

HOUSE BILL 119

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C4
HB 230/99 - ECM

2000 Regular Session
0lr1120
CF 0lr1119

By: **Delegates Brown, Gordon, and Donoghue**
Introduced and read first time: January 17, 2000
Assigned to: Economic Matters

A BILL ENTITLED

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
26 (1997 Volume and 1999 Supplement)

27 BY repealing and reenacting, with amendments,
28 Article - Insurance
29 Section 7-103
30 Annotated Code of Maryland
31 (1997 Volume and 1999 Supplement)

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

3 **Article - Insurance**

4 3-121.1.

5 (A) (1) IN THIS SECTION THE FOLLOWING WORDS HAVE THE MEANINGS
6 INDICATED.

7 (2) "MUTUAL INSURANCE HOLDING COMPANY" MEANS A NONSTOCK
8 CORPORATION THAT:

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

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

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

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

18 (1) REORGANIZE AS A STOCK INSURER; AND

19 (2) ESTABLISH A MUTUAL INSURANCE HOLDING COMPANY.

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

21 (1) ALL OF THE INITIAL SHARES OF CAPITAL STOCK OF THE
22 REORGANIZED STOCK INSURER SHALL BE ISSUED TO THE MUTUAL INSURANCE
23 HOLDING COMPANY.

24 (2) THE MUTUAL INSURANCE HOLDING COMPANY SHALL OWN A
25 MAJORITY OF:

26 (I) THE VOTING SHARES OF THE CAPITAL STOCK OF THE
27 REORGANIZED STOCK INSURER; AND

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

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

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

4 (II) THE DETERMINATION OF THE BOARD OF DIRECTORS IS
5 APPROVED BY THE COMMISSIONER.

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

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

13 (II) THE DETERMINATION OF THE BOARD OF DIRECTORS IS
14 APPROVED BY THE COMMISSIONER.

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

19 1. AN OFFICER OR DIRECTOR OF THE MUTUAL INSURANCE
20 HOLDING COMPANY;

21 2. AN OFFICER OR DIRECTOR OF THE REORGANIZED STOCK
22 INSURER; AND

23 3. ANY RELATIVE OF AN OFFICER OR DIRECTOR, WHO
24 RESIDES WITH THE OFFICER OR DIRECTOR.

25 (II) NOTWITHSTANDING SUBPARAGRAPH (I) OF THIS PARAGRAPH,
26 ANY INDIVIDUAL WHO IS A POLICYHOLDER OF THE REORGANIZED STOCK INSURER
27 MAY EXERCISE SUBSCRIPTION RIGHTS IN ACCORDANCE WITH SUBSECTION (C)(4) OF
28 THIS SECTION.

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

31 (2) ON THE EFFECTIVE DATE OF THE REORGANIZATION, THE
32 MEMBERSHIP INTERESTS OF A POLICYHOLDER IN THE MUTUAL INSURER SHALL
33 BECOME NONTRANSFERABLE MEMBERSHIP INTERESTS IN THE MUTUAL INSURANCE
34 HOLDING COMPANY.

35 (3) THE PLAN OF REORGANIZATION SHALL PROVIDE THE TERMS AND
36 CONDITIONS UNDER WHICH FUTURE POLICYHOLDERS OF THE REORGANIZED STOCK
37 INSURER SHALL BECOME MEMBERS OF THE MUTUAL INSURANCE HOLDING
38 COMPANY.

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

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

9 (2) THE FOLLOWING RIGHTS AND OBLIGATIONS UNDER THE POLICY OF
10 THE MUTUAL INSURER SHALL BE VOID AS OF THE EFFECTIVE DATE OF THE
11 REORGANIZATION:

12 (I) VOTING RIGHTS OF POLICYHOLDERS;

13 (II) EXCEPT AS TO THE HOLDER OF A PARTICIPATING POLICY, A
14 RIGHT OF A POLICYHOLDER TO SHARE IN THE SURPLUS OR PROFITS OF THE
15 INSURER; AND

16 (III) ASSESSMENT PROVISIONS.

17 (3) A REORGANIZED STOCK INSURER SHALL CONTINUE TO PAY
18 DIVIDENDS TO THE HOLDER OF A PARTICIPATING POLICY THAT WAS IN FORCE ON
19 THE EFFECTIVE DATE OF THE REORGANIZATION, IN ACCORDANCE WITH THE
20 METHODOLOGY OR FORMULA USED BY THE MUTUAL INSURER BEFORE THE
21 REORGANIZATION.

22 (F) THE REORGANIZED STOCK INSURER SHALL HAVE:

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

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

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

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

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

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

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

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

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

4 (1) THE PROPOSED ARTICLES OF INCORPORATION AND BYLAWS OF THE
5 MUTUAL INSURANCE HOLDING COMPANY;

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

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

11 (I) AN INITIAL PUBLIC OFFERING OF STOCK IN THE REORGANIZED
12 STOCK INSURER; OR

13 (II) THE TRANSFER OF ASSETS OR LIABILITIES FROM THE
14 REORGANIZED STOCK INSURER OR ANY SUBSIDIARIES OF THE REORGANIZED STOCK
15 INSURER TO THE MUTUAL INSURANCE HOLDING COMPANY;

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

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

20 (6) ANY OTHER DOCUMENTS OR INFORMATION REQUESTED BY THE
21 COMMISSIONER.

22 (I) (1) A PLAN OF REORGANIZATION IS APPROVED:

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

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

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

30 1. COMPLIES WITH THIS SECTION; AND

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

32 (II) IN APPROVING A PLAN OF REORGANIZATION, THE
33 COMMISSIONER MAY IMPOSE ADDITIONAL CONDITIONS AND REQUIREMENTS THAT
34 THE COMMISSIONER DETERMINES ARE NECESSARY TO ACHIEVE THE PURPOSES OF
35 THIS SECTION.

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

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

7 (I) COMPLIES WITH THIS SECTION; AND

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

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

11 (2) THE COMMISSIONER MAY REQUIRE THE MUTUAL INSURANCE
12 HOLDING COMPANY TO FILE ANNUAL STATEMENTS WITH THE COMMISSIONER IN
13 THE SAME MANNER AS AN INSURER.

14 (3) THE ARTICLES OF INCORPORATION AND ANY AMENDMENTS TO
15 SUCH ARTICLES OF THE MUTUAL INSURANCE HOLDING COMPANY ARE SUBJECT TO
16 THE APPROVAL OF THE COMMISSIONER IN THE SAME MANNER AS THOSE OF AN
17 INSURER.

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

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

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

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

28 (2) IN ANY PROCEEDING UNDER TITLE 9 INVOLVING A REORGANIZED
29 STOCK INSURER THAT IS A SUBSIDIARY OF A MUTUAL INSURANCE HOLDING
30 COMPANY, THE ASSETS OF THE MUTUAL INSURANCE HOLDING COMPANY SHALL BE
31 DEEMED TO BE ASSETS OF THE ESTATE OF THE REORGANIZED STOCK INSURER FOR
32 PURPOSES OF SATISFYING THE CLAIMS OF THE REORGANIZED STOCK INSURER'S
33 POLICYHOLDERS.

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

36 (N) THE COMMISSIONER MAY ADOPT REGULATIONS TO ENFORCE THIS
37 SECTION.

1 7-103.

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

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

6 (I) A nonprofit health service [plans] PLAN licensed under Title
7 14, Subtitle 1 of this article; AND

8 (II) A MUTUAL INSURANCE HOLDING COMPANY FORMED UNDER §
9 3-121.1 OF THIS ARTICLE.

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