

SENATE BILL 518

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C4

1999 Regular Session
9r2161
CF 9r1175

By: **Senator Astle**

Introduced and read first time: February 5, 1999

Assigned to: Finance

A BILL ENTITLED

1 AN ACT concerning

2 **Mutual Insurance Holding Company Act**

3 FOR the purpose of authorizing a mutual insurer to reorganize as a stock insurer and
4 to establish a mutual insurance holding company to hold the capital stock of the
5 reorganized stock insurer under certain circumstances; specifying the conditions
6 under which a mutual insurer may reorganize as a stock insurer and establish a
7 mutual insurance holding company; requiring the approval of the plan of
8 reorganization by the board of directors and members of the mutual insurer in a
9 certain manner; requiring the mutual insurer to submit to the Commissioner a
10 plan of reorganization together with certain other information within a certain
11 period of time; providing for the Commissioner's review and approval of the plan
12 of reorganization; providing that a mutual insurance holding company is subject
13 to and exempt from certain requirements; defining certain terms; authorizing
14 the Commissioner to adopt certain regulations; and generally relating to the
15 formation and operation of a mutual insurance holding company.

16 BY adding to
17 Article - Insurance
18 Section 3-121.1
19 Annotated Code of Maryland
20 (1997 Volume and 1998 Supplement)

21 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
22 MARYLAND, That the Laws of Maryland read as follows:

23 **Article - Insurance**

24 3-121.1.

25 (A) (1) IN THIS SECTION THE FOLLOWING WORDS HAVE THE MEANINGS
26 INDICATED.

27 (2) "MUTUAL INSURANCE HOLDING COMPANY" MEANS A NONSTOCK
28 CORPORATION THAT:

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

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

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

8 (B) SUBJECT TO THIS SECTION AND UNDER A PLAN OF REORGANIZATION, A
9 MUTUAL INSURER MAY:

10 (1) REORGANIZE ITSELF AS A STOCK INSURER; AND

11 (2) ESTABLISH A MUTUAL INSURANCE HOLDING COMPANY.

12 (C) (1) UNDER THE PLAN OF REORGANIZATION, ALL OF THE INITIAL
13 SHARES OF CAPITAL STOCK OF THE REORGANIZED STOCK INSURER SHALL BE
14 ISSUED TO THE MUTUAL INSURANCE HOLDING COMPANY.

15 (2) THE MUTUAL INSURANCE HOLDING COMPANY SHALL AT ALL TIMES
16 OWN A MAJORITY OF THE VOTING SHARES OF THE CAPITAL STOCK OF THE
17 REORGANIZED STOCK INSURER.

18 (D) (1) ALL POLICYHOLDERS OF THE REORGANIZED STOCK INSURER SHALL
19 BE MEMBERS OF THE MUTUAL INSURANCE HOLDING COMPANY.

20 (2) ON THE EFFECTIVE DATE OF THE REORGANIZATION, THE
21 MEMBERSHIP INTERESTS OF POLICYHOLDERS IN THE MUTUAL INSURER SHALL
22 BECOME MEMBERSHIP INTERESTS IN THE MUTUAL INSURANCE HOLDING COMPANY.

23 (3) THE PLAN OF REORGANIZATION SHALL PROVIDE THE TERMS AND
24 CONDITIONS UNDER WHICH FUTURE POLICYHOLDERS OF THE REORGANIZED STOCK
25 INSURER SHALL BECOME MEMBERS OF THE MUTUAL INSURANCE HOLDING
26 COMPANY.

27 (4) A MEMBER OF A MUTUAL INSURANCE HOLDING COMPANY MAY NOT
28 TRANSFER MEMBERSHIP OR ANY RIGHT ARISING FROM MEMBERSHIP TO ANOTHER
29 PERSON.

30 (E) (1) EXCEPT TO THE EXTENT PROVIDED IN PARAGRAPH (2) OF THIS
31 SUBSECTION, EACH POLICY OF THE MUTUAL INSURER IN EFFECT ON THE
32 EFFECTIVE DATE OF THE REORGANIZATION OF THE MUTUAL INSURER INTO A STOCK
33 INSURER SHALL REMAIN IN EFFECT FROM AND AFTER THE DATE OF THE
34 REORGANIZATION IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE
35 POLICY.

1 (2) THE FOLLOWING RIGHTS AND OBLIGATIONS UNDER THE POLICY OF
2 THE MUTUAL INSURER SHALL BE VOID ON AND AFTER THE EFFECTIVE DATE OF THE
3 REORGANIZATION:

4 (I) VOTING RIGHTS OF POLICY HOLDERS;

5 (II) EXCEPT AS TO THE HOLDER OF A PARTICIPATING POLICY, A
6 RIGHT OF A POLICYHOLDER TO SHARE IN THE SURPLUS OR PROFITS OF THE
7 INSURER; AND

8 (III) ASSESSMENT PROVISIONS.

9 (F) THE REORGANIZED STOCK INSURER SHALL HAVE:

10 (1) PAID-IN CAPITAL STOCK EQUAL TO NOT LESS THAN THE MINIMUM
11 PAID-IN CAPITAL REQUIRED OF A DOMESTIC STOCK INSURER THAT:

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

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

15 (2) SURPLUS FUNDS EQUAL TO NOT LESS THAN 100% OF THE REQUIRED
16 CAPITAL.

