

## THE INSURANCE CODE OF 1956 (EXCERPT)

### Act 218 of 1956

#### CHAPTER 60

##### Reorganization of Mutual Insurers

#### **500.6001 Definitions.**

Sec. 6001. As used in this chapter:

(a) "Converted company" means a Michigan domiciled stock insurance company that results from the reorganization of a mutual company under this chapter.

(b) "Eligible member" means a member whose policy is in force on the date the mutual company's board of directors adopts a plan of reorganization under this chapter.

(c) "Intermediate holding company" means a business corporation subsidiary of a mutual holding company domiciled in this state, any other state, or the District of Columbia that is authorized to issue 1 or more classes of capital stock, the corporate purposes of which include holding directly or indirectly the voting stock of a converted company.

(d) "Member" means a person who, on the records of the mutual company and pursuant to its articles of incorporation or bylaws, is considered to be a holder of a membership interest in the mutual company. A person insured under a group policy is not a member. On and after the effective date of a reorganization under this chapter, member means a member of the mutual holding company created in the reorganization.

(e) "Mutual holding company" or "MHC" means a mutual corporation resulting from a reorganization of a mutual company under this chapter.

(f) "Mutual company" means a domestic mutual insurance company organized under chapter 50, 54, or 58.

(g) "Plan of reorganization" or "plan" means a plan adopted pursuant to this chapter by the board of directors of a mutual company for the reorganization of the mutual company simultaneously into both a mutual holding company and a converted company existing as a direct or indirect stock subsidiary of the mutual holding company.

(h) "Policy" means a group or individual insurance policy or contract issued by a mutual company. The term policy does not include a certificate of insurance issued in connection with a group policy or contract.

(i) "Policyholder" means the holder of a policy other than a reinsurance contract.

**History:** Add. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

**Compiler's note:** Former Chapter 60, being MCL 500.6000-500.6034, was repealed by Act 256 of 1964, Eff. Aug. 28, 1964.

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#### **500.6003 Reorganization of mutual company; formation.**

Sec. 6003. (1) Upon approval of the commissioner, a mutual company may reorganize by forming simultaneously a mutual holding company and converting the mutual company into a direct or indirect stock subsidiary of the mutual holding company. Unless otherwise specifically requested in a plan of reorganization filed with the commissioner, reorganization under this chapter is not a full conversion of a mutual company or of a mutual holding company, as otherwise available under chapter 59. Chapter 59 conversions are separate transactions from a reorganization under this chapter, but may occur with or as a result of a reorganization under this chapter if so requested in a plan approved by the commissioner under chapter 59.

(2) A mutual holding company formed under this chapter may demutualize by complying with the applicable provisions of chapter 59.

**History:** Add. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

**Compiler's note:** Former Chapter 60, being MCL 500.6000-500.6034, was repealed by Act 256 of 1964, Eff. Aug. 28, 1964.

**Popular name:** Act 218

#### **500.6005 Reorganization plan; adoption; amendment; withdrawal.**

Sec. 6005. (1) A mutual company seeking to reorganize to a mutual holding company structure shall adopt, by the affirmative vote of not less than 2/3 of its board of directors, a plan of reorganization under this chapter.

(2) At any time before approval of a plan of reorganization by eligible members, the mutual company, by the affirmative vote of not less than 2/3 of its board of directors, may amend or withdraw the plan.

**History:** Add. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

**Compiler's note:** Former Chapter 60, being MCL 500.6000-500.6034, was repealed by Act 256 of 1964, Eff. Aug. 28, 1964.

**Popular name:** Act 218

### **500.6007 Reorganization plan; contents.**

Sec. 6007. A plan of reorganization shall include all of the following:

- (a) The reasons for the proposed reorganization.
- (b) The effect of the reorganization on existing policies including all of the following:
  - (i) A provision that all policies in force on the effective date of the reorganization continue to remain in force under the terms of those policies, except that any voting or other membership rights of the policyholders provided for under the policies or under this act, and any contingent liability policy provisions permitted by this act are extinguished on the effective date of the reorganization.
  - (ii) A provision that holders of participating policies in effect on the date of reorganization continue to have the right to receive dividends as provided in the participating policies, if any.
  - (iii) A provision that, except for a mutual company's life policies, guaranteed renewable accident and health policies, and noncancelable accident and health policies, the converted company may issue the insured a nonparticipating policy as a substitute for the participating policy upon the renewal date of a participating policy.
- (c) The detailed plans for granting membership interests to current and future policyholders of the converted company.
- (d) Information sufficient to demonstrate that the financial condition of the converted company will not be diminished by the plan.
- (e) A description of any current plans or any proposal approved by the mutual company board to issue shares of an intermediate holding company or shares of the converted company to the public or to other persons who are not direct or indirect subsidiaries of the mutual holding company.
- (f) The identity of the proposed officers and directors of the mutual holding company and each intermediate holding company, if any, together with other biographical information as the commissioner requests.
- (g) Other information as the commissioner requests or prescribes by rule.

