

them, the insurance company pay the claims of policyholders. In return, insurance companies are quite commonly sending premiums to the reinsurance company. It's possible to have both money flowing from the reinsurance company to the insurance company in the form of a claim that they're paying and premiums that the insurance company owes to the reinsurance company at the same time. In the old days, we just simply cancelled those two facts off. It's like having both having debits and credits against the other at the same time and you just simply debit those things out. In 1989, we were concerned about what could have happened if we used that setoff language in circular transactions between the two. Wouldn't there be a chance to bilk policyholders if we didn't leave the...or create the rule that we now have on the books? Well, since that time we found that only Nebraska and two other states adopted the rule that we went to in 1989. Instead, other states took a different variation in which they simply passed a statute against the use of setoffs in circular transactions by themselves but didn't outlaw the use of setoffs generally in liquidation, in the liquidation setting. So we were kind of hanging out there with this special rule. That's more restrictive. The net effect of that rule is that since we have a very unique situation in Nebraska our domestic insurance companies are now subject to higher premiums from insurance...reinsurance companies because they know we have this special prohibition against setoffs in our current law. The Association of Insurance Regulators has never adopted the proposal that we have in Nebraska and, in fact, our own insurance com...department now says that the language is too restrictive, it does not secure us a good deal of benefit, that, in fact, our domestic insurance companies are probably higher premiums because of it and we really ought to go to the rule that everyone else has. The rule everyone else has is that, in the liquidation setting, setoffs between reinsurance companies and insurance companies are legal and the only place where you don't do the setoffs is when there's a circular transaction. With that, I would ask for the advancement of LB 616.

SPEAKER WITHEM: Senator Chambers.

SENATOR CHAMBERS: Senator Landis, members of the Legislature, and Mr. Speaker, I would like to ask you a question so I can try to get a handle on reinsurance. And I will use a comparison especially since we may talk about gambling later on today. A bookie is interested in having an equal number of people bet on