

**House Study Bill 141 - Introduced**

HOUSE FILE \_\_\_\_\_  
BY (PROPOSED COMMITTEE  
ON COMMERCE BILL BY  
CHAIRPERSON COWNIE)

**A BILL FOR**

1 An Act relating to mutual-to-stock insurance company  
2 conversions.  
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. NEW SECTION. 512.1 Conversion from a mutual  
2 company to stock company allowed.

3 A mutual company may convert to a stock company pursuant to  
4 a plan of conversion established and approved in the manner  
5 provided by this chapter.

6 Sec. 2. NEW SECTION. 512.2 Short title.

7 This chapter shall be known and may be cited as the "*Iowa*  
8 *Insurance Company Mutual-to-Stock Conversion Act*".

9 Sec. 3. NEW SECTION. 512.3 Definitions.

10 As used in this chapter:

11 1. "*Capital stock*" means common or preferred stock or any  
12 hybrid security or other equity security issued by a converted  
13 stock company or other company or entity pursuant to the  
14 exercise of subscription rights granted pursuant to section  
15 512.6, subsection 1, paragraph "c".

16 2. "*Commissioner*" means the commissioner of insurance  
17 appointed pursuant to section 505.2.

18 3. "*Converted stock company*" means a stock company that  
19 converted from a mutual company to a stock company under this  
20 chapter or any successor to the stock company.

21 4. "*Division*" means the insurance division of the department  
22 of commerce.

23 5. "*Domestic mutual company*" means a mutual company  
24 domiciled in this state and organized under chapter 508 or 515.

25 6. "*Eligible member*" means a member of a mutual company  
26 whose policy is in force on the date the mutual company's  
27 governing body adopts a plan of conversion or such earlier date  
28 as the mutual company may establish with the consent of the  
29 commissioner. A person insured under a group policy is not  
30 an eligible member. A person whose policy becomes effective  
31 after the governing body adopts the plan but before the plan's  
32 effective date is not an eligible member but shall have those  
33 rights established under section 512.10.

34 7. "*Foreign mutual company*" means a mutual company domiciled  
35 in a jurisdiction other than this state and organized in a

1 similar manner to a domestic mutual company organized under  
2 chapter 508 or 515.

3 8. "*Governing body*" means the board of directors of a mutual  
4 company, a mutual holding company, or a stock company.

5 9. "*Mutual company*" means a mutual insurance company that  
6 is seeking to convert to a stock company under this chapter  
7 including a domestic mutual company and a foreign mutual  
8 company that has applied to redomesticate to this state with an  
9 intent to file an application to convert from a mutual company  
10 to a stock company under this chapter.

11 10. "*Mutual holding company*" means any of the following:

12 a. A nonstock corporation formed under chapter 521A.

13 b. A nonstock corporation formed under the laws of any other  
14 jurisdiction that subsequently redomesticates in this state.

15 c. A nonstock corporation incorporated in this state  
16 surviving or resulting from a merger or consolidation with a  
17 nonstock corporation that resulted from a reorganization of a  
18 mutual company under the laws of any other jurisdiction.

19 11. "*Participating policy*" means a policy of a mutual  
20 company that grants a member the right to receive dividends if,  
21 as, and when declared by the mutual company.

22 12. "*Person*" means an individual, a corporation, a limited  
23 liability company, a partnership, an association, a joint stock  
24 company, a trust, an unincorporated organization, a similar  
25 entity, or a combination of the foregoing acting in concert.

26 13. "*Plan of conversion*" or "*plan*" means a plan adopted by a  
27 mutual company's governing body to convert the mutual company  
28 into a stock company under this chapter.

29 14. "*Policy*" means an insurance policy, including an annuity  
30 contract.

31 15. "*Standby investor*" means a person that has agreed in  
32 writing to purchase all or a portion of the capital stock to be  
33 sold in a mutual-to-stock conversion that is not subscribed by  
34 eligible members.

35 16. "*Stock company*" means a stock insurance company that

1 meets all of the current requirements for admission to do  
2 business as a domestic company in this state under chapter 508  
3 or 515.

4 17. "*Subscription right*" means the nontransferable right  
5 to purchase, for a period of not less than twenty or more than  
6 thirty-five days, the stock of the converted stock company,  
7 its proposed stock holding company, or an unaffiliated stock  
8 company, or other corporation or entity that will acquire the  
9 converted stock company through the purchase of all the stock  
10 of the converted stock company.

11 18. "*Voting member*" means a member who is an eligible member  
12 and is also a member of the mutual company as of a date not more  
13 than ninety days prior to the date of the meeting at which the  
14 plan shall be voted upon by members.