**History:** Add. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

**Compiler's note:** Former Chapter 60, being MCL 500.6000-500.6034, was repealed by Act 256 of 1964, Eff. Aug. 28, 1964.

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### **500.6009 Reorganization plan; operation and support of closed block of business.**

Sec. 6009. (1) A plan of reorganization shall provide that a mutual life insurance company's participating life policies in force on the effective date of the conversion shall be operated by the converted 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 1 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.

(3) The plan shall be accompanied by an actuarial opinion as to the adequacy of reserves or assets by a qualified actuary or an appointed actuary who meets the standards required under this act or under regulations established under this act for the submission of actuarial opinions. The actuarial 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 methods of analysis considered appropriate for those purposes by the actuarial standards board and as certified by the commissioner. The amount of assets allocated to the segregated accounts of the closed block shall be based upon the mutual life insurance company's last annual statement that is updated to the effective date of the reorganization.

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

(5) Upon the commissioner's approval, assets allocated to the closed block that are in excess of the amount of assets necessary to support the remaining policies in the closed block shall periodically revert to the benefit of the converted company.

(6) The commissioner may waive the requirement for the establishment or continuation of a closed block of business if the commissioner considers it to be in the best interest of the participating policyholders of a converted company to do so.

(7) This section applies only to mutual life insurance companies.

**History:** Add. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

**Compiler's note:** Former Chapter 60, being MCL 500.6000-500.6034, was repealed by Act 256 of 1964, Eff. Aug. 28, 1964.

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**500.6011 Reorganization plan; filing of documents; hearing; approval or disapproval of plan by commissioner; conditions for approval; retention and assistance of qualified expert.**

Sec. 6011. (1) After adoption by the mutual company's board of directors and prior to the members' approval of the plan of reorganization, a mutual company shall file all of the following documents with the commissioner for review and approval:

- (a) The plan of reorganization.
- (b) The form of notice required by section 6013 for eligible members to vote on the plan.
- (c) Any proxies to be solicited from eligible members and any other soliciting materials.
- (d) The proposed articles of incorporation and bylaws of the mutual holding company, each intermediate holding company, if any, and the revised articles of incorporation and bylaws of the converted company.

(2) The commissioner may hold a hearing to review a plan of reorganization. The commissioner shall approve the plan upon finding both of the following:

- (a) The plan complies with this chapter.
- (b) The plan is fair and equitable to the interests of the policyholders.

(3) The commissioner shall approve or disapprove a plan by not later than 90 days after the filing of the documents under subsection (1).

(4) The commissioner may conditionally approve a plan if he or she determines that conditions are reasonably necessary to protect policyholder interests. The conditions may include, but are not limited to, the following:

(a) Prior approval of any concurrent or subsequent acquisition, merger, or formation of affiliate entities of the mutual holding company.

(b) Prior approval of the capital structure of or any changes to the capital structure of any intermediate holding company.

(c) Prior approval of any initial public offering or of any other issuance of equity or debt securities of an intermediate holding company or of the converted company in a private sale or public offering.

(d) Prior approval of the expansion of the mutual holding insurance company system into lines of business, industries, or operations for which it was not licensed or authorized at the time of the reorganization.

(e) Limitations on dividends and distributions if the effect would be to reduce capital and surplus of the converted company, in addition to any limitations that may otherwise be authorized by law.

(f) Limitations on the pledge or encumbrance of the stock of the converted company.

(5) The commissioner may retain, at the mutual company's expense, any qualified expert not otherwise a part of the commissioner's staff to assist in reviewing the plan of reorganization.

**History:** Add. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

**Compiler's note:** Former Chapter 60, being MCL 500.6000-500.6034, was repealed by Act 256 of 1964, Eff. Aug. 28, 1964.

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**500.6013 Reorganization plan; membership meeting; notice; quorum; vote; proxy; voter eligibility.**

Sec. 6013. (1) All eligible members shall be given notice of the members' meeting to vote upon the plan of reorganization. The notice shall briefly but fairly describe the proposed plan, including identifying in reasonable detail the benefits and risks, and shall inform the member of member rights to vote on the plan. A plan summary or copy of the plan shall accompany the notice. The notice shall be mailed to each member's last known address shown on the mutual company's records, within 45 days after the commissioner's approval of the plan. The meeting to vote upon the plan shall be set for a date that is not less than 45 days after the date when the notice of the members' meeting is mailed by the mutual company. If the meeting to vote upon the plan is held during the mutual company's annual meeting of policyholders, only 1 combined notice of meeting is required.

