section 10 of the bill provides the authority to organize a captive company and gives the Insurance Division the authority to charge the appropriate fees. Sections 11, 12 and 13 of the bill deal with the officers of the companies and the control that the Insurance Division would have over the companies. Section 14 relates to the investments that the companies can make, said Mr. Stuart. He added that section 15 dealt with the required reporting and section 16 requires the captive insurance companies to be domiciled within the State of Nevada, makes them have all of their home-office operations within the state, and makes them invest all of their assets within the state and have annual meetings in the state.

Mr. Stuart went on to say that sections 17 and 18 of the bill provide police powers to the Insurance Division in order to regulate the captive insurance companies. He indicated that section 20 deals with the capitalization of the captives and that sections 21 and 22 established filing requirements while section 23 set the required premium tax to be paid by the captives.

Also testifying on the bill was Jim Wadhams, Director of the Department of Commerce. He said that the bill would allow general business development in Nevada. He also indicated that 3 of the 6 insurance companies now located in Nevada are basically "captives." He used the John Deere Company as an example of one such company.

Mr. Wadhams commented that formation of captive insurance companies in Nevada would bring much needed capital into the state.

Patsy Redmond, Commissioner of the Insurance Division, added that S.B. 468 was part of a domestic industry package proposed by the Division and that she thought passage of the bill would be very good for the state.

There being no further testimony on S.B. 468, Vice-chairman Prengaman opened the public hearing on S.B. 521.

S.B. 521: PROVIDES FOR REGULATION OF HOME PROTECTION INSURANCE.

Testifying for the bill were Jim Wadhams, Director of the Department of Commerce and Patsy Redmond, Commissioner of Insurance. Mr. Wadhams stated that S.B. 521 was one of the few agency bills and that it clarifies the difference between warranties and insurance.

Mr. Wadhams explained that the bill would create a separate classification for insurance companies which sold only this type of home protection insurance. He added that the bill would take care of a variety of existing problems. He also said that the contracts for home protection insurance would be issued on an annual basis with the sale of the house.

Bill Cozart, representing the Nevada Association of Realtors, commented that the Association was in support of the bill as a consumer protection bill.

Mr. Prengaman then closed the hearing on S.B. 521 and opened the public hearing on S.B. 695.

S.B. 695: MAKES VARIOUS AMENDMENTS TO PROVISIONS OF LAW GOVERNING MORTGAGE COMPANIES.

Mr. Norman O'Kada, Commissioner of the Credit Union Division of the Department of Commerce, was unable to testify on the bill, so he sent a letter instead. The letter is attached as EXHIBIT D.

Testifying on the bill was Renny Ashleman, representing American Investment Mortgage. With Mr. Ashleman was Harvey Whittemore. Mr. Ashleman stated that the bill arose out of two existing scandals and several potential scandals in the mortgage industry.

Mr. Ashleman stated that section 1 of the bill addresses escrow and trust accounts. He added that under present law, there was no control over the funds of investors. Mr. Ashleman used the recent Money House scandal for the purpose of examples. He also read the new language, which was being added to NRS 645B by the bill, to the Committee.

Mr. Ashleman also said that Dr. Robinson was having an amendment drafted which would delete the language found on page 2, lines 45, 46 and 47. He commented that 645B of NRS had a large number of exceptions, which he then listed. He then explained that, aside from some "Daykinisms", section 6, ". . . attempts to take

the very cumbersome situation, that we have in the law presently, out, which legally prescribes the precise form of the corporate surety bond." Mr. Ashleman said that the law, as now written, made it very difficult for people to get the bonds because of a lack of flexibility. The change, he indicated, would allow the mortgage brokers a wider variety of choices than just the choice of surety bonds.

