

BY: Finance Committee

AMENDMENTS TO HOUSE BILL NO. 1236

(Third Reading File Bill)

AMENDMENT NO. 1

On page 2, in line 2, after "making" insert "certain provisions of"; and after line 3, insert:

"BY repealing and reenacting, with amendments,

Article 48A - Insurance Code

Section 270

Annotated Code of Maryland

(1994 Replacement Volume and 1996 Supplement)".

AMENDMENT NO. 2

On page 2, after line 18, insert:

"Article 48A - Insurance Code

270.

(a) A domestic mutual insurer may become a stock insurer under such plan and procedure as may be approved by the Commissioner [after a hearing thereon].

(b) The Commissioner shall not approve any such plan or procedure unless:

(1) It is equitable to the insurer's members;

(2) It is subject to approval by vote of not less than three fourths of the insurer's current members voting thereon in person, by proxy, or by mail at a meeting of members called for the purpose pursuant to such reasonable notice and procedure as may be approved by the Commissioner; if a life insurer, right to vote may be limited to members who hold policies other than

(Over)

term or group policies, and whose policies have been in force for not less than one year;

(3) THE PLAN PROVIDES AS TO ANY HOLDER OF A SURPLUS NOTE PARTICIPATING IN THE CONVERSION THAT:

(I) THE RIGHTS OF THE HOLDER SHALL BE GOVERNED BY THE TERMS OF THE SURPLUS NOTE; OR

(II) IF THE TERMS OF THE SURPLUS NOTE ARE SILENT REGARDING A CONVERSION AND THE HOLDER IS NOT ALSO A MEMBER, THE HOLDER MAY NOT VOTE ON THE PLANNED CONVERSION;

[(3)] (4) The equity of each policyholder in the insurer is determinable under a fair formula approved by the Commissioner, which such equity shall be based upon not less than the insurer's entire surplus (after deducting contributed or borrowed surplus funds) plus a reasonable present equity in its reserves and in all nonadmitted assets;

[(4)] (5) The policyholders entitled to participate in the purchase of stock or distribution of assets shall include all current policyholders and all existing persons who had been policyholders of the insurer within three years prior to the date such plan was submitted to the Commissioner;

[(5)] (6) The plan gives to each policyholder of the insurer as specified in paragraph [(4)] (5) of this subsection, a preemptive right to acquire his proportionate part of all of the proposed capital stock of the insurer, within a designated reasonable period, and to apply upon the purchase thereof the amount of his equity in the insurer as determined under paragraph [(3)] (4) of this subsection;

[(6)] (7) Shares are so offered to policyholders at a price not greater than to be thereafter offered to others, but at not more than double the par value of such shares;

[(7)] (8) The plan provides for payment to each policyholder not electing to apply his equity in the insurer for or upon the purchase price of stock to which preemptively entitled, of cash in the amount of not less than fifty percent (50%) of the amount of his equity not so used for the purchase of stock, and which cash payment together with stock so purchased, if any, shall constitute full payment and discharge of the policyholder's equity as an owner of such mutual insurer; and

[(8)] (9) The plan, when completed, would provide for the converted insurer paid-in

capital stock in an amount not less than the minimum paid-in capital required of a domestic stock insurer transacting like kinds of insurance, together with surplus funds in an amount not less than one hundred (100) percent of such required capital.

(C) WITHIN 60 DAYS OF THE FILING OF A PLAN THAT CONTAINS ALL OF THE INFORMATION REQUIRED UNDER THIS SECTION AND ANY REGULATIONS ADOPTED UNDER THIS SECTION, THE COMMISSIONER SHALL APPROVE OR DISAPPROVE THE PLAN.

(D) AT THE EXPENSE OF THE MUTUAL INSURER, THE COMMISSIONER MAY RETAIN ANY QUALIFIED EXPERT WHO IS NOT A PART OF THE STAFF OF THE COMMISSIONER TO ASSIST IN REVIEWING THE PLAN.

(E) AFTER WRITTEN NOTICE TO THE MUTUAL INSURER AND ANY OTHER INTERESTED PERSON, THE COMMISSIONER MAY HOLD A HEARING ON WHETHER THE TERMS OF THE PLAN COMPLY WITH THIS SECTION.

(F) (1) IF A MUTUAL INSURER IS INSOLVENT OR, IN THE JUDGMENT OF THE COMMISSIONER, IS IN A HAZARDOUS FINANCIAL CONDITION, THE BOARD OF DIRECTORS OF THE MUTUAL INSURER, BY A MAJORITY VOTE, MAY REQUEST BY A PETITION, AS PROVIDED UNDER PARAGRAPH (2) OF THIS SUBSECTION, THAT THE COMMISSIONER WAIVE THE REQUIREMENTS CONCERNING THE NOTICE TO, AND APPROVAL BY, POLICYHOLDERS OF THE PLANNED CONVERSION.

(2) THE PETITION BY THE BOARD OF DIRECTORS SHALL SPECIFY:

(I) THE METHOD AND BASIS FOR ISSUANCE OF THE SHARES OF CAPITAL STOCK OF THE CONVERTED STOCK INSURER TO AN INDEPENDENT PARTY IN AN AMOUNT SUFFICIENT TO RESTORE THE CONVERTED STOCK INSURER TO SOUND FINANCIAL CONDITION; AND

(II) IF THE COMMISSIONER FINDS THAT THE VALUE OF THE MUTUAL INSURER IS INSUFFICIENT TO WARRANT FINANCIAL CONSIDERATION,

(Over)

THAT THE CONVERSION SHALL BE ACCOMPLISHED WITHOUT FINANCIAL CONSIDERATION TO PAST, PRESENT, OR FUTURE POLICYHOLDERS.

(3) (I) BY WRITTEN ORDER, THE COMMISSIONER MAY WAIVE THE REQUIREMENTS OF SUBSECTION (B)(2) OF THIS SECTION IF THE COMMISSIONER FINDS THAT THE MUTUAL INSURER NO LONGER MEETS STATUTORY REQUIREMENTS WITH RESPECT TO CAPITAL, SURPLUS, DEPOSITS, OR ASSETS.

(II) ANY FINDING THAT RESULTS IN A WAIVER UNDER THIS PARAGRAPH SHALL BE MADE AFTER:

1. REVIEW OF THE PLAN; AND

2. A. AN AUDIT OF THE MUTUAL INSURER'S QUARTERLY OR ANNUAL FINANCIAL STATEMENT; OR

B. A FINANCIAL EXAMINATION OF THE MUTUAL INSURER.

(G) THE COMMISSIONER MAY ADOPT REGULATIONS TO ENFORCE THE PROVISIONS OF THIS SECTION.

SECTION 2. AND BE IT FURTHER ENACTED, That the Laws of Maryland read as follows:”.

On page 4, in line 7, after “PETITION” insert a comma; and in the same line, after “SUBSECTION” insert a comma.

AMENDMENT NO. 3

On page 16, in line 33, strike “2.” and substitute “3.”; in the same line, after “That” insert “Section 1 of”; and after line 37, insert:

“SECTION 4. AND BE IT FURTHER ENACTED, That Section 2 of this Act shall take effect October 1, 1997.”.