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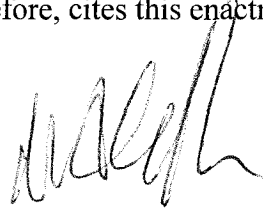
COUNCIL OF THE DISTRICT OF COLUMBIA

D.C. LAW 11-126

"Insurance Demutualization Act of 1996".

Pursuant to Section 412 of the District of Columbia Self-Government and Governmental Reorganization Act, P.L. 93-198 "the Act", the Council of the District of Columbia adopted Bill No. 11-389 on first and second readings, February 6, 1996 and March 5, 1996 respectively. Following the signature of the Mayor on March 15, 1996, pursuant to Section 404(e) of "the Act", and was assigned Act No. 11-233 and published in the March 29, 1996, edition of the D.C. Register (Vol. 43 page 1551) and transmitted to Congress on March 29, 1996 for a 30-day review, in accordance with Section 602(c)(1) of the Act.

The Council of the District of Columbia hereby gives notice that the 30-day Congressional Review Period has expired, and therefore, cites this enactment as D.C. Law 11-126, effective May 24, 1996.



DAVID A. CLARKE
Chairman of the Council

Dates Counted During the 30-day Congressional Review Period:

March 29

April 15,16,17,18,19,22,23,24,25,26,29,30

May 1,2,3,6,7,8,9,10,13,14,15,16,17,20,21,22,23

AN ACT
D.C. ACT 11-233

*Codification
District of
Columbia
Code
1997 Supp.*

IN THE COUNCIL OF THE DISTRICT OF COLUMBIA

MARCH 15, 1996

*New Chapter
42,
Title 35*

To enact a demutualization law that affords insurance companies the ability to covert from a mutual company to a stock company.

BE IT ENACTED BY THE COUNCIL OF THE DISTRICT OF COLUMBIA, That this act may be cited as the "Insurance Demutualization Act of 1996".

*New Section
35-4201*

Sec. 2. Definitions.

For the purposes of this act, the term:

(1) "Converted stock company" means a District of Columbia domiciled stock company that converted from a District of Columbia mutual company pursuant to this act.

(2) "District" means the District of Columbia.

(3) "Eligible member" means a member whose policy is in force as of the date the mutual company's board of directors adopts a plan of conversion.

(A) A person insured under a group policy is not an eligible member, unless:

(i) The person is insured or covered under a group life policy or group annuity contract under which funds are accumulated and allocated to the respective covered person;

(ii) The person has the right to direct the application of the funds so allocated;

(iii) The group policyholder makes no contribution to the premiums or deposits for the policy or contract; and

(iv) The mutual company has the names and addresses covered under the group policy or group annuity contract.

(B) A person whose policy is issued after the board of directors adopts the plan but before the plan's effective date is not an eligible member, but shall have those rights set forth in section 11.

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(4) "Plan of conversion" or "plan" means a plan adopted by a District of Columbia domestic mutual company's board of directors pursuant to this act to convert the mutual company into a District of Columbia domiciled stock company.

(5) "Policy" includes an annuity contract.

(6) "Superintendent" means the Superintendent of Insurance for the District of Columbia.

Sec. 3. Adoption of the plan of conversion by the board of directors.

**New Section
35-4202**

(a) A mutual company seeking to convert to a stock company shall, by the affirmative vote of 2/3 of its board of directors, adopt a plan of conversion consistent with the requirements of section 7.

(b) At any time before approval of a plan by the Superintendent, the mutual company, by the affirmative vote of 2/3 of its board of directors, may amend or withdraw the plan.

Sec. 4. Approval of the plan of conversion by the Superintendent of Insurance.

**New Section
35-4203**

(a) After adoption by the mutual company's board of directors, the plan shall be submitted to the Superintendent for review and approval. The Superintendent shall approve the plan upon finding that:

- (1) The provisions of this section have been complied with;
- (2) The plan will not prejudice the interests of the members; and
- (3) The plan's method of allocating subscription rights is fair and equitable.

