

# MAINE STATE LEGISLATURE

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L.D. 1476

(Filing No. H-279 )

STATE OF MAINE  
HOUSE OF REPRESENTATIVES  
112TH LEGISLATURE  
FIRST REGULAR SESSION

COMMITTEE AMENDMENT "A" to H.P. 1024, L.D. 1476, Bill, "AN ACT to Amend the Provisions Governing the Conversion of a Mutual Insurer."

Amend the bill by striking out everything after the enacting clause and before the emergency clause and inserting in its place the following:

'Sec. 1. 24-A MRSA §10, sub-§4, as enacted by PL 1969, c. 132, §1, is amended to read:

4. A Unless otherwise expressly provided by this Title, a domestic insurer heretofore formed under a special Act of the Legislature, where inconsistent with such special Act as heretofore amended.

Sec. 2. 24-A MRSA §3471, as enacted by PL 1969, c. 132, §1, is repealed and the following enacted in its place:

§3471. Scope of subchapter

This subchapter applies as to domestic stock and mutual insurers whether heretofore or hereafter formed, including insurers chartered under special legislative Acts, notwithstanding any inconsistent provisions in the charters of the insurers.

Sec. 3. 24-A MRSA §3477, sub-§1, as amended by PL 1973, c. 585, §12, is further amended to read:

1. A mutual insurer may amend its charter pursuant to this section to become a stock insurer, or a combination stock and mutual insurer, under such reasonable plan and procedure as may be approved by the superintendent after a hearing thereon of which notice was given to the insurer, its directors or

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1 trustees, its officers, employees and its members  
2 policyholders, all of whom shall have the right to  
3 appear and be heard at the hearing.

4 Sec. 4. 24-A MRSA §3477, sub-§2, ¶B, as amended  
5 by PL 1973, c. 585, §12, is repealed and the follow-  
6 ing enacted in its place:

7 B. It is subject to approval by vote of not less  
8 than 2/3 of the insurer's policyholders voting  
9 thereon in person, by proxy, or by mail at a  
10 meeting of policyholders called for the purpose  
11 pursuant to such reasonable notice and procedure  
12 as may be approved by the superintendent and each  
13 such policyholder shall be entitled to one vote,  
14 provided that only persons who were policyholders  
15 both at least one year prior to the submission of  
16 the insurer's plan to the superintendent and on a  
17 subsequent date, found reasonable by the superin-  
18 tendent, prior to the vote shall be entitled to  
19 vote; provided that as to life insurers chartered  
20 by special Act prior to January 1, 1970, the per-  
21 sons entitled to vote shall be further limited to  
22 owners of life insurance policies and contracts,  
23 and those persons shall be entitled to one vote  
24 and to an additional vote for each \$1,000 of in-  
25 surance above 1,000, except that in the case of  
26 any policy or contract of group life insurance or  
27 any group annuity contract providing life insur-  
28 ance, the employer or other person, firm, corpo-  
29 ration or association, to whom or in whose name  
30 the master policy or contract shall have been is-  
31 sued or held, shall be deemed to be the owner  
32 within the meaning of this paragraph and shall be  
33 entitled to one vote for each such policy or con-  
34 tract of group life insurance or each such group  
35 annuity contract irrespective of the number of  
36 lives insured under that policy or contract;

37 Sec. 5. 24-A MRSA §3477, sub-§2, ¶D, as enacted  
38 by PL 1969, c. 132, §1, is amended to read:

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1 D. The plan gives to each member of the insurer  
2 as specified in paragraph E, a preemptive right  
3 to acquire his proportionate part of all of the  
4 proposed capital stock of the insurer, or all of  
5 the stock of a proposed parent corporation of the  
6 insurer, within a designated reasonable period,  
7 as such part is determinable under the plan of  
8 conversion, and to apply upon the purchase there-  
9 of the amount of his equity in the insurer as de-  
10 termined under paragraph C, except that the plan  
11 may provide, subject to the approval of the su-  
12 perintendent, that such preemptive right will not  
13 apply to members who reside in jurisdictions in  
14 which the issuance of stock is impossible, would  
15 involve unreasonable delay or would require the  
16 insurer to bear unreasonable costs, provided that  
17 any such member shall receive 100% of his equity  
18 share in the insurer in the form of a cash  
19 payment;

20 Sec. 6. 24-A MRSa §3477, sub-§2, ¶E, as amended  
21 by PL 1973, c. 585, §12, is further amended to read:

22 E. The members entitled to participate in the  
23 purchase of stock or distribution of assets shall  
24 include not less than all ~~current~~ policyholders  
25 of the insurer as of the date the plan was sub-  
26 mitted to the superintendent and each existing  
27 person who had been a policyholder of the insurer  
28 within 3 years prior to ~~the such date such plan~~  
29 ~~was submitted to the superintendent;~~

30 Sec. 7. 24-A MRSa §3477, sub-§2, ¶G, as amended  
31 by PL 1973, c. 585, §12, is repealed and the follow-  
32 ing enacted in its place:

