

Department of Legislative Services  
Maryland General Assembly  
2000 Session

FISCAL NOTE

House Bill 1344 (Delegate Brown)

Economic Matters

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**Insurer Mutual-to-Stock Conversion Act**

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This bill alters the procedures by which a mutual insurer may convert to a stock insurer.

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**Fiscal Summary**

**State Effect:** Minimal increase in special fund revenue from form filing fees for forms filed with the Maryland Insurance Administration. Minimal increase in general fund revenues for filing incorporation papers with the State Department of Assessments and Taxation (SDAT). Expenditures would not be affected.

**Local Effect:** None.

**Small Business Effect:** Minimal.

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**Analysis**

**Bill Summary:** The bill requires that the conversion plan receive the approval of two-thirds of the board of directors. The plan must be put to a vote of the insurer's members and approved by two-thirds of the voting members. Within 30 days after member approval, the converted stock insurer must file with the Insurance Commissioner the minutes of the meeting at which the plan was approved and the amended articles of incorporation and bylaws of the converted stock insurer.

The bill specifies the requirements for the conversion plan, including subscription rights in the converted stock insurer. As an alternative to said subscription rights, the plan may provide that each eligible member is to receive nontransferable subscription rights in: (1) a corporation organized for the purpose of purchasing and holding all the stock of the

converted stock insurer; (2) a stock insurer owned by the mutual insurer into which the mutual insurer will be merged; or (3) an unaffiliated stock insurer or other corporation that will purchase all the stock of the converted stock insurer.

The plan is effective when: (1) the commissioner has approved it; (2) the eligible members have approved the plan and adopted the amended articles of incorporation; and (3) the mutual insurer files the amended articles of incorporation with SDAT.

**Current Law:** Conversion by a mutual insurer to a stock insurer, or demutualization, requires approval by the commissioner, majority approval of the board of directors, and an affirmative vote of three-fourths of the members voting on the conversion. The commissioner may not approve the plan unless it is fair to all the insurer's members. Contents of the conversion plan are not specified.

**Background:** Insurance policies are issued by either a stock or a mutual insurer. A mutual insurer is owned by its policyholders, who may have rights to share in policy dividends. A stock insurer is owned by its shareholders. A stock insurer can raise capital by selling shares of stock; however, a mutual insurer must retain earnings or incur debt in order to raise capital.

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### Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland Insurance Administration, State Department of Assessments and Taxation, Department of Legislative Services

**Fiscal Note History:** First Reader - March 14, 2000  
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