(b) Prior to the members' approval of the plan, a mutual company seeking the Superintendent's approval of a plan shall file the following documents with the Superintendent for review and approval:

- (1) The plan of conversion, including the independent evaluation of pro forma market value required by section 7(f);
- (2) The form of notice required by section 5(b) for eligible members of the meeting to vote on the plan;
- (3) Any proxies to be solicited from eligible members pursuant to section 5(c);
- (4) The form of notice required by section 11(a) for persons whose policies are issued after adoption of the plan but before its effective date; and
- (5) The proposed articles of incorporation and bylaws of the converted stock company. Once filed, these documents shall be approved or disapproved by the Superintendent within a reasonable time.

(c) After the members have approved the plan, the converted stock company shall file the following documents with the Superintendent:

- (1) The minutes of the meeting of the members at which the plan was voted upon;
- and
- (2) The revised articles of incorporation and bylaws of the converted stock company.

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(d) The Superintendent may retain, at the mutual company's expense, any qualified expert not otherwise a part of the Superintendent's staff to assist in reviewing the plan and the independent evaluation of the pro forma market value which is required by section 7(i).

Sec. 5. Approval of the plan by the members.

**New Section
35-4204**

(a) All eligible members shall be given notice of and an opportunity to vote upon the plan.

(b) All eligible members shall be given notice of the members' meeting to vote upon the plan. A copy of the plan or a summary of the plan shall accompany the notice. The notice shall be mailed to each member's last known address, as shown on the mutual company's records, within 45 days of the Superintendent's approval of the plan. The meeting to vote upon the plan shall not be set for a date less than 60 days after the date when the notice of the meeting is mailed by the mutual company. If the meeting to vote upon the plan is held coincident with the mutual company's annual meeting of policyholders, only one combined notice of meeting is required.

(c) After approval by the Superintendent, the plan shall be adopted upon receiving the affirmative vote of at least 2/3 of the votes cast by eligible members. Members entitled to vote upon the proposed plan may vote in person or by proxy. Any proxies to be solicited from eligible members shall be filed with and approved by the Superintendent. The number of votes each eligible member may cast shall be determined by the mutual company bylaws. If the bylaws are silent, each eligible member may cast one vote.

Sec. 6. Adoption of revised articles of incorporation.

**New Section
35-4205**

(a) Adoption of the revised articles of incorporation of the converted stock company is necessary to implement the plan and shall be governed by the applicable provisions of District law.

(b) For a Class 1 mutual company, the members may adopt the revised articles of incorporation at the same meeting at which the members approve the plan.

(c) For a Class 2 or 3 mutual company, the revised articles of incorporation may be adopted solely by the board of directors or trustees, as provided by District law.

Sec. 7. Required provisions in a plan of conversion.

**New Section
35-4206**

(a) The plan shall set forth the reasons for the proposed conversion.

(b) The plan shall provide that all policies in force on the effective date of conversion shall continue to remain in force under the terms of those policies, except that any voting rights of the policyholders provided for under the policies or under District law and any contingent liability policy provisions of the type described in District law shall be extinguished on the effective date of the conversion.

(c) The plan shall further provide that the holders of participating policies in effect on the date of conversion shall continue to have the right to receive dividends as provided in the

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participating policies, if any.

(d) Except mutual company's life policies, guaranteed reviewable accident and health policies, and noncancelable accident and health policies, the converted stock company may issue the insured a nonparticipating policy as a substitute for the participating policy upon the renewal date of a participating policy.

(e) The plan shall provide that each eligible member is to receive, without payment, nontransferable subscription rights to purchase a portion of the capital stock of the converted stock company. As an alternative to subscription rights in the converted stock company, the plan may provide that each eligible member is to receive, without payment, nontransferable subscription rights to purchase a portion of the capital stock of a corporation organized and owned by the mutual company for the purpose of purchasing and holding all the stock of the converted stock company, or a stock insurance company owned by the mutual company into which the mutual company will be merged.

(f) The subscription rights shall be allocated in whole shares among the eligible members using a fair and equitable formula. This formula may, but need not, take into account how the different classes of policies of the eligible members contributed to the surplus of the mutual company.