33 G. The plan provides for payment to each member  
34 of his entire equity share in the insurer, with  
35 that payment to be made in cash or to be applied  
36 for or upon the purchase of stock to which the  
37 member is preemptively entitled, or both, pro-  
38 vided that with respect to each member who is not

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1           given the option of receiving his entire equity  
2           share in cash, the plan shall provide that that  
3           member shall have the option to receive a reason-  
4           able portion of his equity share, as provided in  
5           the plan, but not in excess of 50% of his entire  
6           equity, in the form of a cash payment, which pay-  
7           ment together with the amount applied to the pur-  
8           chase of stock shall constitute full payment and  
9           discharge of the member's equity or property in-  
10           terest in that mutual insurer; provided further  
11           that the superintendent may permit an insurer to  
12           forego the option of making a cash payment to  
13           members if he determines that it would be reason-  
14           able not to provide for the cash election, after  
15           taking into account all the facts and circum-  
16           stances, including whether there is expected to  
17           be an active market for the stock to be received  
18           in the conversion;

19           Sec. 8. 24-A MRSA §3477, sub-§6 is enacted to  
20           read:

21           6. Costs. For the purpose of determining wheth-  
22           er a conversion plan meets the requirements of this  
23           section and any other relevant provisions of this Ti-  
24           tle, the superintendent may employ staff personnel  
25           and outside consultants. All reasonable costs relat-  
26           ed to the review of a plan of conversion, including  
27           those costs attributable to the use of staff person-  
28           nel, shall be borne by the insurer or insurers making  
29           the filing.

30           Sec. 9. Transitional provision. Notwithstanding  
31           the terms of the Maine Revised Statutes, Title 1,  
32           section 302; Title 24-A, sections 10, 3471 and 3477,  
33           as amended by this Act, shall apply to any filing by  
34           a mutual insurer seeking the approval of the Superin-  
35           tendent of Insurance of its plan and procedure of  
36           demutualization, including any such filing which has  
37           been previously filed with and is currently pending  
38           hearing or decision by the Superintendent of Insur-  
39           ance upon the effective date of this Act.'

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STATEMENT OF FACT

2           This amendment makes certain changes to the orig-  
3           inal bill and adds several provisions designed to  
4           clarify the laws governing the conversion of a mutual  
5           insurer to a stock insurer.

6           Sections 1 to 4 clarify a perceived ambiguity in  
7           the current law as to whether the public law or the  
8           charter of an insurer established by private and spe-  
9           cial act of the Legislature controls in the conver-  
10          sion of a mutual insurer, both in general and specif-  
11          ically in determining how policyholders vote to rati-  
12          fy a proposed conversion. These sections would:  
13          Clearly require that the terms of the conversion law,  
14          as well as other provisions within the subchapter  
15          governing the corporate reorganization of insurers,  
16          control over any inconsistent charter provisions; re-  
17          move the current provision prohibiting group and cer-  
18          tain term policyholders from voting on conversion;  
19          establish a specific voting procedure for life insur-  
20          ers chartered by private and special act before 1970;  
21          and clarify some additional ambiguities in the cur-  
22          rent voting provisions concerning those eligible to  
23          vote and the number of votes accorded to each policy-  
24          holder.

25          Section 5 permits a converting insurer to dis-  
26          pense with the offering of stock to eligible members  
27          in those jurisdictions where it can be established  
28          that a stock offering is impossible or entails undue  
29          expense or delay, provided that those members receive  
30          100% of their equity in the insurer by cash payment.

31          Section 6 more clearly defines the date from  
32          which the determination is made of those policyhold-  
33          ers entitled to share in the distribution made by a  
34          converting insurer.

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1           Section 7 retains the concept of the original  
2 bill that members who share in the distribution of  
3 equity in the mutual insurer upon its conversion  
4 should receive 100% of their interest in cash, stock  
5 or a combination of cash and stock, whereas under the  
6 current law a policyholder who elects a cash option  
7 forfeits a significant portion of his equity interest  
8 in the company. The proposed language requires that  
9 each eligible member receive his entire interest,  
10 while allowing considerable flexibility to converting  
11 insurers to provide whether it is paid in cash, stock  
12 or some combination of the 2, subject to the  
13 superintendent's approval as to the reasonableness of  
14 the proposed method of distribution. Any member who  
15 is not offered the option of receiving his entire in-  
16 terest in cash must be given the option of receiving  
17 a portion of his interest in cash up to a maximum of  
18 50%, as provided in the plan and subject to the  
19 superintendent's approval, unless the superintendent  
20 specifically approves elimination of a cash option  
21 based upon all the facts and circumstances of the  
22 particular situation, including the anticipated mar-  
23 ket for the stock following conversion.

24           Section 8 provides that the costs incurred by the  
25 Superintendent of Insurance in reviewing a plan of  
26 conversion, including both staff and outside consul-  
27 tant costs, are to be assessed against the insurer  
28 filing the plan.

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