

HOUSE BILL 119

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HB 230/99 - ECM

2000 Regular Session
0lr1120
CF 0lr1119

By: ~~Delegates Brown, Gordon, and Donoghue~~ **Donoghue, Fulton, and Pendergrass**

Introduced and read first time: January 17, 2000
Assigned to: Economic Matters

Committee Report: Favorable with amendments
House action: Adopted
Read second time: February 8, 2000

CHAPTER _____

1 AN ACT concerning

2 **Mutual Insurance Holding Company Act**

3 FOR the purpose of establishing a certain process by which a mutual insurance
4 company can convert to a stock insurer and form a mutual insurance holding
5 company; requiring certain mutual insurers to convert in accordance with a plan
6 of reorganization; requiring a certain plan of reorganization to contain certain
7 provisions; providing certain membership rights to certain policyholders;
8 providing for the application of certain policy terms and conditions after a
9 certain reorganization; establishing certain financial requirements for certain
10 reorganized stock insurers; providing for the approval of a certain plan of
11 reorganization; requiring a certain plan of reorganization together with certain
12 other documents to be submitted to the Insurance Commissioner for approval;
13 providing for the approval or disapproval of a certain plan of reorganization by
14 the Insurance Commissioner; providing that the Insurance Commissioner may
15 retain a certain qualified expert to assist in reviewing a certain plan of
16 reorganization; allowing the Commissioner to hold a certain hearing; providing
17 for the application of certain laws to certain mutual insurance holding
18 companies; allowing the Insurance Commissioner to adopt certain regulations;
19 making certain stylistic changes; and generally relating to the conversion of a
20 mutual insurance holding company to a stock insurer and formation of a mutual
21 insurance holding company.

22 BY adding to
23 Article - Insurance
24 Section 3-121.1
25 Annotated Code of Maryland

1 (1997 Volume and 1999 Supplement)

2 BY repealing and reenacting, with amendments,

3 Article - Insurance

4 Section 7-103

5 Annotated Code of Maryland

6 (1997 Volume and 1999 Supplement)

7 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF

8 MARYLAND, That the Laws of Maryland read as follows:

9

Article - Insurance

10 3-121.1.

11 (A) (1) IN THIS SECTION THE FOLLOWING WORDS HAVE THE MEANINGS
12 INDICATED.

13 (2) "MUTUAL INSURANCE HOLDING COMPANY" MEANS A NONSTOCK
14 CORPORATION THAT:

15 (I) IS INCORPORATED IN THE STATE IN ACCORDANCE WITH A
16 PLAN OF REORGANIZATION ADOPTED AND APPROVED UNDER THIS SECTION; AND

17 (II) IS THE PARENT OF A REORGANIZED STOCK INSURER.

18 (3) "REORGANIZED STOCK INSURER" MEANS THE STOCK CORPORATION
19 INTO WHICH A MUTUAL INSURER IS REORGANIZED IN ACCORDANCE WITH A PLAN OF
20 REORGANIZATION ADOPTED AND APPROVED UNDER THIS SECTION.

21 (B) SUBJECT TO THE PROVISIONS OF THIS SECTION AND IN ACCORDANCE
22 WITH A PLAN OF REORGANIZATION APPROVED BY THE COMMISSIONER, A MUTUAL
23 INSURER MAY:

24 (1) REORGANIZE AS A STOCK INSURER; AND

25 (2) ESTABLISH A MUTUAL INSURANCE HOLDING COMPANY.

26 (C) A PLAN OF REORGANIZATION SHALL PROVIDE THAT:

27 (1) ALL OF THE INITIAL SHARES OF CAPITAL STOCK OF THE
28 REORGANIZED STOCK INSURER SHALL BE ISSUED TO THE MUTUAL INSURANCE
29 HOLDING COMPANY.

30 (2) THE MUTUAL INSURANCE HOLDING COMPANY SHALL OWN A
31 MAJORITY OF:

32 (I) THE VOTING SHARES OF THE CAPITAL STOCK OF THE
33 REORGANIZED STOCK INSURER; AND

1 (II) THE TOTAL MARKET VALUE OF ALL OUTSTANDING SHARES OF
2 THE CAPITAL STOCK OF THE REORGANIZED STOCK INSURER.

3 (3) THE CLASS OF CAPITAL STOCK OWNED BY THE MUTUAL INSURANCE
4 HOLDING COMPANY SHALL HAVE DIVIDEND RIGHTS NO LESS FAVORABLE THAN THE
5 DIVIDEND RIGHTS OF ANY OTHER CLASS OF STOCK OF THE REORGANIZED STOCK
6 INSURER, UNLESS:

7 (I) AT LEAST TWO-THIRDS OF THE BOARD OF DIRECTORS OF THE
8 MUTUAL INSURANCE HOLDING COMPANY DETERMINES THAT SUCH A
9 REQUIREMENT IS NOT IN THE BEST INTERESTS OF THE MEMBERS; AND

10 (II) THE DETERMINATION OF THE BOARD OF DIRECTORS IS
11 APPROVED BY THE COMMISSIONER.

