

agents. These are individuals who operate insurance companies for insurance companies. Basically, it's when an insurance company simply gives their ability to write business to a managing general agent. It gives them their pen, as you will. One of the reasons that Director McCartney was quite adamant for this measure this year is contained in a new federal document called Failed Promises, a study of the insurance company insolvencies over the last several years in the country. Part of the conclusions of this federal report include the phenomenon of managing general agents as being particularly dangerous because they find themselves in sort of a conflict of interest. They are compensated for the amount of business that they write for the bus...for the insurance company but, at the same time, they have the obligation to care for the quality of risks that are being undertaken by the company. So they kind of have two masters, their own pocketbook which would lead them to write any and every risk they can and their other obligation which is to oversee the business carefully and to be prudent. Well, this measure, as you can see in the material that I have handed out to you, says that there will be limitations on this relationship, hoping to break this problem of conflict of interests. In one case, it declares that the managing agent has a fiduciary duty to the company. Secondly, it says that there has to be a contract between the managing general agent and the company which includes guidelines for reinvestment and reinsurance, something that managing general agents in the past have violated. It also indicates that where there are...where there is a practice of reinsurance that there be an audited or generalized actuarial accounting of the loss reserves which MGAs create, all of which are designed to show the parent company a reasonable course of behavior with which they can judge their MGA, both against the written contract that will be required but, secondly, against the loss reserves that will have to be actuarially proven up and the like. Why? To show the parent company that the MGA is not in a conflict of interest and is, in fact, carrying out their best interests. It's important to recognize that this national phenomenon has come home to roost for us as well. During the past five years, three Nebraska domicile insurance companies, and they are the Imperial Casualty Indemnity, the Protective National Insurance Company of Omaha and the Central National Insurance Company of Omaha, have all experienced problems. They have had severe financial impairments which can be traced directly to the uncontrolled use of managing general agents. I would move for the adoption of the amendment and be happy to answer any questions you may have.