

Department of Legislative Services  
Maryland General Assembly  
2000 Session

FISCAL NOTE

House Bill 119 (Delegate Brown. *et al.*)

Economic Matters

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Mutual Insurance Holding Company Act

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This bill authorizes a mutual insurer to reorganize as a stock insurer and to establish a mutual insurance holding company to hold the capital stock of the reorganized stock insurer.

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Fiscal Summary

**State Effect:** Minimal increase in special fund revenue due to fees collected by the Maryland Insurance Administration. Any workload increase could be handled with existing revenues.

**Local Effect:** None.

**Small Business Effect:** None.

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Analysis

**Bill Summary:** This bill authorizes a mutual insurer to reorganize as a stock insurer and establish a mutual insurance holding company to hold the capital stock of the reorganized stock insurer. The membership interests of a policyholder become nontransferable membership interests in the mutual insurance holding company on the effective date of reorganization.

The reorganization is subject to review and approval by a majority of the board of directors, three-fourths of the members of the mutual insurer voting on the reorganization, and the Insurance Commissioner. The Commissioner may retain, at the expense of the insurer, an expert to review the reorganization plan. The Commissioner may also hold a hearing on whether the plan complies with the provisions of the bill and is equitable to the mutual insurer's members.

The bill requires the Commissioner to approve the reorganization plan if it complies with the provisions of the bill and is equitable to the mutual insurer's members. In approving a reorganization plan, the Commissioner may impose additional requirements and conditions.

**Current Law:** Maryland law allows a mutual insurer to “demutualize” or convert to a stock insurer, but it does not allow conversion through a holding company. Demutualization requires approval by the Commissioner, a majority of the board of directors, and three-fourths of the members voting on the conversion.

**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.

Currently, 23 states and the District of Columbia allow their domestic mutual insurance companies to reorganize by forming a holding company and converting the mutual insurer into a stock corporation. Conversion through a holding company is advantageous to a medium insurer because it could become a target for a stock takeover if it demutualized.

The federal Financial Services Modernization Act allows mutual insurance companies in states that do not allow mutual holding companies to redomesticate.

**State Revenues:** Special fund revenues could increase by a minimal amount because insurers that reorganize would be subject to a \$125 rate and form filing fee by the Maryland Insurance Administration. The number of insurers that would reorganize under the provisions of this bill cannot be reliably estimated at this time, but is assumed to be minimal.

## **Additional Information**

**Prior Introductions:** Substantially similar bills were introduced in the 1999 session. SB 518 received an unfavorable report from the Senate Finance Committee, and HB 230 received an unfavorable report from the House Economic Matters Committee.

**Cross File:** SB 148 (Senator Astle) - Finance.

**Information Source(s):** Maryland Insurance Administration, National Association of Insurance Commissioners, Department of Legislative Services

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