15 Sec. 4. NEW SECTION. 512.4 **Adoption of plan of conversion.**

16 1. A plan of conversion shall not become effective unless  
17 the mutual company seeking to convert to a stock company  
18 shall have adopted, by the affirmative vote of not less than  
19 two-thirds of its governing body and otherwise in accordance  
20 with law, a plan consistent with the requirements of sections  
21 512.6 and 512.7 or section 512.8. At any time before approval  
22 of a plan by the commissioner, the mutual company, by the  
23 affirmative vote of not less than a majority of its governing  
24 body, may amend or withdraw the plan.

25 2. Before a mutual company's eligible members may vote on  
26 approval of a plan, a mutual company whose governing body has  
27 adopted a plan shall file all of the following documents with  
28 the commissioner within ninety days after adoption of the plan  
29 together with the specified application fee:

30 a. The plan, including the independent valuation required  
31 by section 512.6, subsection 4.

32 b. The form of notice required by subsection 7.

33 c. The form of proxy to be solicited from eligible members  
34 pursuant to subsection 8.

35 d. The form of notice required by section 512.10 to persons

1 whose policies are issued after adoption of the plan but before  
2 its effective date.

3 *e.* The proposed amended and restated articles of  
4 incorporation and bylaws of the converted stock company.

5 *f.* The acquisition of control statement.

6 *g.* An application fee equal to the greater of ten thousand  
7 dollars or an amount equal to one-tenth of one percent of  
8 the estimated pro forma market value of the converted stock  
9 company as determined in accordance with section 512.6,  
10 subsection 4. If such value is expressed as a range of values,  
11 the application fee shall be based upon the midpoint of the  
12 range. For good cause shown, the commissioner may waive the  
13 application fee in whole or in part, or permit a portion of  
14 the application fee to be deferred until completion of the  
15 conversion.

16 *h.* Such other information as the commissioner may request.

17 3. Upon filing of the foregoing documents with the  
18 commissioner, the mutual company shall send to eligible members  
19 a notice advising eligible members of the adoption and filing  
20 of the plan, their ability to provide the commissioner and the  
21 mutual company with comments on the plan within thirty days  
22 of the date of such notice, and procedures for providing such  
23 comments.

24 4. Within twenty days following the end of the comment  
25 period in subsection 3, the commissioner shall immediately give  
26 written notice to the mutual company of any decision and, in  
27 the event of disapproval, a statement in detail of the reasons  
28 for the decision. The commissioner shall approve the plan if  
29 the commissioner finds all of the following:

30 *a.* The plan complies with this chapter.

31 *b.* The plan is fair and equitable to the mutual company and  
32 its members.

33 *c.* The converted stock company will have the amount of  
34 capital and surplus deemed by the commissioner to be reasonably  
35 necessary for its future solvency.

1     *d.* The plan's method of allocating subscription rights is  
2 fair and equitable.

3     5. The commissioner may retain, at the mutual company's  
4 expense, any qualified expert not otherwise a part of the  
5 commissioner's staff, including counsel and financial advisors,  
6 to assist in reviewing the plan and the independent valuations  
7 required under section 512.6, subsection 4.

8     6. The commissioner may order, at the mutual company's  
9 expense, a hearing on whether the terms of the plan comply with  
10 this chapter after giving written notice by mail or publication  
11 to the mutual company and other interested persons, all of whom  
12 have the right to appear at the hearing.

13     7. All voting members shall be sent notice of the members'  
14 meeting to vote on the plan. The notice shall fairly describe  
15 the proposed plan, shall inform the voting member of the voting  
16 member's right to vote on the plan, and shall be sent to each  
17 voting member's last known address, as shown on the mutual  
18 company's records. If the meeting to vote on the plan is held  
19 during the mutual company's annual meeting of members, only a  
20 combined notice of the meeting is required.

21     8. The plan shall be voted upon by voting members and shall  
22 be adopted upon receiving the affirmative vote of at least  
23 two-thirds of the votes cast at the meeting. Voting members  
24 entitled to vote upon the proposed plan may vote in person or  
25 by proxy. The number of votes each voting member may cast  
26 shall be determined by the mutual company's bylaws. If the  
27 bylaws are silent, each voting member may cast one vote.

28     9. The amended and restated articles of incorporation of the  
29 converted stock company shall be considered at the meeting of  
30 the voting members called for the purpose of adopting the plan  
31 and shall require for adoption the affirmative vote of at least  
32 two-thirds of the votes cast at the meeting.

33     10. Within thirty days after the voting members have  
34 approved the plan in accordance with the requirements of this  
35 section, the converted stock company shall file all of the

1 following documents with the commissioner:

2     *a.* The minutes of the meeting of the voting members at which  
3 the plan was approved which shall include the record of total  
4 votes cast and votes cast in favor of the plan.

5     *b.* The amended and restated articles of incorporation and  
6 bylaws of the converted stock company.

