

SENATE BILL REPORT

SHB 1060

As Reported by Senate Committee On:
Business, Financial Services, Gaming & Trade, March 9, 2023

Title: An act relating to reorganization of domestic mutual insurers.

Brief Description: Concerning reorganization of domestic mutual insurers.

Sponsors: House Committee on Consumer Protection & Business (originally sponsored by Representatives Corry, Berry, Walen and Reeves).

Brief History: Passed House: 2/13/23, 96-0.

Committee Activity: Business, Financial Services, Gaming & Trade: 3/09/23 [DP, w/oRec].

Brief Summary of Bill

- Provides a process for domestic mutual insurers to reorganize as a stock corporation pursuant to a plan approved by the Office of the Insurance Commissioner (OIC).
- Enables domestic mutual insurer to be wholly reinsured in, its assets transferred to, and its liabilities assumed by, another mutual or stock insurer under terms and conditions approved by the OIC.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES, GAMING & TRADE

Majority Report: Do pass.

Signed by Senators Stanford, Chair; Frame, Vice Chair; Dozier, Ranking Member; Boehnke, Gildon, Lovick, MacEwen and Mullet.

Minority Report: That it be referred without recommendation.

Signed by Senator Hasegawa.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Staff: Clinton McCarthy (786-7319)

Background: Insurance companies are often either mutual or stock insurance companies, depending on their structure. A stock insurer is a public or private company owned by shareholders, who have bought shares in the company that, in the case of a public company, trade on a stock exchange. A mutual insurance company is a corporation with no shareholders, owned by its members and operated in their interest.

Mutual insurers provide benefits to their direct policyholders, including voting rights and access to dividends. These rights derive from the insurance contract; the corporation's bylaws, charter, or articles of incorporation; state laws; and case law. A stock insurance company is a corporation owned by its stockholders with the objective to make a profit for the stockholders. Stock insurance companies have the ability to raise capital by selling additional shares of the company.

Washington law does not provide for the creation of mutual insurance holding companies. Nationally, 34 states provide statutory authority to create mutual insurance holding companies. In these states, a mutual insurance company can convert to a mutual insurance holding company structure by electing to do so under the applicable insurance statutes, and obtaining the necessary approvals of members, board of directors, and insurance regulators. Under the mutual insurance holding company structure, a parent mutual holding company is created and the mutual insurance company is converted to a stock insurance company, which is a subsidiary of the mutual holding company. The policyholders of the stock insurance company continue as members of the mutual holding company.

Summary of Bill: Permitting the Reorganization of Mutual Insurers. A domestic mutual insurer may reorganize as a stock corporation pursuant to a plan approved by the Office of the Insurance Commissioner (OIC). A domestic mutual insurer may be wholly reinsured in, its assets transferred to, and its liabilities assumed by, another mutual or stock insurer under terms and conditions approved by the OIC.

A domestic mutual insurer may engage in a conversion as part of a reorganization as a mutual holding company only if its board passes a resolution that the reorganization is fair and equitable to the policyholders and adopts a plan that meets requirements. After the board adopts a plan, and before approval by eligible members, the converting mutual insurer must file the plan; the meeting notice at which the eligible members vote on the plan; the form of any proxies to be solicited from the eligible members; information required by the converting mutual insurer's bylaws; and other information or documentation required by the OIC.

Reorganization Plan. The plan for reorganization must include the following:

- the reason for the reorganization;
- a description of how the plan will be carried out, any transaction included within the plan, and a description of any mutual holding company, intermediate stock holding

- company, or other corporation to be organized;
- a description of all significant terms of the reorganization;
- new or revised intercompany agreements;
- a description of the overall effect of the plan on policies issued by the converting mutual insurer, which demonstrates that policyholder interests are preserved and protected and the plan is fair and equitable for policyholders;
- the record date for determining whether a member of the converting mutual insurer is an eligible member;
- either the proposed effective date of the reorganization or the manner in which the proposed date will be established;
- the proposed amendments to or restatement of the articles of incorporation and bylaws of the converting mutual insurer, and the proposed articles of incorporation and bylaws of any mutual holding company, intermediate stock holding company, or other corporation established;
- a description of any plans for the initial sale of voting stock to third parties by the converted stock insurer or any intermediate stock holding company, or a statement that there are no plans for the sale of voting stock;
- the intention that a commissioner or officer of the converting stock mutual insurer, mutual holding company, intermediate stock holding company, or other corporation organized has three years following the effective date of the reorganization to purchase or acquire shares of capital stock or other securities; and
- a provision that all policies in force as of the effective date of the reorganization will remain in force, and any member voting rights provided for under the policies or under the mutual insurers statutes are extinguished.

A plan must also determine the amount of, and make provisions to pay members, reasonable compensation for their equities as owners.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: No public hearing was held.

Persons Testifying: N/A

Persons Signed In To Testify But Not Testifying: N/A