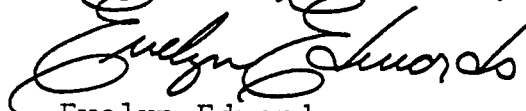
Mr. Ashleman explained that section 7 referred to fines and reporting requirements and that section 9 provided for periodic or special audits as needed. The remainder of page 6 and most of page 7 clarified some ambiguities in the law, Mr. Ashelman said. He also said there were some conflicts in the bill which would have to be resolved by the Legislative Counsel Bureau after passage of another bill, S.B. 101. He then summarized for the Committee the rationale behind why the mortgage brokers did not want interest ceilings eliminated entirely for their industry but wanted it left at $3\frac{1}{2}$ over prime.

Also testifying on the bill was Joe Midmore, representing the Nevada Consumer Finance Association. Mr. Midmore said that NRS 645B was weighted heavily in favor of mortgage brokers and against those who wished to loan their own money. He indicated that subsection 4 on page 8, placed licensees, who are lending their own money, in the same position, with respect to usury, as banks, savings and loan associations, etc. He stressed that this subsection should not be removed from the bill.

Mr. Ashleman then stated that the removal of subsection 4 on page 8 would be restoring the existing law and conforming with what Mr. Midmore had indicated he agreed to with respect to S.B. 101.

There being no further testimony, Mr. Prengaman adjourned the meeting at 2:28 p.m.

Respectfully submitted,



Evelyn Edwards
Committee Secretary

ASSEMBLY COMMERCE COMMITTEE

GUEST LIST

DATE: 5/30/81

PLEASE PRINT YOUR NAME	PLEASE PRINT WHO YOU REPRESENT	I WISH TO SPEAK-		
		FOR	AGAINST	BILL NO.
TOM STUNNET		✓		SB 468
DAVE MEEHAN	A. F. F. A.		✓	SB 535
JERRY DISTRICT	A. F. F. A.		✓	SB 535
Joe Midmore	Neor. Consumer Finance Assn			
FRANK...	A. F. F. A.	✓		SB 643

1495

Jim Joyce

Crossing Swords With the "TV Pirates"

They call themselves merely tinkers, but pay-television officials say they're thieves who should be punished for stealing signals from the sky.

Unlike his neighbors in the Northern California foothills between Stockton and Sacramento, Taylor Howard is not limited to three television stations.

By pointing a large fiberglass dish antenna skyward, the Stanford University engineering professor gets for free all that seven communications satellites can offer—57 channels.

His family's TV choices include boxing and track from an all-sports network; swim meets live from Moscow; an all-news station; first-run, uncut movies, and "The Tonight Show With Johnny Carson" as it is beamed—without commercials or censorship—to NBC headquarters in New York.

Howard is one of a growing number of electronic hobbyists who use an assortment of devices to bypass cable television and other pay-TV services that cost up to \$25 a month.

It is a fast-spreading trend that is angering broadcasting officials, who charge that the signal snatchers are breaking the law. Pay-TV operators are particularly upset with companies that do a booming business selling the equipment that people need to tap into broadcasts.

Raiding satellites. Estimates are that as many as 100,000 homes capture signals beamed either from satellites or earthbound microwave transmitters owned by such companies as Home Box Office, Showtime or ON-TV.

Denounced as pirates by their critics, the freeloaders are drawn largely from the ranks of the 2.5 million people who receive fewer than three channels of television. Some pay from \$4,000 to \$12,000 for 10-foot-wide antennas that can receive satellite broadcasts. The antennas can be set up on as little as 50 square feet of land from which there is an unobstructed view of the sky.

A larger number install a decoder on an antenna that receives microwave signals from a subscription-TV trans-

mitter. Without a decoder, signals remain scrambled so that the picture is badly distorted.

In Miami, 10,000 customers who pay \$20 a month for subscription TV are matched by at least 10,000 more non-paying signal snatchers. As many as 4,000 homes in the Los Angeles area also use decoders to beat the system.

