

State Corporation Commission
2001 Fiscal Impact Statement
(Revised)

1. Bill Number HB2255

House of Origin	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. Patron Woodrum

3. Committee Corporations, Insurance & Banking

4. Title Mutual insurers; conversion to stock insurers, etc.

5. Summary/Purpose: Amends §§ 38.2-1005 and 38.2-1005.1 and also adds two new articles in Chapter 10 of Title 38.2 for the purpose of authorizing "subscription rights only" demutualizations and of recognizing mutual holding company reorganizations. Clarifies that no mutual insurance company or company licensed under Chapter 25, 38, 39, 40 or 41 of Title 38.2 may convert to a stock company except with the approval of the Commission as provided in § 38.2-1005.1 or in Article 1.1 of Chapter 10 (§ 38.2-1005.1:1 et seq.) or in Article 1.2 of Chapter 10 (§ 38.2-1005.1:11). Amendments also clarify that a society or nonstock company licensed under any chapter other than Chapter 10 must become a Chapter 10 mutual insurer prior to seeking approval for conversion to a stock company. Authorizes the Commission to approve plans of conversion prepared and submitted in accordance with § 38.2-1005.1 (traditional, full demutualizations) or the new Article 1.1 (subscription rights only or alternative methods) or 1.2 (mutual holding company reorganizations and conversions). A new Article 1.1 is added, to prescribe processes for a subscription-rights-only demutualization (§§ 38.2-1005.1:1 et seq.) as well as a demutualization which does not provide in whole or in part for the issuance to members of subscription rights (§ 38.2-1005.1:3 H) to purchase stock of the converted stock company. The article contains its own "definitions" sections as well as provisions which:

Recognize recission rights in members who purchase policies before the effective date but after the Board's adoption of a plan;

Provide for continuity of corporate existence, and for authorizing directors and officers of the mutual company to serve also as directors and officers for the converted company until new directors and officers are duly elected;

Address conflicts of interest and the payment and allocation of costs and expenses; Provide that a failure to give notice to any member shall not impair the validity of any action if the insurer complies substantially and in good faith with the notice requirements of the statute; and

Impose a 30-day limitation on actions challenging the validity of the transaction or acts taken or proposed to be taken under the article.

A new Article 1.2, recognizes the formation of a mutual insurance holding company (MHC) and conversion of a mutual insurer to a stock insurer. These provisions specify that all

eligible members of the mutual insurer are to become members of the MHC, that the MHC shall at all times own not less than a majority of the issued shares of the voting stock of the converted company, that MHC member interests are not transferable, and that member interest shall not constitute a security under the laws of Virginia. Other provisions describe the contents of a plan and detail the adoption and approval process, requiring, among other things, the Commission's determination that the provisions of the article have been complied with and the plan is fair and equitable as regards the interests of the members of the mutual company. The Commission is authorized to hire experts at the insurer's expense, to hold a public hearing, and to issue conditional approvals.

Remaining provisions of the bill: Clarify that the MHC is organized under Title 13.1 and has powers of an insurer but shall not have authority to transact insurance and shall be subject to insurance holding company limitations and restrictions and also to receivership provisions of Chapter 15 of Title 38.2;

Prohibit the diversion of insurance business to affiliates without Commission approval if purpose or effect of diversion would be significantly to reduce the number of MHC members;

Address conflicts of interest and handling of conversion costs and expenses;

Provide that a failure to give notice to any member shall not impair the validity of any action if the insurer complies substantially and in good faith with the notice requirements of the statute; and

Require that actions challenging the validity of the transactions or acts taken or proposed to be taken under the article be commenced within 30 days after the effective date of the plan.

6. Fiscal Impact Estimates Are Unavailable

7. Budget amendment necessary: No

8. Fiscal implications: The demutualization or the reorganization of a mutual insurer has a fiscal impact on the Bureau of Insurance because of the protracted approval process of such a transaction, which can extend to as much as two years based on the Bureau's experience in the demutualization of Trigon BlueCross BlueShield. Approval of such a major transaction clearly has a substantial impact on the workload of the Bureau and the devotion of staff and other resources to such a project. The Bureau cannot estimate the impact of the enactment of this bill because we have no information as to how many insurers, if any, would choose to demutualize in accordance with these newly enacted provisions.

9. Specific agency or political subdivisions affected: State Corporation Commission
Bureau of Insurance

10. Technical amendment necessary: Many of the concerns of the State Corporation Commission Bureau of Insurance has had with HB 2255 have been addressed in an amendment in the nature of a substitute that is now under consideration in the Committee on Corporations, Insurance and Banking. The bill has been assigned to CIB Subcommittee #2 for further discussion.

11. Other comments: This bill was introduced by Delegate Woodrum by the Virginia Association of Mutual Insurance Companies.

Date: January 21, 2001

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cc: Secretary of Commerce and Trade

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