12 (4) IN AN INITIAL PUBLIC OFFERING OR INITIAL PRIVATE EQUITY
13 PLACEMENT OF STOCK, EACH ELIGIBLE MEMBER OF THE MUTUAL INSURANCE
14 HOLDING COMPANY SHALL RECEIVE, WITHOUT PAYMENT, NONTRANSFERABLE
15 SUBSCRIPTION RIGHTS TO PURCHASE STOCK, UNLESS:

16 (I) AT LEAST TWO-THIRDS OF THE BOARD OF DIRECTORS OF THE
17 MUTUAL INSURANCE HOLDING COMPANY DETERMINES THAT A SUBSCRIPTION
18 RIGHTS OFFERING IS NOT IN THE BEST INTERESTS OF THE MEMBERS; AND

19 (II) THE DETERMINATION OF THE BOARD OF DIRECTORS IS
20 APPROVED BY THE COMMISSIONER.

21 (5) (I) THE FOLLOWING INDIVIDUALS MAY NOT ACQUIRE, BY STOCK
22 OPTION OR ANY OTHER MANNER, THE LEGAL OR BENEFICIAL OWNERSHIP OF ANY
23 CLASS OF STOCK OF THE REORGANIZED STOCK INSURER FOR 6 MONTHS FROM THE
24 DATE OF AN INITIAL PUBLIC OFFERING OR INITIAL PRIVATE EQUITY PLACEMENT:

25 1. AN OFFICER OR DIRECTOR OF THE MUTUAL INSURANCE
26 HOLDING COMPANY;

27 2. AN OFFICER OR DIRECTOR OF THE REORGANIZED STOCK
28 INSURER; AND

29 3. ANY RELATIVE OF AN OFFICER OR DIRECTOR, WHO
30 RESIDES WITH THE OFFICER OR DIRECTOR.

31 (II) NOTWITHSTANDING SUBPARAGRAPH (I) OF THIS PARAGRAPH,
32 ANY INDIVIDUAL WHO IS A POLICYHOLDER OF THE REORGANIZED STOCK INSURER
33 MAY EXERCISE SUBSCRIPTION RIGHTS IN ACCORDANCE WITH ~~SUBSECTION (C)(4) OF~~
34 ~~THIS SECTION~~ PARAGRAPH (4) OF THIS SUBSECTION.

35 (D) (1) EACH POLICYHOLDER OF THE REORGANIZED STOCK INSURER SHALL
36 BE A MEMBER OF THE MUTUAL INSURANCE HOLDING COMPANY.

1 (2) ON THE EFFECTIVE DATE OF THE REORGANIZATION, THE
2 MEMBERSHIP INTERESTS OF A POLICYHOLDER IN THE MUTUAL INSURER SHALL
3 BECOME NONTRANSFERABLE MEMBERSHIP INTERESTS IN THE MUTUAL INSURANCE
4 HOLDING COMPANY.

5 (3) THE PLAN OF REORGANIZATION SHALL PROVIDE THE TERMS AND
6 CONDITIONS UNDER WHICH FUTURE POLICYHOLDERS OF THE REORGANIZED STOCK
7 INSURER SHALL BECOME MEMBERS OF THE MUTUAL INSURANCE HOLDING
8 COMPANY.

9 (4) AT LEAST TWO-THIRDS OF THOSE MEMBERS OF THE BOARD OF
10 DIRECTORS OF THE MUTUAL INSURANCE HOLDING COMPANY WHO ARE ELIGIBLE OR
11 QUALIFIED TO PURCHASE A POLICY FROM THE REORGANIZED STOCK INSURER,
12 SHALL BE MEMBERS OF THE MUTUAL INSURANCE HOLDING COMPANY.

13 (E) (1) EXCEPT AS PROVIDED IN PARAGRAPH (2) OF THIS SUBSECTION, EACH
14 POLICY OF THE MUTUAL INSURER IN EFFECT ON THE EFFECTIVE DATE OF THE
15 REORGANIZATION SHALL REMAIN IN EFFECT IN ACCORDANCE WITH ITS TERMS AND
16 CONDITIONS.

17 (2) THE FOLLOWING RIGHTS AND OBLIGATIONS UNDER THE POLICY OF
18 THE MUTUAL INSURER SHALL BE VOID AS OF THE EFFECTIVE DATE OF THE
19 REORGANIZATION:

20 (I) VOTING RIGHTS OF POLICYHOLDERS;

21 (II) EXCEPT AS TO THE HOLDER OF A PARTICIPATING POLICY, A
22 RIGHT OF A POLICYHOLDER TO SHARE IN THE SURPLUS OR PROFITS OF THE
23 INSURER; AND

24 (III) ASSESSMENT PROVISIONS.