7     Sec. 5. NEW SECTION. **512.5 Redomestication and conversion.**

8     A foreign mutual company or foreign mutual holding company  
9 that has filed an application for redomestication may file an  
10 application for conversion under this chapter promptly after  
11 completion of the redomestication or promptly after approval  
12 of the redomestication by the members of the foreign mutual  
13 company or foreign mutual holding company if such a member vote  
14 is required under the laws of the state of domicile of the  
15 foreign mutual company or foreign mutual holding company.

16     Sec. 6. NEW SECTION. **512.6 Required provisions of plan of**  
17 **conversion.**

18     1. All of the following provisions shall be included in a  
19 plan of conversion:

20     *a.* The reasons for the proposed conversion.

21     *b.* The effect of conversion on existing policies, including  
22 all of the following:

23         (1) A provision that all policies in force on the effective  
24 date of conversion continue to remain in force under the terms  
25 of the policies, except that the following rights, to the  
26 extent the rights existed in the mutual company, shall be  
27 extinguished on the effective date of the conversion:

28             (a) Any voting rights of the policyholders provided under  
29 the policies.

30             (b) Except as provided under subparagraph (2), any right to  
31 share in the surplus of the mutual company, unless such right  
32 is expressly provided for under the provisions of the existing  
33 policy.

34             (c) Any assessment provisions provided for under certain  
35 types of policies.

1 (2) Except as provided in subparagraph (3), a provision that  
2 policyholders of participating policies in effect on the date  
3 of conversion continue to have a right to receive dividends as  
4 provided in the participating policies, if any.

5 (3) Except for the mutual company's life policies,  
6 participating guaranteed renewable accident and health  
7 policies, and participating guaranteed renewable noncancelable  
8 accident and health policies, a provision that upon the renewal  
9 date of a participating policy, the converted stock company  
10 may issue the member a nonparticipating policy eliminating the  
11 rights of the members to receive dividends as a substitute  
12 for the participating policy. This subparagraph shall not be  
13 construed to permit the substitution, during the term of a  
14 policy, of a nonexperience-rated policy for an experience-rated  
15 policy.

16 c. The grant of subscription rights to eligible members,  
17 including both of the following:

18 (1) (a) A provision that each eligible member is to  
19 receive, without payment, nontransferable subscription rights  
20 to purchase the capital stock of the converted stock company  
21 and that, in the aggregate, all eligible members shall have the  
22 right, prior to the right of any other party, to purchase one  
23 hundred percent of the capital stock of the converted stock  
24 company, exclusive of any shares of capital stock required to  
25 be sold or distributed to the holders of surplus notes, if any,  
26 and capital stock purchased by the company's tax-qualified  
27 employee stock benefit plan that is in excess of the total  
28 price of the capital stock established under subsection 4, as  
29 permitted by section 512.7, subsection 1. As an alternative to  
30 subscription rights in the converted stock company, the plan  
31 may provide that each eligible member is to receive, without  
32 payment, nontransferable subscription rights to purchase a  
33 portion of the capital stock of one of the following:

34 (i) A corporation or entity organized for the purpose of  
35 purchasing and holding all the stock of the converted stock

1 company.

2 (ii) A stock company owned by the mutual company into which  
3 the mutual company will be merged.

4 (iii) An unaffiliated stock company or other corporation or  
5 entity that will purchase all the stock of the converted stock  
6 company.

7 (b) For purposes of any plan, the following transfers of  
8 subscription rights shall not be deemed an unpermitted transfer  
9 under this chapter:

10 (i) Transfer of subscription rights from an individual to  
11 such individual and such individual's spouse or children or to  
12 a trust or other estate or wealth planning entity established  
13 for the benefit of such individual, or such individual's spouse  
14 or children.

15 (ii) Transfer of subscription rights from an individual to  
16 such individual's individual or joint individual retirement  
17 account, or other tax-qualified retirement plan.

18 (iii) Transfer of subscription rights from an entity to the  
19 shareholders, partners, or members of such entity.

20 (iv) Transfer of subscription rights from the holder of such  
21 rights to the mutual company, its proposed holding company,  
22 or an unaffiliated stock company or other corporation or  
23 entity that will purchase all the stock of the converted stock  
24 company as provided in subparagraph division (a), subparagraph  
25 subdivision (iii).

26 (2) A provision that the subscription rights shall be  
27 allocated in whole shares among the eligible members using a  
28 fair and equitable formula. The formula need not allocate  
29 subscription rights to eligible members on a pro rata basis  
30 based on premium payments or contributions to surplus, but  
31 may take into account how the different types of policies of  
32 the eligible members contributed to the surplus of the mutual  
33 company or any other factors that may be fair or equitable.  
34 Allocation of subscription rights on a per capita basis  
35 shall be entitled to a presumption that such method is fair,

1 subject to rebuttal of fairness by a preponderance of the  
2 evidence. In accordance with section 512.4, subsection 5, the  
3 commissioner may retain an independent consultant to assist in  
4 the determination that the allocation of subscription rights  
5 is fair and equitable.