Even easier to crack are pay-TV signals for services such as Home Box Office and Showtime, which transmit first-run movies. These shows are delivered by line-of-sight, unscrambled microwave transmissions. Besides an antenna, all that is needed to intercept these broadcasts is a down converter, a device attached to the back of a television set to convert extremely high frequencies into signals that a regular TV set can receive.

Still other people tap into cable lines. In Arlington, Va., for instance, a team of Metrocable technicians this month will begin looking for illegal connec-



An estimated 100,000 homes have been outfitted to get pay TV for free. Broadcasting firms have vowed to fight back.

tions. In two years, some 250 subscribers have moved, taking equipment with them, says a company spokesman.

Serving these signal snatchers are companies that advertise do-it-yourself decoder kits for less than \$100 in electronics-specialty and hobby magazines. Almost as soon as a pay-TV operator opens for business, newspaper ads appear for assembled decoders from \$200 to \$400. Back-room sales occur, too, in some appliance stores.

All this is illegal, according to the Federal Communications Commission. On May 7, a U.S. court of appeals judge in San Francisco ruled that stealing TV signals from a pay-TV operator violates the communications laws. That action overturned a lower-court ruling that subscription-TV signals are fair game for anyone with equipment to pull them in. However, the FCC lacks the

manpower to enforce the law fully. Says an FCC assistant counsel, Norman Blumenthal: "It's like sneaking into the movie theater. It's unfair to the people who produce the movies, to the people who show the movie and particularly unfair to folks like us who'll pay to see the movie."

Better fences? One self-described video pirate sees it another way: "If the programmers don't want people taking their signals, they've got to build a better fence."

Adds Stanford's Howard, president of the Washington-based Society for Private and Commercial Earth Stations: "If it falls into my back yard, that signal belongs to me." He notes that most earth stations do not use decoders, and pick up only unscrambled satellite signals.

Howard says that he has offered to pay Home Box Office for the signals his station brings in, but the company refuses to accept his money because its accounting system is set up only for handling cable and pay-TV distributors.

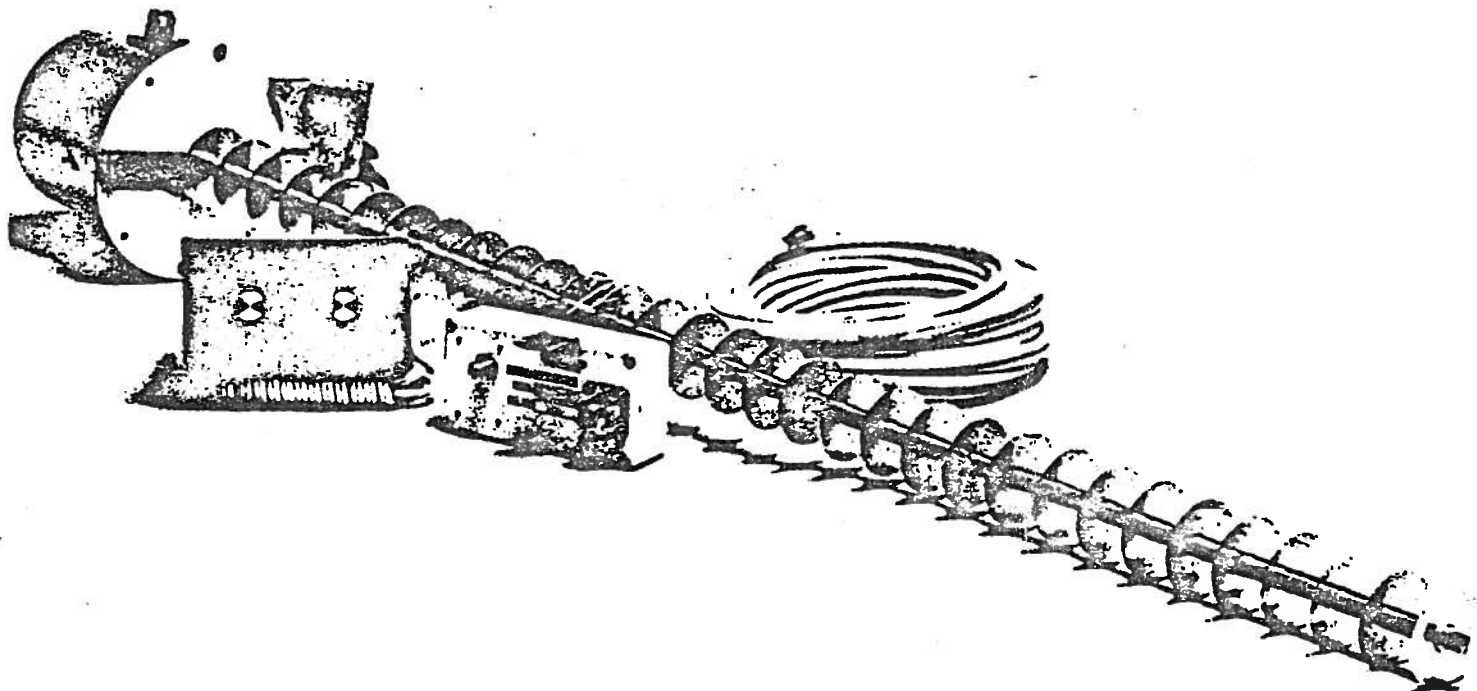
Still, pay-TV services are by no means ignoring the problem. Some are using more-sophisticated coding and are rescrumbling signals to render black-market equipment useless. One operator is adding to the signal a piercing tone that can only be removed with authorized equipment. Satellite signals will be scrambled soon, too.

