HOUSE RESEARCH
Bill Summary

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Subject: Mutual insurance holding companies, interstate insurance product regulation compact and miscellaneous insurance changes

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Overview

This bill amends laws relating to mutual insurance holding company systems, makes Minnesota a member of the interstate insurance product regulation compact, and makes miscellaneous insurance law changes.

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Article 1: Mutual Holding Company Changes

Overview

This article involves the concept of a **mutual insurance company**, which is an insurance company owned by its policyholders, sort of like a cooperative or credit union, as opposed to a for-profit insurance company owned by its stockholders. The article also involves the concept of an **insurance holding company system**, which is a group of one or more insurance companies that are interconnected through ownership. For instance, one insurance company in the system may own another one, in which case the owning company (called the "holding company") is the "parent company" and the other company is the parent's subsidiary. These two concepts of a mutual insurance company and an insurance holding company system come together when there is a **mutual insurance holding company system**.

This article of the bill provides a framework for a specific type of corporate reorganization of a mutual

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insurance holding company system. Section 4 is the key section of this article. The situation involves a former mutual insurance company that (sort of) "de-mutualized" several years ago by creating a mutual insurance holding company to own the stock in the former mutual insurance company, which became a for-profit insurance company as part of the reorganization. This article provides a roadmap for that insurance holding company system to "remutualize" by having the (parent) mutual insurance holding company merge with its for-profit subsidiary, with the surviving entity being the subsidiary, which would be "remutualized" in the process, thereby becoming again a mutual insurance company.

Article 2: Interstate Insurance Product Regulation Compact

Overview

By enacting this article, Minnesota would join the interstate insurance product regulation compact. The compact goes into full effect after being joined by at least 26 states or by states that together comprise 40 percent of insurance premiums paid for insurance products that would be subject to the compact.

The purpose of the compact is to create an interstate commission to determine uniform standards for individual and group annuity contracts, life insurance, disability income insurance, and long-term care insurance. The commission (actually in practice probably its staff) would then approve a product (an insurance policy or annuity contract) for sale in all of the compacting states, if the product meets the uniform standards. A compacting state does have the right to opt-out of a particular uniform standard by legislation or rule. If the opt-out is by rule, the state must follow a procedure (see page 22) to opt-out of that standard. A state may, when enacting this compact, prospectively opt-out of all uniform standards involving long-term care insurance.

A state may join only by enacting the compact without any changes, except as described above for long-term care insurance. The only other choice a compacting state can make is to state in the legislation how that state's representative on the commission would be determined. This bill (see page 29, lines 33 and 34) says Minnesota's representative would be its commissioner of commerce.

The commission would be funded (see top of page 26) by filing fees paid by insurance companies when they request approval of a product by the commission. The commission could receive donations from compacting states and other sources to cover its start-up costs.

Section 2 of this article, which is not a part of our enactment of the compact itself, requires the commissioner of commerce to keep legislative committee chairs with jurisdiction over insurance informed of the commission's activities.

Article 3: Miscellaneous Insurance Regulatory Changes

Overview

This article makes relatively minor changes in insurance regulation.

1 1 **Policies to include notice.** Eliminates a requirement that a notice warning purchasers of surplus lines insurance be printed, typed, or stamped in red ink. This change retains the notice requirement, but permits any color ink.

2 **Registration.** Changes the date of an annual registration required for insurance companies that are part of an insurance holding company system.

3 **Criteria for course approval.** Permits insurance agents to get continuing education credit for types of courses that are more oriented toward efficient business practices and less toward substantive knowledge of insurance.

4 **Minimum education requirement.** Permits insurance agents to get continuing education credit for courses focused on professional development in all phases of being an insurance agent, rather than being limited to courses on substantive insurance content.

5 **Reinsurance.** Permits a fraternal benefit society to reinsure an affiliated entity under circumstances approved by the commissioner, including reinsurance of an affiliate insurance company.