6 2. The plan shall provide a fair and equitable means  
7 for allocating shares of capital stock in the event of an  
8 oversubscription to shares by eligible members exercising  
9 subscription rights received under subsection 1, paragraph "c".

10 3. The plan shall provide that any shares of capital stock  
11 not subscribed to by eligible members exercising subscription  
12 rights received under subsection 1, paragraph "c", shall be  
13 sold in a public offering or to another corporation or entity  
14 that is participating in the plan, as provided in subsection  
15 1, paragraph "c", subparagraph (1). If the number of shares of  
16 capital stock not subscribed by eligible members is so small in  
17 number or other factors exist that do not warrant the time or  
18 expense of a public offering, or warrant the participation of  
19 standby investors to facilitate completion of the conversion,  
20 the plan may provide for sale of the unsubscribed shares  
21 through a private placement or other alternative method  
22 approved by the commissioner that is fair and equitable to  
23 eligible members.

24 4. The plan shall provide for the preparation of a valuation  
25 by a qualified independent expert that establishes all of the  
26 following:

27 a. The dollar amount of the capital stock for which  
28 subscription rights must be granted pursuant to subsection 1,  
29 paragraph "c", which shall be equal to the estimated pro forma  
30 market value of the converted stock company. The qualified  
31 independent expert may do all of the following:

32 (1) To the extent feasible, determine the pro forma market  
33 value by reference to a peer group of stock companies and the  
34 application of generally accepted valuation techniques.

35 (2) State the pro forma market value of the converted stock

1 company as a range of value.

2 (3) Establish the value as the value that is estimated to be  
3 necessary to attract full subscription for the shares.

4 b. The dollar value of a subscription right based upon  
5 the application of the Black-Scholes option pricing model or  
6 another generally accepted option pricing model. In connection  
7 with the determination of stock price volatility or other  
8 valuation inputs used in option pricing models, the qualified  
9 independent expert may assume that the attributes of the  
10 converted stock company will be substantially similar to the  
11 attributes of the stock of the peer companies used to determine  
12 the estimated pro forma market value of the converted stock  
13 company. Solely for purposes of determining the value of a  
14 subscription right, the term of a subscription right shall be  
15 deemed to be a minimum of ninety days.

16 5. The plan shall provide that each eligible member  
17 shall be given the right to require the mutual company to  
18 redeem such subscription rights, in lieu of the exercise of  
19 subscription rights allocated to such eligible member, at a  
20 price equal to the number of such subscription rights allocated  
21 to such eligible member multiplied by the dollar value of a  
22 subscription right as determined by the qualified independent  
23 expert pursuant to subsection 4, paragraph "b". The obligation  
24 of the mutual company to redeem such subscription rights shall  
25 arise only upon the effective date of the plan as provided  
26 in section 512.9. The redemption price payable to each  
27 eligible member shall be paid to such eligible member within  
28 thirty days of the effective date of the plan. Alternatively,  
29 the converted stock company may, but shall not be required  
30 to, offer each eligible member the option of receiving the  
31 redemption amount in cash or having such redemption amount  
32 credited against future premium payments. An eligible member  
33 that does not exercise such eligible member's subscription  
34 rights and also fails to affirmatively request redemption  
35 of such subscription rights before the expiration of the

1 subscription offering, nevertheless shall be deemed to have  
2 requested redemption of such eligible member's subscription  
3 rights and shall receive the redemption amount in cash in the  
4 manner otherwise provided in this subsection.

5 6. The plan shall set the purchase price per share of  
6 capital stock equal to any reasonable amount. However, the  
7 minimum subscription amount required of any eligible member  
8 cannot exceed five hundred dollars, but the plan may provide  
9 that the minimum number of shares any person may purchase  
10 pursuant to the plan is twenty-five shares. The purchase price  
11 per share at which capital stock is offered to persons who are  
12 not eligible members may be greater than but not less than the  
13 purchase price per share at which capital stock is offered to  
14 eligible members.

15 7. The plan shall provide that any person or group of  
16 persons acting in concert shall not acquire, in the public  
17 offering or pursuant to the exercise of subscription rights,  
18 more than five percent of the capital stock of the converted  
19 stock company or the stock of another corporation that is  
20 participating in the plan, as provided in subsection 1,  
21 paragraph "c", subparagraph (1), subparagraph division (a),  
22 subparagraph subdivision (i), (ii), or (iii), except with the  
23 approval of the commissioner. This limitation does not apply  
24 to any entity that is to purchase one hundred percent of the  
25 capital stock of the converted stock company as part of the  
26 plan approved by the commissioner or to any person that acts  
27 as a standby investor of the capital stock of the converted  
28 stock company for an amount equal to ten percent or more of the  
29 capital stock of the converted stock company, provided that in  
30 each case such purchase by a standby investor of ten percent  
31 or more of the capital stock of the converted stock company is  
32 approved by the commissioner in accordance with the laws of  
33 this state following the filing of an acquisition of control  
34 statement.