Other companies are suing merchants who sell signal-snatching equipment. In the last year, ON-TV, the nation's largest subscription-TV operator, has sued 56 concerns. In early May, American Television and Communications, Inc., a Time subsidiary, sued 17 Miami dealers.

In Phoenix, Home Box Office recently won a \$150,000 judgment against one of the owners of Pirate Electronics, which had been selling decoders and converters at the rate of 1,000 a month. HBO also was awarded the defendant's home and sold it at a sheriff's auction.

Lawyers for TV broadcasters say they will continue to seek bigger punitive damages and jail terms for equipment sellers. Says Carl Bradshaw, legal officer for Oak Industries, a pay-TV firm based in Rancho Bernardo, Calif.: "We aren't really concerned about the basement adventurers. We're concerned about those who try to commercialize what the basement tinkerer does." □

By RONALD A. TAYLOR



Microwave Frequency Allocations within the United States - 1.8 through 2.5 GHz

1.8 - 1.99	FIXED	-	International Control Operational Fixed
1.99 - 2.11	FIXED MOBILE	-	Television Pickup Television STL Television Intercity Relay
2.11 - 2.13	FIXED	-	Domestic Fixed Public
2.13 - 2.15	FIXED	-	Operational Fixed International Control
2.15 - 2.16	FIXED	-	Multipoint Distribution Operational Fixed
2.16 - 2.18	FIXED	-	Multipoint Distribution Domestic Fixed Public
2.18 - 2.20	FIXED	-	Operational Fixed International Control
2.20 - 2.30	SPACE	-	Space Research
2.30 - 2.45	AMATEUR	-	Amateur
2.45 - 2.50	FIXED	-	Fixed Mobile Radiolocation

The New York Times

Captive Insurers Come of Age

Growth Spurs
Competition
In Industry

By LYDIA CHAVEZ

When the Phillips Petroleum Company set up its own insurance outfit thousands of miles away from its dusty Oklahoma home, in the pleasant, unregulated climate of Bermuda, it was seeking a tax break. O.W. Armstrong, a Phillips vice president, said flatly,

That was in 1972. Now it expects growth and profits from its island haven.

Like Phillips Petroleum's Walton Insurance Ltd., many so-called captive insurers, which used to write insurance primarily for the parent corporation, have matured into respectable insurance companies.