(2) The plan of reorganization shall be adopted at a meeting with a quorum present upon receiving the affirmative vote of at least 2/3 of the votes cast by eligible members.

(3) Members entitled to vote upon the proposed plan may vote in person or by proxy. Certified copies of any forms of proxies to be solicited from eligible members, together with the related proxy statement and any other soliciting materials, shall be filed with the plan and approved by the commissioner before their use.

(4) Each eligible member may cast votes upon each matter coming to a vote in accordance with any rights or classifications of members as provided in the mutual insurer's articles of incorporation or bylaws. If the

articles of incorporation or bylaws are silent, each eligible member may cast 1 vote.

**History:** Add. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

**Compiler's note:** Former Chapter 60, being MCL 500.6000-500.6034, was repealed by Act 256 of 1964, Eff. Aug. 28, 1964.

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#### **500.6015 Documents to be filed after plan approval.**

Sec. 6015. After the eligible members have approved a plan of reorganization, the converted company shall file all of the following documents with the commissioner:

- (a) The minutes of the members' meeting at which the plan of reorganization was voted upon.
- (b) The articles and bylaws of the mutual holding company and each intermediate holding company, if any, and the revised articles of incorporation and bylaws of the converted company.

**History:** Add. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

**Compiler's note:** Former Chapter 60, being MCL 500.6000-500.6034, was repealed by Act 256 of 1964, Eff. Aug. 28, 1964.

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#### **500.6017 Mutual holding company; articles of incorporation.**

Sec. 6017. (1) Adoption of articles of incorporation for the mutual holding company, each intermediate holding company, if any, and revised articles of incorporation for the converted company is necessary to implement the plan of reorganization. Procedures for adoption or revision of these articles are governed by the applicable provisions of this act or, in the case of an intermediate holding company, the business corporation law of the state in which the intermediate holding company is incorporated. The members may adopt revised articles of incorporation at the same meeting at which the members approve the plan.

(2) The articles of incorporation of a mutual holding company shall include all of the following:

- (a) That it is a mutual holding company organized as an insurer under chapter 50, 54, or 58.
- (b) That the mutual holding company may hold not less than a majority of the shares of voting stock of a converted company or an intermediate holding company, which in turn holds directly or indirectly all of the voting stock of a converted company.
- (c) That it is not authorized to issue any capital stock except pursuant to a conversion in accordance with chapter 59.
- (d) That its members shall have the rights specified in this chapter and in its articles of incorporation and bylaws.

**History:** Add. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

**Compiler's note:** Former Chapter 60, being MCL 500.6000-500.6034, was repealed by Act 256 of 1964, Eff. Aug. 28, 1964.

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#### **500.6019 Reorganization plan; conditions for plan to take effect.**

Sec. 6019. (1) A plan becomes effective when the commissioner has approved the plan, the members have approved the plan, and the articles of incorporation of the mutual holding company, each intermediate holding company, if any, and the revised articles of incorporation of the converted company have been adopted and filed with the commissioner.

(2) All of the following simultaneously occur when a plan of reorganization becomes effective under this chapter:

- (a) The mutual company becomes a converted company and the corporate existence of the mutual company continues in the converted company with the original date of incorporation of the mutual company.
- (b) The membership interests of the mutual company's policyholders are extinguished, and all of the mutual company's eligible members become members of the mutual holding company by and in accordance with the articles of incorporation and bylaws of the mutual holding company and applicable provisions of this chapter and chapters 50, 54, and 58.
- (c) All the rights, franchises, and interests of the mutual company in and to every type of property, real, personal, and mixed, and any things in action belonging to it, are transferred to and vested in the converted company without any deed or transfer.
- (d) All the obligations and liabilities of the mutual company are assumed by the converted company.
- (e) All of the shares of the capital stock of the converted company shall be issued to the mutual holding company, which at all times shall own a majority of the shares of the voting stock of the converted company, except that either at the time a plan is effective, or at a later time with the commissioner's approval, 1 or more intermediate holding companies may be created, so long as the mutual holding company at all times owns directly or indirectly a majority of the shares of the voting stock of the converted company.
- (f) Unless otherwise specified in the plan, the directors and officers of the mutual company serve as

directors and officers of the converted company until new directors and officers of the converted company are duly elected pursuant to the articles of incorporation and bylaws of the converted company.

**History:** Add. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

**Compiler's note:** Former Chapter 60, being MCL 500.6000-500.6034, was repealed by Act 256 of 1964, Eff. Aug. 28, 1964.