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

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

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

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

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

28 (1) THE PROPOSED ARTICLES OF INCORPORATION AND BYLAWS OF THE
29 MUTUAL INSURANCE HOLDING COMPANY;

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

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

1 (I) AN INITIAL PUBLIC OFFERING OF STOCK IN THE REORGANIZED
2 STOCK INSURER; OR

3 (II) THE TRANSFER OF ASSETS OR LIABILITIES FROM THE
4 REORGANIZED STOCK INSURER OR ANY SUBSIDIARIES OF THE REORGANIZED STOCK
5 INSURER TO THE MUTUAL INSURANCE HOLDING COMPANY;

6 (4) A LIST OF THE OFFICERS AND DIRECTORS, INCLUDING THEIR
7 BIOGRAPHIES IN THE FORM CUSTOMARILY REQUIRED BY THE COMMISSIONER, OF
8 THE MUTUAL INSURANCE HOLDING COMPANY AD THE REORGANIZED STOCK
9 INSURER; AND

10 (5) ANY OTHER DOCUMENTS OR INFORMATION REQUESTED BY THE
11 COMMISSIONER.

12 (I) (1) A MUTUAL INSURER MAY NOT REORGANIZE AS A STOCK INSURER
13 AND ESTABLISH A MUTUAL INSURANCE HOLDING COMPANY UNDER THIS SECTION
14 UNLESS THE COMMISSIONER, WITHIN 60 DAYS AFTER THE PLAN OF
15 REORGANIZATION AND ALL OF THE INFORMATION REQUIRED BY SUBSECTION (H) OF
16 THIS SECTION IS SUBMITTED TO THE COMMISSIONER:

17 (I) APPROVES THE TRANSACTION; OR

18 (II) DOES NOT DISAPPROVE THE TRANSACTION.

19 (2) AT THE EXPENSE OF THE MUTUAL INSURER, THE COMMISSIONER
20 MAY RETAIN A QUALIFIED EXPERT WHO IS NOT A PART OF THE STAFF OF THE
21 COMMISSIONER TO ASSIST IN REVIEWING THE PLAN OF REORGANIZATION.

22 (3) AFTER WRITTEN NOTICE TO THE MUTUAL INSURER, THE
23 COMMISSIONER MAY HOLD A HEARING ON WHETHER THE PLAN OF
24 REORGANIZATION:

25 (I) COMPLIES WITH THIS SECTION; AND

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

27 (4) THE COMMISSIONER SHALL APPROVE THE PLAN OF
28 REORGANIZATION IF THE PLAN OF REORGANIZATION:

29 (I) COMPLIES WITH THIS SECTION; AND

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

31 (J) (1) A MUTUAL INSURANCE HOLDING COMPANY IS SUBJECT TO TITLE 7
32 OF THIS ARTICLE TO THE SAME EXTENT AS AN INSURER.

33 (2) THE COMMISSIONER MAY REQUIRE THE MUTUAL INSURANCE
34 HOLDING COMPANY TO FILE ANNUAL STATEMENTS WITH THE COMMISSIONER IN
35 THE SAME MANNER AS AN INSURER.

1 (3) THE ARTICLES OF INCORPORATION AND ANY AMENDMENTS TO THE
2 ARTICLES OF THE MUTUAL INSURANCE HOLDING COMPANY SHALL BE SUBJECT TO
3 THE APPROVAL OF THE COMMISSIONER IN THE SAME MANNER AS THOSE OF AN
4 INSURER.

5 (K) (1) APPROVAL BY THE COMMISSIONER OF THE PLAN OF
6 REORGANIZATION SHALL CONSTITUTE APPROVAL OF THE ACQUISITION OF CONTROL
7 BY THE MUTUAL INSURANCE HOLDING COMPANY UNDER TITLE 7 OF THIS ARTICLE.

8 (2) THE OFFER OR SALE OF SECURITIES ISSUED UNDER THE PLAN OR
9 REORGANIZATION APPROVED IN ACCORDANCE WITH THIS SECTION SHALL BE
10 EXEMPT FROM THE MARYLAND SECURITIES LAWS.

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

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

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

17 (2) IN ANY PROCEEDING UNDER TITLE 9 OF THIS ARTICLE INVOLVING A
18 REORGANIZED STOCK INSURER THAT IS A SUBSIDIARY OF A MUTUAL INSURANCE
19 HOLDING COMPANY, THE ASSETS OF THE MUTUAL INSURANCE HOLDING COMPANY
20 SHALL BE DEEMED TO BE ASSETS OF THE ESTATE OF THE REORGANIZED STOCK
21 INSURER FOR PURPOSES OF SATISFYING THE CLAIMS OF THE REORGANIZED STOCK
22 INSURER'S POLICYHOLDERS.

23 (M) A MUTUAL INSURANCE HOLDING COMPANY MAY BECOME A STOCK
24 INSURER IN ACCORDANCE WITH § 3-121 OF THIS SUBTITLE.

25 (N) THE COMMISSIONER MAY ADOPT REGULATIONS TO ENFORCE THIS
26 SECTION.

27 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take
28 effect October 1, 1999.