35 8. The number of the common shares which any person,

1 together with any affiliates or group of persons acting in  
2 concert, may subscribe for or purchase in the converted stock  
3 company shall be limited to not more than five percent of  
4 the common shares. For this purpose, neither the members of  
5 the governing body of the converted stock company nor of its  
6 parent corporation, if any, shall be deemed to be affiliates  
7 or a group of persons acting in concert solely by reason of  
8 being members of the governing body. This provision does not  
9 prohibit the officers and directors from doing any of the  
10 following:

11     *a.* Making block purchases of one percent or more of the  
12 outstanding common stock other than through a broker-dealer if  
13 approved in writing by the division.

14     *b.* Exercising subscription rights received under the plan.

15     *c.* Participating in a stock benefit plan permitted by  
16 section 512.7, subsection 1, or approved by shareholders  
17 pursuant to section 512.12, subsection 2.

18     9. The plan shall provide that, unless the common shares  
19 have a public market when issued, officers and directors  
20 of the converted stock company and their affiliates shall  
21 not, for at least ninety days after the date of conversion,  
22 purchase common shares of the issuer, except in negotiated  
23 transactions involving more than ten percent of the outstanding  
24 common shares, and shall not sell stock purchased pursuant to  
25 this section within one year after the effective date of the  
26 conversion, except that this section shall not be deemed to  
27 restrict a transfer of stock by such officer or director if  
28 the stock is the stock of a corporation that is participating  
29 in the plan as provided in subsection 1, paragraph "c",  
30 subparagraph (1), subparagraph division (a), subparagraph  
31 subdivision (iii), and has a class of stock registered under  
32 the federal Securities Exchange Act of 1934, as amended, 15  
33 U.S.C. §78a et seq., or if the transfer is to the spouse or  
34 minor children of such officer or director, or to a trust or  
35 other estate or wealth planning entity established for the

1 benefit of such officer or director, or the spouse or minor  
2 children of such officer or director.

3 10. The plan shall provide that the rights of a holder of a  
4 surplus note to participate in the conversion, if any, shall be  
5 governed by the terms of the surplus note.

6 11. The plan shall provide that, without the prior approval  
7 of the commissioner, a converted stock company, or any  
8 corporation participating in the conversion plan pursuant to  
9 subsection 1, paragraph "c", subparagraph (1), subparagraph  
10 division (a), subparagraph subdivision (i) or (ii), shall not,  
11 for a period of five years from the date of the completion of  
12 the conversion, repurchase any of its capital stock from any  
13 person, except that this restriction shall not apply to either  
14 of the following:

15 a. A repurchase on a pro rata basis pursuant to an offer  
16 made to all shareholders of the converted stock company, or any  
17 corporation participating in the conversion plan pursuant to  
18 subsection 1, paragraph "c", subparagraph (1), subparagraph  
19 division (a), subparagraph subdivision (i) or (ii).

20 b. A purchase in the open market by a tax-qualified, or  
21 nontax-qualified employee stock benefit plan in an amount  
22 reasonable and appropriate to fund the plan.

23 12. The plan shall provide whether the mutual holding  
24 company, if any, or the mutual company will dissolve as part of  
25 a proposed conversion pursuant to chapter 491.

26 Sec. 7. NEW SECTION. 512.7 Optional provisions of plan of  
27 conversion.

28 1. With the prior approval of the commissioner, the  
29 plan may allocate to a tax-qualified employee benefit plan  
30 nontransferable subscription rights to purchase up to ten  
31 percent of the capital stock of the converted stock company or  
32 the stock of another corporation that is participating in the  
33 plan, as provided in section 512.6, subsection 1, paragraph  
34 "c", subparagraph (1), subparagraph division (a), subparagraph  
35 subdivision (iii). A tax-qualified employee benefit plan is

1 entitled to exercise subscription rights granted under this  
2 subsection regardless of the total number of shares purchased  
3 by other persons.

4 2. With the prior approval of the commissioner, the plan  
5 may provide that the other classes of subscribers approved by  
6 the commissioner shall receive nontransferable subscription  
7 rights to purchase capital stock of the converted stock company  
8 or the stock of another corporation that is participating in  
9 the conversion plan, as provided in section 512.6, subsection  
10 1, paragraph "c", subparagraph (1), subparagraph division (a),  
11 subparagraph subdivision (iii). Other classes of subscribers  
12 that may be approved by the commissioner include, without  
13 limitation, any of the following:

14 a. Members of the mutual company that became members after  
15 the date fixed for establishing eligible members.

16 b. The shareholders of another corporation that is  
17 participating in the plan, as provided in section 512.6,  
18 subsection 1, paragraph "c", subparagraph (1), subparagraph  
19 division (a), subparagraph subdivision (iii).