(g) The plan shall provide a fair and equitable means for the allocation of shares of capital stock in the event of an oversubscription to shares by eligible members exercising subscription rights received pursuant to subsection (e) of this section.

(h) The plan shall provide that any shares of capital stock not subscribed to by eligible members exercising subscription rights received under subsections (e) and (f) of this section shall be sold in a public offering through an underwriter. If the shares of capital stock not subscribed to by eligible members is so small in number as to not warrant the expense of a public offering, the plan of conversion may provide for the purchase of the unsubscribed shares by a private placement or other alternative method approved by the Superintendent that is fair and equitable to the eligible members.

(i) The plan shall set the total price of the capital stock equal to the estimated pro forma market value of the converted stock company based upon an independent evaluation by a qualified person. The pro forma market value may be the value that is estimated to be necessary to attract full subscription for shares as indicated by the independent evaluation.

(j) The plan shall set the purchase price of each share of capital stock equal to any reasonable amount that will not inhibit the purchase of shares by members. The purchase price of each share shall be uniform for all purchasers, except the price may be modified by the Superintendent by reason of his or her consideration of a plan for the purchase of unsubscribed stock pursuant to subsection (h) of this section.

(k) The plan shall provide for a closed block of business for participating life policies of a Class 1 mutual company.

(1) The plan shall provide that a Class 1 mutual company's participating life policies in force on the effective date of the conversion shall be operated by the converted stock

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company for dividend purposes as a closed block of participating business, except that any or all classes of group participating policies may be excluded from the closed block.

(2) The plan shall establish one or more segregated accounts for the benefit of the closed block of business and shall allocate to those segregated accounts enough assets of the mutual company so that the assets together with the revenue from the closed block of business are sufficient to support the closed block, including, but not limited to, the payment of claims, expenses, taxes, and any dividends that are provided for under the terms of the participating policies, with appropriate adjustments in the dividends for experience changes. The plan shall be accompanied by an opinion of a qualified actuary or an appointed actuary who meets the standards set forth in the insurance laws or regulations for the submission or actuarial opinions as to the adequacy of reserves or assets. The opinion shall relate to the adequacy of the assets allocated to the segregated accounts in support of the closed block of business. The actuarial opinion shall be based on a method of analysis deemed appropriate for those purposes by the Actuarial Standards Board.

(3) The amount of assets allocated to the segregated accounts of the closed block shall be based upon the mutual company's last annual statement that is updated to the effective date of the conversion.

(4) The converted stock company shall keep a separate accounting for the closed block and shall make and include in the annual statement to be filed with the Superintendent each year a separate statement showing the gains, losses, and expenses properly attributable to the closed block.

(5) Periodically, upon the Superintendent's approval, those assets allocated to the closed block, as provided in paragraph (2) of this subsection, that are in excess of the amount of assets necessary to support the remaining policies in the closed block shall revert to the benefit of the converted stock company.

(6) The Superintendent may waive the requirement for the establishment of a closed block of business if the Superintendent deems it to be in the best interest of the participating policyholders of the mutual insurer to do so.

(I) The plan shall provide that any one person or group of persons acting in concert may not acquire, through public offering or subscription rights, more than 5% of the capital stock of the converted stock company for a period of 5 years from the effective date of the plan except with the approval of the Superintendent. This limitation does not apply to any entity that is to purchase 100% of the capital stock of the converted company as part of the plan of conversion approved by the Superintendent or to a purchase of stock by a tax-qualified employee benefit plan pursuant to subscription rights granted to that plan as authorized under section (8)(b) and to a purchase of unsubscribed stock pursuant to section (7)(h).

Sec. 8 Optional provisions in a plan of conversion.

(a) The following provisions may be included in the plan:

(1) The plan may provide that the directors and officers of the mutual company

New Section
35-4207

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shall receive, without payment, nontransferable subscription rights to purchase capital stock of the converted stock company or the stock of another corporation that is participating in the conversion plan as provided in section 6(e). Those subscription rights shall be allocated among the directors and officers by a fair and equitable formula.