25 (3) A REORGANIZED STOCK INSURER SHALL CONTINUE TO PAY
26 DIVIDENDS TO THE HOLDER OF A PARTICIPATING POLICY THAT WAS IN FORCE ON
27 THE EFFECTIVE DATE OF THE REORGANIZATION, IN ACCORDANCE WITH THE
28 METHODOLOGY OR FORMULA USED BY THE MUTUAL INSURER BEFORE THE
29 REORGANIZATION.

30 (F) THE REORGANIZED STOCK INSURER SHALL HAVE:

31 (1) PAID-IN CAPITAL STOCK NOT LESS THAN THE MINIMUM PAID-IN
32 CAPITAL REQUIRED OF A DOMESTIC STOCK INSURER THAT:

33 (I) TRANSACTS LIKE KINDS OF INSURANCE BUSINESS; AND

34 (II) STARTED BUSINESS IN THE STATE ON THE DATE THE MUTUAL
35 INSURER RECEIVED ITS ORIGINAL CERTIFICATE OF AUTHORITY IN THE STATE; AND

36 (2) SURPLUS FUNDS NOT LESS THAN 100% OF THE REQUIRED CAPITAL.

1 (G) (1) THE PLAN OF REORGANIZATION SHALL BE:

2 (I) APPROVED BY THE VOTE OF A MAJORITY OF THE BOARD OF
3 DIRECTORS OF THE MUTUAL INSURER; AND

4 (II) SUBMITTED TO A MEETING OF MEMBERS AND APPROVED BY
5 THE VOTE OF AT LEAST THREE-FOURTHS OF THE MEMBERS WHO VOTE ON THE
6 PLAN OF REORGANIZATION IN PERSON, BY PROXY, OR BY MAIL.

7 (2) NOTICE OF THE TIME, PLACE, AND PURPOSE OF THE MEETING OF
8 MEMBERS SHALL BE PROVIDED IN THE MANNER APPROVED BY THE COMMISSIONER.

9 (H) THE PLAN OF REORGANIZATION SHALL BE SUBMITTED TO THE
10 COMMISSIONER FOR APPROVAL AT LEAST 60 DAYS BEFORE THE EFFECTIVE DATE OF
11 THE REORGANIZATION, TOGETHER WITH:

12 (1) THE PROPOSED ARTICLES OF INCORPORATION AND BYLAWS OF THE
13 MUTUAL INSURANCE HOLDING COMPANY;

14 (2) THE AMENDMENTS TO THE ARTICLES OF INCORPORATION AND
15 BYLAWS OF THE MUTUAL INSURER TO REORGANIZE AS A STOCK INSURER;

16 (3) A 5-YEAR PLAN OF OPERATION FOR THE MUTUAL INSURANCE
17 HOLDING COMPANY AND THE REORGANIZED STOCK INSURER, INCLUDING ANY
18 PLANS FOR:

19 (I) AN INITIAL PUBLIC OFFERING OF STOCK IN THE REORGANIZED
20 STOCK INSURER; OR

21 (II) THE TRANSFER OF ASSETS OR LIABILITIES FROM THE
22 REORGANIZED STOCK INSURER OR ANY SUBSIDIARIES OF THE REORGANIZED STOCK
23 INSURER TO THE MUTUAL INSURANCE HOLDING COMPANY;

24 (4) A LIST OF THE OFFICERS AND DIRECTORS OF THE MUTUAL
25 INSURANCE HOLDING COMPANY AND THE REORGANIZED STOCK INSURER;

26 (5) A BIOGRAPHY OF EACH OFFICER AND DIRECTOR OF THE MUTUAL
27 INSURANCE HOLDING COMPANY AND THE REORGANIZED STOCK INSURER; AND

28 (6) ANY OTHER DOCUMENTS OR INFORMATION REQUESTED BY THE
29 COMMISSIONER.

30 (I) (1) UNLESS DISAPPROVED BY THE COMMISSIONER, A PLAN OF
31 REORGANIZATION IS APPROVED:

32 (I) ON WRITTEN NOTICE FROM THE COMMISSIONER; OR

33 (II) 60 DAYS AFTER THE PLAN AND ALL INFORMATION REQUIRED
34 UNDER THIS SECTION AND UNDER ANY REGULATIONS ADOPTED IN ACCORDANCE
35 WITH THIS SECTION ARE SUBMITTED TO THE COMMISSIONER.