20 c. The shareholders of another corporation that is a party  
21 to an acquisition, merger, consolidation, or other similar  
22 transaction with the mutual company.

23 d. The officers, directors, and employees of the mutual  
24 company. The subscription rights allocated under this  
25 paragraph shall be subordinate to the subscription rights of  
26 the eligible members. This paragraph shall not require the  
27 subordination of subscription rights received by officers,  
28 directors, and employees as eligible members, if any.

29 Sec. 8. NEW SECTION. 512.8 **Alternative plan of conversion.**

30 1. The governing body may adopt a plan of conversion that  
31 does not rely in whole or in part upon issuing nontransferable  
32 subscription rights to members to purchase stock of the  
33 converted stock company if the commissioner finds that the plan  
34 does not prejudice the interests of the members, is fair and  
35 equitable, and is not inconsistent with the purpose of this

1 chapter. Subject to a finding of the commissioner that an  
2 alternative plan is fair and equitable and is not inconsistent  
3 with the purpose of this chapter, an alternative plan may do  
4 any of the following:

5 *a.* Include the merger of a domestic mutual company into a  
6 domestic or foreign stock company.

7 *b.* Provide for issuing transferable or redeemable  
8 subscription rights.

9 *c.* Provide for issuing stock, cash, policyholder credits, or  
10 other consideration, or any combination of the foregoing, to  
11 members instead of subscription rights.

12 *d.* Provide for partial conversion of the mutual company  
13 and formation of a mutual holding company pursuant to section  
14 521A.14.

15 *e.* Set forth another plan containing any other provisions  
16 approved by the commissioner.

17 2. The commissioner may approve a partial conversion  
18 pursuant to this chapter and formation of a mutual holding  
19 company pursuant to section 521A.14.

20 3. *a.* A mutual holding company may convert to stock form  
21 under this chapter, and shall be subject to the provisions  
22 of this chapter and to any other provisions of this title  
23 applicable to insurance holding companies, except as otherwise  
24 provided in this chapter. It is the policy of this chapter to  
25 enable and facilitate such a conversion of a mutual holding  
26 company to stock form, and this chapter shall be interpreted  
27 accordingly.

28 *b.* Any mutual holding company may convert to a stock holding  
29 company in accordance with the provisions of this chapter.  
30 Solely for purposes of establishing the process for and  
31 enabling and facilitating any conversion of a mutual holding  
32 company to a stock holding company, references in this chapter  
33 to a mutual company shall be deemed to refer to a mutual  
34 holding company and other provisions of this chapter shall be  
35 interpreted accordingly.

1     *c.* Any stock issued by a subsidiary insurance company or  
2 subsidiary holding company of a mutual holding company to  
3 persons other than the parent mutual holding company shall be  
4 exchanged for the stock issued by the parent mutual holding  
5 company in connection with the conversion of the parent mutual  
6 holding company to the parent stock holding company or any  
7 corporation participating in the conversion of the mutual  
8 holding company pursuant to section 512.6, subsection 1,  
9 paragraph "c", subparagraph (1), subparagraph division (a).  
10 The parent mutual holding company and the subsidiary insurance  
11 company or subsidiary holding company must demonstrate to  
12 the satisfaction of the commissioner that the basis for the  
13 exchange is fair and reasonable.

14     *d.* If a subsidiary insurance company or subsidiary holding  
15 company has issued shares to an entity other than the mutual  
16 holding company, the conversion of the mutual holding company  
17 to a stock holding company shall not be consummated unless a  
18 majority of the shares issued to the entities other than the  
19 mutual holding company vote in favor of the conversion. This  
20 requirement applies in addition to any otherwise required  
21 policyholder or shareholder votes.

22     Sec. 9. NEW SECTION. 512.9 **Effective date of plan of**  
23 **conversion.**

24     A plan of conversion is effective when the commissioner has  
25 approved the plan, the voting members have approved the plan  
26 and adopted the amended and restated articles of incorporation  
27 of the converted stock company, and the amended and restated  
28 articles of incorporation are filed in the office of the  
29 secretary of state of this state. The secretary of state shall  
30 accept for filing a verified copy of the amended and restated  
31 articles of incorporation of the converted stock company.

32     Sec. 10. NEW SECTION. 512.10 **Rights of members whose**  
33 **policies are issued after adoption of plan of conversion and**  
34 **before effective date.**

35     1. All members whose policies are issued after the proposed

1 plan of conversion has been adopted by the governing body and  
2 before the effective date of the plan shall be sent a written  
3 notice regarding the plan upon issuance of such policy.

4 2. A member of a life or health insurance company entitled  
5 to be sent the notice described in subsection 1 is entitled  
6 to rescind the member's policy and receive a full refund  
7 of any amounts paid for the policy or contract within ten  
8 days after such member has received the notice. Except as  
9 provided in subsection 3, each member of a property or casualty  
10 insurance company entitled to receive the notice provided for  
11 in subsection 1 shall be advised of the member's right of  
12 cancellation and to a pro rata refund of unearned premiums.