(2) The total number of shares that may be purchased under subsection (a)(1) of this section may not exceed 85% of the total number of shares to be issued in the case of a mutual company with total assets of less than \$50 million, or 25% of the total shares to be issued in the case of a mutual company with total assets or more than \$500 million. For mutual companies with total assets between \$50 million and \$500 million, the total number of shares that may be purchased shall be interpolated.

(3) Stock purchased by a director or officer under subsection (a)(1) of this section shall not be sold within one year following the effective date of the conversion.

(4) The plan may also provide that a director or officer or person acting in concert with a director or officer of the mutual company may not acquire any capital stock of the converted stock company for 3 years after the effective date of the plan, except through a broker or dealer, without the permission of the Superintendent. That provision may not apply to prohibit the directors and officers from purchasing stock through subscription rights received in the plan under subsection (a)(1) of this section.

(b) The plan may allocate to a tax-qualified employee benefit plan nontransferable subscription rights to purchase up to 10% of the capital stock of the converted stock company, or the stock of another corporation that is participating in the conversion plan as provided in section 7(e) and (f). The employee benefit plan shall be entitled to exercise its subscription rights regardless of the amount of shares purchased by other persons.

Sec. 9. Alternative plan of conversion.

**New Section
35-4208**

The board of directors may adopt a plan of conversion that does not rely in whole or in part upon the issuance to members of nontransferable subscription rights to purchase stock of the converted stock company if the Superintendent finds that the plan does not prejudice the interest of the members, is fair and equitable, and is based upon an independent appraisal of the market value of the mutual company by a qualified person and a fair and equitable allocation of any consideration to be given eligible members. The Superintendent may retain, at the mutual company's expense, any qualified expert not otherwise a part of the Superintendent's staff to assist in reviewing whether the plan may be approved by the Superintendent.

Sec. 10. Effective date of the plan.

**New Section
35-4209**

A plan shall become effective when the Superintendent has approved the plan, the members have approved the plan, and the revised articles of incorporation have been filed.

Sec. 11. Rights of members whose policies are issued after adoption of the plan and before its effective date.

**New Section
35-4210**

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(a) All members whose policies are issued after the proposed plan has been adopted by the board of directors and before the effective date of the plan shall be given written notice of the plan of conversion. The notice shall specify the member's right to rescind that policy as provided in subsection (b) of this section within 45 days after the effective date of the plan. A copy of the plan or a summary of the plan shall accompany the notice. The form of the notice shall be filed with and approved by the Superintendent.

(b) Any member entitled to receive the notice described in subsection (a) of this section shall be entitled to rescind his or her policy and receive a full refund of any amounts paid for the policy or contract within 10 days after the receipt of the notice.

Sec. 12. Corporate existence.

**New Section
35-4211**

(a) Upon the conversion of a mutual company to a converted stock company according to provisions of this act, the corporate existence of the mutual company shall be continued in the converted stock company. All the rights, franchises, and interest of the mutual company in and to every type of property, real, personal, and mixed, and things in action thereunto belonging, is deemed transferred to and vested in the converted stock company without any deed or transfer. Simultaneously, the converted stock company is deemed to have assumed all the obligations and liabilities of the mutual company.

(b) The directors and officers of the mutual company, unless otherwise specified in the plan of conversion, shall serve as directors and officers of the converted stock company until new directors and officers of the converted stock company are duly elected pursuant to the articles of incorporation and bylaws of the converted stock company.

Sec. 13. Conflict of interest.

**New Section
35-4212**

No director, officer, agent, or employee of the mutual company, or any other person, shall receive any fee, commission, or other valuable consideration, other than his or her usual regular salary and compensation, for in any manner aiding, promoting, or assisting in the conversion except as set forth in the plan approved by the Superintendent. This provision does not prohibit the payment of reasonable fees and compensation to attorneys, accountants, and actuaries for services performed in the independent practice of their professions, even if the attorney, accountant, or actuary is also a director of the mutual company.

Sec. 14. Costs and expenses.

**New Section
35-4213**

All the costs and expenses connected with a plan of conversion shall be paid for or reimbursed by the mutual company or the converted stock company except where the plan provides either for a holding company to acquire the stock of the converted stock company or for the merger of the mutual company into a stock insurance company as provided in section 7(e). In those cases, the acquiring holding company or the stock insurance company shall pay for or reimburse all the costs and expenses connected with the plan.

