

# HOUSE RESEARCH

## Bill Summary

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**Version:** First engrossment

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**Subject:** Conversion of mutual insurance holding companies to stock insurance holding companies

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### Overview

This bill establishes a procedure for converting a mutual insurance holding company to a stock insurance holding company. State law currently provides for conversion of a mutual insurance company to a stock insurance company, and for conversion of a mutual insurance company to a mutual insurance holding company, but does not provide a procedure for the type of conversion dealt with in this bill. This bill also amends the existing procedures for the other types of conversions just mentioned. Sections 2 and 3 involve other insurance changes, relating to the accounting effects of reinsurance and workers' compensation insurance premiums, respectively.

### Section

1 **Mutual company conversion to stock company.**

**Subd. 1. Definitions.** Adds and amends numerous definitions.

**Subd. 2. Authorization.** Specifies the ways in which a mutual insurance holding company may reorganize into a stock insurance holding company under this section.

**Subd. 3. Adoption of a plan of conversion by the board of directors.** Changes a provision dealing with the company's right to abandon a planned conversion. Specifies the duties of the board of directors of a converting company.

**Subd. 4. Filing of the plan of conversion with the commissioner.** Changes from the concept of equitable surplus to that of distributable net worth, for the purpose of determining fairness of the transaction to members of the mutual company. Makes procedural and other changes.

**Subd. 5. Approval of the plan by the eligible members.** Amends procedures for obtaining approval of a conversion by members of the converting mutual company.

**Subd. 6. Conversion.** Makes technical and procedural changes.

**Subd. 7. Plan not fair or inequitable.** Changes provisions involving evaluation by the

commissioner of fairness of the transaction to members of the converting mutual company.

**Subd. 8. Share conversion.** Amends provisions specifying how the membership interests in the mutual holding company are converted to shares of stock in the stock holding company.

**Subd. 9. Distribution of distributable net worth.** Eliminates current language specifying what members and policyholders should receive upon conversion, replacing it with more general language based upon the new "distributable net worth" definition in subdivision 1 and "reasonable expectations of policyholders."

**Subd. 10. Subscription rights.** Provides language protecting the "reasonable dividend expectations" of policyholders.

**Subd. 11. Optional provisions.** Permits conversion plans to provide that stock issued to members of the converting company may be placed in a trust for 40 years, rather than for ten years under current law. Permits members to sell their shares no later than two years after the effective date of the conversion plan. Changes provisions dealing with the special rights of officers and directors to purchase stock in the converted company.

**Subd. 12. Alternative plan of conversion.** Permits the option of using a conversion plan not specified in this section, with the approval of the commissioner. Eliminates the requirement of an independent appraisal.

**Subd. 13. Effect of conversion.** Makes technical changes.

**Subd. 14-16.** No changes.

**Subd. 17. Supervisory conversions.** Technical change.

**Subd. 18. Post-conversion acquisitions.** Changes from five years to three years the period after conversion in which a change of control (corporate takeover) is prohibited.

2 **Reinsurance.** Eliminates an existing provision dealing with the effect of reinsurance on the ceding insurer's unearned premium reserve. (The ceding insurer in a reinsurance transaction is the insurer that is transferring risk to a reinsurer.)

3 **Penalties.** In regard to worker's compensation coverage of a large employer, provides that the premiums paid by that employer include premiums from that employer classified as coming from other states. This affects whether the coverage is considered to have reached a \$250,000 annual premium threshold that is relevant for permitting sale of large risk alternative rating plans to multi-state employers.