13 3. A member of a life or health insurance company, or  
14 property or casualty insurance company, who has made or filed  
15 a claim under such member's insurance policy shall not be  
16 entitled to any right to receive any refund under subsection 2.  
17 A person who has exercised the rights provided by subsection  
18 2 shall not be entitled to make or file any claim under such  
19 person's insurance policy.

20 Sec. 11. NEW SECTION. 512.11 **Corporate existence.**

21 1. On the effective date of the conversion, the corporate  
22 existence of the mutual company or mutual holding company  
23 continues in the converted stock company. The commissioner  
24 shall issue a new certificate of authority to the converted  
25 stock company effective on the date specified in the plan. The  
26 converted stock company is a continuation of the mutual company  
27 or mutual holding company and the conversion does not annul or  
28 modify any of the mutual company's or mutual holding company's  
29 existing suits, contracts, or liabilities except as provided  
30 in the approved conversion plan. All rights, franchises, and  
31 interests of the mutual company or mutual holding company  
32 in and to property, assets, and other interests shall be  
33 transferred to and shall vest in the converted stock company  
34 and the converted stock company shall assume all obligations  
35 and liabilities of the mutual company or mutual holding

1 company. The converted stock company shall exercise all rights  
2 and powers and perform all duties conferred or imposed by law  
3 on insurance companies writing the classes of insurance written  
4 by the converted stock company, and shall retain the rights and  
5 contracts existing before conversion, subject to provisions of  
6 the plan.

7 2. Unless otherwise specified in the plan of conversion,  
8 the persons who are officers and directors of the mutual  
9 company or the mutual holding company on the effective date of  
10 the conversion shall serve as officers and directors of the  
11 converted stock company until new officers and directors of the  
12 converted stock company are elected pursuant to the amended and  
13 restated articles of incorporation and bylaws of the converted  
14 stock company.

15 Sec. 12. NEW SECTION. 512.12 Conflict of interest.

16 1. An officer, director, agent, or employee of the mutual  
17 company shall not receive any fee, commission, or other  
18 valuable consideration, other than such person's usual regular  
19 salary or compensation, for aiding, promoting, or assisting  
20 in a conversion under this chapter, except as provided for in  
21 the plan approved by the commissioner. This provision does  
22 not prohibit the payment of reasonable fees and compensation  
23 to attorneys, accountants, financial advisors, and actuaries  
24 for services performed in the independent practice of their  
25 professions, even if the attorney, accountant, financial  
26 advisor, or actuary is also an officer or director of the  
27 mutual company.

28 2. For a period of the later of five years after the  
29 effective date of the conversion, or five years following  
30 the date of distribution of consideration to the members in  
31 exchange for their membership interests, a converted stock  
32 company shall not implement any nontax-qualified stock benefit  
33 plan unless the plan is approved by a majority of votes cast at  
34 a duly-convened meeting of shareholders held not less than six  
35 months after the effective date of the conversion.

1 3. All the costs and expenses connected with a plan of  
2 conversion shall be paid for or reimbursed by the mutual  
3 company or the converted stock company. However, if the plan  
4 provides for participation by another corporation or stock  
5 company in the plan pursuant to section 512.6, subsection 1,  
6 paragraph "c", subparagraph (1), subparagraph division (a), the  
7 corporation or stock company may pay for or reimburse all or a  
8 portion of the costs and expenses connected with the plan.

9 Sec. 13. NEW SECTION. 512.13 **Failure to give notice.**

10 If the mutual company complies substantially and in good  
11 faith with the notice requirements of this chapter, the mutual  
12 company's failure to send a member the required notice does not  
13 impair the validity of any action taken under this chapter.

14 Sec. 14. NEW SECTION. 512.14 **Limitation on actions.**

15 Any action challenging the validity of or arising out of  
16 acts taken or proposed to be taken under this chapter shall  
17 be commenced not later than thirty days following the date  
18 of approval by the commissioner, unless an application for  
19 rehearing is filed pursuant to section 17A.16, subsection 2.  
20 If an application for rehearing is filed, then such action must  
21 be filed within thirty days after that application is denied or  
22 deemed denied or, if the application is granted, within thirty  
23 days after the issuance of the commissioner's final decision  
24 on rehearing. The converted stock company or any defendant  
25 may petition the court in such action to give security for the  
26 reasonable attorney fees which may be incurred by any party to  
27 the action. The amount of the security may be increased or  
28 decreased in the discretion of the court having jurisdiction if  
29 a showing is made that the security provided is or may become  
30 inadequate or excessive.