Traditional insurers, which considered the offshore companies renegades, now concede that a captive in Bermuda or elsewhere is a viable and permanent alternative to conventional insurance. And most have added captive consulting groups to recoup in fees some of their lost premium income.

Self-insurers and captives accounted for \$3 billion to \$10 billion of the \$100 billion in commercial premiums in 1980. To self-insure, a company sets aside money to cover losses. A captive, however, is a separate company to which its parent pays premiums and it covers a loss up to the amount for which the parent is insured. It writes insurance only for corporations.

Vermont Encourages Captives

The state of Vermont was impressed enough with the captive industry to pass legislation, which goes into effect on July 1, to encourage companies to lodge their captives in Vermont.

The law is intended to allow captives a more liberal investment environment and, like Bermuda's, to exclude captives from much of the reporting required from conventional insurance companies. George Chaffee, insurance commissioner, said he expects Vermont to have more than 100 captives in five years and an annual income from the tax premiums of \$3 million.

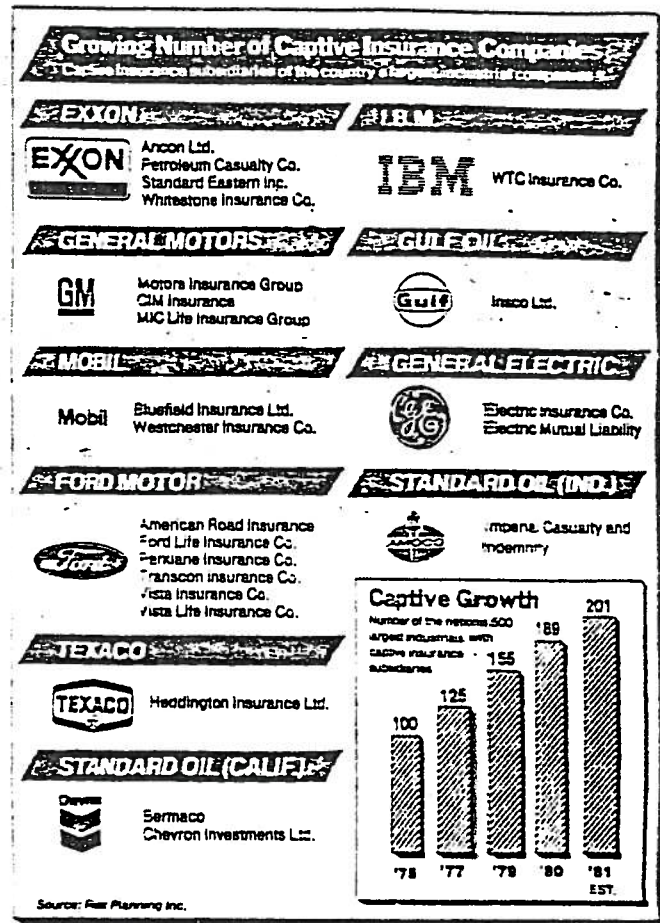
Many industry observers believe that in the next three years the total number of captives offshore and in several states could triple to 3,600. Felix Klocman, president of the Risk Planning Group, expects captives and self-insurance to account for 50 percent of the insurance premium market by 1990. An estimated 201 of the Fortune 500 companies now own captives, up nearly 30 percent since 1979.

"For several years captives were almost exclusively a device for the larger companies that could justify setting up the paper work for a captive," said Michael Frinquelli, an analyst for Salomon Brothers. "Now other types of companies and smaller companies are starting to form group captives," which write insurance for several companies.

Others disagree. "I don't see any big stampede toward captives," said C.J. Clarke, a vice president of the Travelers Corporation. "Insurance companies now offer alternatives to captives which allow a company to retain and invest a portion of its premiums," he said, while crediting the captives, in part, for motivating the insurance industry to develop other options. Mr. Clarke said \$200 million to \$300 million of the Travelers business is associated with captives.

Captives promise companies advan-

Continued on Page 2.