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#### **500.6023 Membership interest in mutual holding company.**

Sec. 6023. (1) No member of a mutual holding company may transfer membership in the mutual holding company.

(2) A member of a mutual holding company is not personally liable for the acts, debts, liabilities, or obligations of the mutual holding company solely because of his or her membership status.

(3) No assessments of any kind may be imposed upon the members of a mutual holding company by the directors or members, or because of any liability, act, debt, or obligation of the mutual holding company or of any company owned or controlled by the mutual holding company.

(4) Neither a membership interest in a domestic mutual holding company nor any intermediate or transitional stages taken pursuant to a plan constitutes the creation, issuance, offer to sell, solicitation of an offer to buy, or the sale of a security under the laws of this state.

(5) A membership interest in the mutual holding company automatically terminates if the policy that gave rise to the membership interest is canceled, nonrenewed, terminated, or expires.

(6) Except as otherwise approved by the commissioner, a membership interest in the mutual holding company shall be automatically created with a new policy issued by the converted company.

**History:** Add. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

**Compiler's note:** Former Chapter 60, being MCL 500.6000-500.6034, was repealed by Act 256 of 1964, Eff. Aug. 28, 1964.

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#### **500.6025 Mutual holding company; powers and duties.**

Sec. 6025. (1) A mutual holding company has the same powers granted to domestic mutual insurance companies and is subject to the same requirements of this act applicable to mutual companies that are not inconsistent with the provisions of this chapter except that a mutual holding company does not have authority to transact an insurance business. The commissioner may exempt a mutual holding company from any requirement of this act that the commissioner finds inapplicable to a company that is not issuing policies of insurance or reinsurance.

(2) Neither the mutual holding company nor any intermediate holding company shall issue or reinsure policies of insurance.

(3) With the commissioner's approval and as provided under this act, a mutual holding company may enter into an affiliation, consolidation, merger, or acquisition agreement either at or after the effective date of a reorganization under this chapter with any mutual insurance company authorized to do business in this state or with any mutual holding company organized in this state or any other state or the District of Columbia.

(4) The assets of a mutual holding company organized under this chapter are subject to a lien in favor of the policyholders of the converted company under such terms as the commissioner may approve.

**History:** Add. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

**Compiler's note:** Former Chapter 60, being MCL 500.6000-500.6034, was repealed by Act 256 of 1964, Eff. Aug. 28, 1964.

**Popular name:** Act 218

#### **500.6027 Transfer, assignment, or diversion of business from converted business.**

Sec. 6027. Without the commissioner's prior approval, neither the converted company nor any other person affiliated with or controlling the converted company shall transfer, assign, or divert business from the converted company to any other insurance company or affiliate if the purpose or effect of doing so would be to reduce significantly the number of members of the mutual holding company. What is a significant reduction shall be determined by the commissioner after examination of the converted company's business reasons for effecting any such transfer, assignment, or diversion.

**History:** Add. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

**Compiler's note:** Former Chapter 60, being MCL 500.6000-500.6034, was repealed by Act 256 of 1964, Eff. Aug. 28, 1964.

**Popular name:** Act 218

#### **500.6029 Receipt of fee, commission, or other consideration; payment of costs and expenses.**

Sec. 6029. (1) A director, officer, agent, or employee of the mutual company or any other person shall not

receive any fee, commission, or other valuable consideration, other than his or her usual salary and compensation, for aiding, promoting, or assisting in a reorganization under this chapter, except as provided for in the plan approved by the commissioner.

(2) All the costs and expenses connected with a plan of reorganization shall be paid for or reimbursed by the mutual company or the converted company.

**History:** Add. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

**Compiler's note:** Former Chapter 60, being MCL 500.6000-500.6034, was repealed by Act 256 of 1964, Eff. Aug. 28, 1964.

**Popular name:** Act 218

#### **500.6031 Substantial compliance with notice requirements; commencement of action challenging validity of certain acts or commissioner's decision.**

Sec. 6031. (1) If a mutual company complies substantially and in good faith with the notice requirements of this chapter, the mutual company's failure to give a member any required notice does not impair the validity of any action taken under this chapter. The commissioner may convene an appropriate hearing at any time for purposes of determining the existence of good faith and substantial compliance by the mutual company.

(2) An action challenging the validity of or arising out of acts taken or proposed to be taken under this chapter, other than an action challenging the commissioner's decision approving or disapproving the plan, shall be commenced within 30 days after the eligible members have approved the plan. An action challenging the validity of the commissioner's decision approving or disapproving the plan shall be commenced within 30 days after the commissioner's decision is announced.

**History:** Add. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

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