1 (2) (I) SUBJECT TO SUBPARAGRAPH (II) OF THIS PARAGRAPH, THE
2 COMMISSIONER SHALL APPROVE THE PLAN OF REORGANIZATION IF THE PLAN OF
3 REORGANIZATION:

4 1. COMPLIES WITH THIS SECTION; AND

5 2. IS EQUITABLE TO THE MUTUAL INSURER'S MEMBERS.

6 (II) IN APPROVING A PLAN OF REORGANIZATION, THE
7 COMMISSIONER MAY IMPOSE ADDITIONAL CONDITIONS AND REQUIREMENTS THAT
8 THE COMMISSIONER DETERMINES ARE NECESSARY TO ACHIEVE THE PURPOSES OF
9 THIS SECTION.

10 (3) AT THE EXPENSE OF THE MUTUAL INSURER, THE COMMISSIONER
11 MAY RETAIN A QUALIFIED EXPERT WHO IS NOT A PART OF THE STAFF OF THE
12 COMMISSIONER TO ASSIST IN REVIEWING THE PLAN OF REORGANIZATION.

13 (4) AFTER WRITTEN NOTICE TO THE MUTUAL INSURER, THE
14 COMMISSIONER MAY HOLD A HEARING ON WHETHER THE PLAN OF
15 REORGANIZATION:

16 (I) COMPLIES WITH THIS SECTION; AND

17 (II) IS EQUITABLE TO THE MUTUAL INSURER'S MEMBERS.

18 (J) (1) A MUTUAL INSURANCE HOLDING COMPANY IS SUBJECT TO TITLE 7
19 OF THIS ARTICLE.

20 (2) THE COMMISSIONER MAY REQUIRE THE MUTUAL INSURANCE
21 HOLDING COMPANY TO FILE ANNUAL STATEMENTS WITH THE COMMISSIONER IN
22 THE SAME MANNER AS AN INSURER.

23 (3) THE ARTICLES OF INCORPORATION AND ANY AMENDMENTS TO
24 SUCH ARTICLES OF THE MUTUAL INSURANCE HOLDING COMPANY ARE SUBJECT TO
25 THE APPROVAL OF THE COMMISSIONER IN THE SAME MANNER AS THOSE OF AN
26 INSURER.

27 (K) COMPLIANCE WITH THE REQUIREMENTS FOR A PLAN OF
28 REORGANIZATION UNDER THIS SECTION EXEMPTS A MUTUAL INSURANCE HOLDING
29 COMPANY FROM THE REQUIREMENTS OF TITLE 7, SUBTITLE 3 OF THIS ARTICLE FOR
30 THE PURPOSE OF ACQUIRING CONTROL OF THE REORGANIZED STOCK INSURER.

31 (L) (1) A MUTUAL INSURANCE HOLDING COMPANY:

32 (I) MAY NOT DISSOLVE OR LIQUIDATE EXCEPT THROUGH
33 PROCEEDINGS UNDER TITLE 9 OF THIS ARTICLE; AND

34 (II) SHALL BE A PARTY TO ANY PROCEEDING UNDER TITLE 9 OF
35 THIS ARTICLE INVOLVING A REORGANIZED STOCK INSURER THAT IS A SUBSIDIARY
36 OF THE MUTUAL INSURANCE HOLDING COMPANY.

1 (2) IN ANY PROCEEDING UNDER TITLE 9 INVOLVING A REORGANIZED
2 STOCK INSURER THAT IS A SUBSIDIARY OF A MUTUAL INSURANCE HOLDING
3 COMPANY, THE ASSETS OF THE MUTUAL INSURANCE HOLDING COMPANY SHALL BE
4 DEEMED TO BE ASSETS OF THE ESTATE OF THE REORGANIZED STOCK INSURER FOR
5 PURPOSES OF SATISFYING THE CLAIMS OF THE REORGANIZED STOCK INSURER'S
6 POLICYHOLDERS.

7 (M) A MUTUAL INSURANCE HOLDING COMPANY MAY BECOME A STOCK
8 INSURER IN ACCORDANCE WITH § 3-121 OF THIS TITLE.

9 (N) THE COMMISSIONER MAY ADOPT REGULATIONS TO ENFORCE THIS
10 SECTION.

11 7-103.

12 (a) Except as otherwise specifically provided, the provisions of this title are
13 intended to apply to authorized insurers.

14 (b) The provisions of this title that apply to AN authorized [insurers and
15 domestic insurers] INSURER OR A DOMESTIC INSURER also apply to:

16 (I) A nonprofit health service [plans] PLAN licensed under Title
17 14, Subtitle 1 of this article; AND

18 (II) A MUTUAL INSURANCE HOLDING COMPANY FORMED UNDER §
19 3-121.1 OF THIS ARTICLE.

20 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect
21 June 1, 2000.