Captive Insurers Come of Age

Continued From First Business Page

tages other than being able to deduct premium payments or apply foreign tax credits to earnings made in Bermuda. Mr. Kloman estimates that a company with a good loss record and low overhead can save an average of 10 to 15 percent by writing its own insurance, while Citicorp's risk planning group estimates the savings can reach 30 percent.

While insurance companies have to put their money in short-term securities, an offshore captive has the freedom to make longer-term investments. A captive also gives a corporation access to the less expensive reinsurance market.

Alexander & Alexander, one of the many insurance brokerage companies that tried to ignore the upstarts, has formed a consulting group to advise clients on whether to form captives.

"Captives are certainly a source of competition for the insurance industry," said Peter Densen, president of the Alexander subsidiary that handles some of its captive business. He estimates that if captives survive as a tax vehicle for corporations, they could

easily account for more than 40 percent of the premium market by 1990.

I.R.S. Questions Practices

"The Internal Revenue Service, however, could be a problem. Parent companies have been taking deductions on the premiums paid to their captives, but the I.R.S. has started to question this, and, in some cases, has disallowed the deductions.

Rod Young, an I.R.S. spokesman, said each case was reviewed on its own merits, and no definitive ruling had been made. While the legal community argues over the definition of what constitutes a shift in risk, captives are heading into new territory to safeguard their tax status.

Most captives have only recently started to test their expertise in writing outside risk, and while the insurance business can be profitable, it can also be as unpredictable as wildcatting.

Take the case of Phillips's captive, Walton. In 1975, Phillips saw an opportunity to make some money from its insurance company and Walton ventured into the outside risk market. By 1979, its profits had more than doubled to

\$23.1 million. But it has not been immune from a greenhorn's foibles. Last year the company's losses from its outside policies rose almost twofold and its profits fell 19 percent, to \$18.6 million.

"We probably didn't add staff fast enough," Mr. Armstrong said. "But we've built the company up and we're taking a harder look at the outside business that we write." To prove to the insurance industry that Phillips is serious about its Bermuda haven, it increased its capital stock from \$5 million, to \$25 million, last year.

Despite its popularity, the captive is not for everyone. Mr. Kloman said that he recommends a captive for only about 40 percent of the companies that come to his group for advice. He also encourages a client to review its insurance alternatives annually.

"There is no certain type of company that can best use a captive," Mr. Kloman said. He added that for those companies that had the possibility of catastrophic product liability or unfavorable malpractice histories, a captive still offered the only alternative to "hanging there naked."



STATE OF NEVADA
DEPARTMENT OF COMMERCE

NYE BUILDING, ROOM 321
201 SOUTH FALL STREET
CARSON CITY, NEVADA 89710
(702) 885-4250

DIVISIONS
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INSURANCE
MOBILE HOME AGENCY
REAL ESTATE
SAVINGS AND LOAN

ROBERT LIST
GOVERNOR
JAMES L. WADHAMS
DIRECTOR

May 29, 1981

The Honorable Robert E. Robinson
Chairman, Assembly Commerce Committee
Nevada State Legislature
Carson City, Nevada 89710

RE: SB 695--Mortgage Companies Licensed Under NRS 645B

Dear Assemblyman Robinson:

I have reviewed SB 695, first reprint, as adopted by the Senate Commerce Committee and concur with its form and content. This is an industry bill which includes agency amendments.

The substance of the bill is principally to codify prudent business practices and clarify administrative remedies for improper or imprudent activity.

A major modification is the addition of options to the survey bond including a letter of credit, or pledged cash, or a certificate of deposit with appropriate retention periods.

The agency amendments are a result of actual and potential bond claims, repeated examination exceptions, and problems of enforcement by the Commissioner.

I urge passage of SB 695 to improve the professionalism of the licensees under NRS 645B.

Very truly yours,

NORMAN T. OKADA, Commissioner
Credit Union Division

NTO:d1