31 Sec. 15. NEW SECTION. 512.15 **Rules.**

32 The commissioner shall adopt rules pursuant to chapter 17A  
33 to carry out the provisions of this chapter.

34 Sec. 16. NEW SECTION. 512.16 **Laws applicable to converted**  
35 **stock company.**

1 1. A mutual company shall not be permitted to convert  
2 under this chapter if, as a direct result of the conversion, a  
3 person or any affiliate of the person acquires control of the  
4 converted stock company, unless the person and the person's  
5 affiliates comply with the provisions of this state's laws  
6 regarding the acquisition of control of an insurance company.

7 2. Except as otherwise specified in this chapter, a stock  
8 company converted under this chapter shall have and may  
9 exercise all the rights and privileges and shall be subject  
10 to all of the requirements and regulations imposed on stock  
11 companies under this chapter and any other laws of this  
12 state relating to the regulation and supervision of insurance  
13 companies, but the stock company shall not exercise any rights  
14 or privileges which other stock companies cannot exercise.

15 **Sec. 17. NEW SECTION. 512.17 Commencement of business as a**  
16 **stock company.**

17 A mutual company shall not have the power to engage in the  
18 business of insurance as a stock company until it complies with  
19 all provisions of this chapter.

20 **Sec. 18. NEW SECTION. 512.18 Amendment of policies.**

21 A mutual company, by endorsement or rider approved by the  
22 commissioner and sent to a member, may simultaneously with  
23 or at any time after the adoption of a plan of conversion  
24 amend any outstanding insurance policy for the purpose of  
25 extinguishing the right of the member to share in the surplus  
26 of the mutual company. However, this amendment shall be  
27 null and void if the plan of conversion is not submitted  
28 to the commissioner or, if submitted, is disapproved by  
29 the commissioner or, if approved by the commissioner, is  
30 not approved by the eligible members on or before the first  
31 anniversary of its approval by the commissioner.

32 **Sec. 19. NEW SECTION. 512.19 Prohibition on acquisitions**  
33 **of control.**

34 Except as otherwise specifically provided in section 512.6,  
35 from the date a plan of conversion is adopted by the governing

1 body of a mutual company until five years after the effective  
2 date of the plan, a person shall not directly or indirectly  
3 offer to acquire, make any announcement to acquire or acquire  
4 in any manner, including making a filing with the division for  
5 such acquisition under a statute or rule of this state, the  
6 beneficial ownership of ten percent or more of a class of a  
7 voting security of the converted stock company or of a person  
8 which controls the voting securities of the converted stock  
9 company, unless the converted stock company or a person who  
10 controls the voting securities of the converted stock company  
11 consents to such acquisition and such acquisition is otherwise  
12 approved by the commissioner.

13 Sec. 20. NEW SECTION. 512.20 Merger of converted stock  
14 company.

15 A provision of this chapter shall not prohibit or be  
16 construed to prohibit a converted stock company from merging  
17 with another stock company.

18 EXPLANATION

19 The inclusion of this explanation does not constitute agreement with  
20 the explanation's substance by the members of the general assembly.

21 This bill enacts new Code chapter 512 which provides an  
22 additional procedure for mutual insurance companies domiciled  
23 in this state and organized under Code chapter 508 (life  
24 insurance companies) or Code chapter 515 (insurance other than  
25 life), as well as certain mutual holding companies and foreign  
26 mutual insurance companies, to convert from a mutual company  
27 to a stock company. The procedure does not replace current  
28 Code chapter 508C (conversion from mutual company to stock  
29 company) or current Code chapter 515G (mutual insurance company  
30 conversions).

31 The bill requires the mutual company wishing to convert  
32 to a stock company to submit a plan of conversion to its  
33 governing body for adoption, to the commissioner of insurance  
34 for approval, and to the mutual company's voting members for  
35 approval. Following final approval the converted stock company

1 must file its certificate of incorporation and bylaws with the  
2 commissioner.

3 The bill allows a foreign mutual company or foreign  
4 mutual holding company to redomesticate to Iowa and to file  
5 an application for conversion to a stock company. Such a  
6 company's plan of conversion must be adopted and approved  
7 consistent with the provisions of the new Code chapter  
8 applicable to domestic companies.

9 The required contents of a plan of conversion are set  
10 out in the bill and include provisions relating to policy  
11 continuation, voting rights, subscription rights to purchase  
12 the capital stock of the converted stock company or of related  
13 entities, valuation of capital stock by a qualified independent  
14 expert, redemption rights, and restrictions on the purchase,  
15 sale, and repurchase of capital stock by officers, directors,  
16 and others. The bill contains specific provisions regarding a  
17 closed block of business for participating life policies.

18 The commissioner is authorized to approve alternative plans  
19 of conversion that allow for partial conversions, mutual  
20 holding company conversions, and mergers.

21 The bill also includes provisions relating to rights of  
22 members whose policies were issued after adoption of the plan  
23 of conversion, conflicts of interest, limitations on actions  
24 challenging a conversion, amendment of outstanding policies,  
25 and acquisitions of control following conversion.