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Sec. 15. Failure to give notice.

New Section
35-4214

If the mutual company complies substantially and in good faith with the notice requirements of this act, the mutual company's failure to give any member or members any required notice does not impair the validity of any action taken under this act.

Sec. 16. Limitation of actions.

New Section
35-4215

Any action challenging the validity of or arising out of acts taken or proposed to be taken under this act shall be commenced within 30 days after the effective date of the plan.

Sec. 17. Fiscal impact statement.

The Council adopts the fiscal impact statement in the committee report as the fiscal impact statement required by section 602(c)(3) of the District of Columbia Self-Government and Governmental Reorganization Act, approved December 24, 1973 (87 Stat 813; D.C. Code §1-233(c)(3)).

Sec. 18. Effective date.

This act shall take effect following approval by the Mayor (or in the event of veto by the Mayor, action by the Council of the District of Columbia to override the veto), approval by the Financial Responsibility and Management Assistance Authority as provided in section n 203(a) of the District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, approved April 17, 1995 (109 Stat. 116; D.C. Code §47-392.3(c)), and a 30-day period of Congressional review as provided in section 602(c)(1) of the District of Columbia Self-Government and Governmental Reorganization Act, approved December 24, 1973 (87 Stat. 813; D.C. Code § 1-233(c)(1)), and publication in the District of Columbia Register.

Chairman
Council of the District of Columbia

Mayor
District of Columbia

APPROVED: March 15, 1996



COUNCIL OF THE DISTRICT OF COLUMBIA

COUNCIL PERIOD ELEVEN

RECORD OF OFFICIAL COUNCIL VOTE

B11-389

Docket No.

ITEM ON CONSENT CALENDAR

ACTION & DATE

ADOPTED FIRST READING, 02-06-96

VOICE VOTE

APPROVED

RECORDED VOTE ON REQUEST

ABSENT

ALL PRESENT

ROLL CALL VOTE - Result

Councilmember	Aye	Nay	NV	AB	Councilmember	Aye	Nay	NV	AB	Councilmember	Aye	Nay	NV	AB
Chmn. Clarke					Jarvis					Smith, Jr.				
Brazil					Lightfoot					Thomas, Sr.				
Chavous					Mason					Whittington				
Cropp					Patterson									
Evans					Ray									

X - Indicates Vote

AB - Absent

NV - Present not Voting

CERTIFICATION RECORD

[Signature]
Secretary to the Council

March 6, 1996
Date

ITEM ON CONSENT CALENDAR

ACTION & DATE

ADOPTED FINAL READING, 03-05-96

VOICE VOTE

APPROVED

RECORDED VOTE ON REQUEST

ABSENT

RAY

ROLL CALL VOTE - Result

Councilmember	Aye	Nay	NV	AB	Councilmember	Aye	Nay	NV	AB	Councilmember	Aye	Nay	NV	AB
Chmn. Clarke					Jarvis					Smith, Jr.				
Brazil					Lightfoot					Thomas, Sr.				
Chavous					Mason					Whittington				
Cropp					Patterson									
Evans					Ray									

X-indicates no

AB-Absent

NV-Present not voting

CERTIFICATION RECORD

[Signature]
Secretary to the Council

March 6, 1996
Date

ITEM ON CONSENT CALENDAR

ACTION & DATE

VOICE VOTE

RECORDED VOTE ON REQUEST

ABSENT

ROLL CALL VOTE - Result

Councilmember	Aye	Nay	NV	AB	Councilmember	Aye	Nay	NV	AB	Councilmember	Aye	Nay	NV	AB
Chmn. Clarke					Jarvis					Smith, Jr.				
Brazil					Lightfoot					Thomas, Sr.				
Chavous					Mason					Whittington				
Cropp					Patterson									
Evans					Ray									

X - Indicates Vote

AB - Absent

NV - Present not Voting

CERTIFICATION RECORD

Secretary to the Council

Date