

THE INSURANCE CODE OF 1956 (EXCERPT)
Act 218 of 1956

500.5905 Conversion plan; contents; provisions applicable to subscription rights.

Sec. 5905. (1) The following provisions shall be included in the plan:

(a) The reasons for the proposed conversion.

(b) The effect of the conversion on existing policies, including all of the following:

(i) A provision that all policies in force on the effective date of conversion continue to remain in force under the terms of the policies, except that any voting rights of the policyholders provided for under the policies or under this chapter are extinguished on the effective date of the conversion.

(ii) A provision that holders of participating policies in effect on the date of conversion continue to have the right to receive dividends as provided in the participating policies, if any.

(iii) A provision that, except for the mutual company's life policies, guaranteed renewable accident and health policies, and guaranteed renewable, noncancelable accident and health policies, upon the renewal date of a participating policy, the converted stock company may issue the insured a nonparticipating policy as a substitute for the participating policy.

(c) The subscription rights to eligible members, including both of the following:

(i) A provision that each eligible member is to receive, without payment, subscription rights to purchase a portion of the capital stock of the converted stock company. Subscription rights shall be nontransferable unless otherwise provided in the plan. A plan providing for transferable subscription rights shall include whatever terms, conditions, and restrictions that the commissioner determines are reasonably necessary to protect the member's interests. As an alternative to subscription rights in the converted stock company, the plan may provide that each eligible member is to receive, without payment, subscription rights to purchase a portion of the capital stock of 1 of the following:

(A) A corporation organized for the purpose of purchasing and holding all the stock of the converted stock company.

(B) An unaffiliated corporation that will purchase all the stock of the converted stock company.

(C) A stock insurance company into which the mutual company will be merged.

(ii) A provision that 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 or any other factors that may be fair or equitable.

(2) The plan shall provide a fair and equitable means for allocating shares of capital stock in the event of an oversubscription to shares by eligible members exercising subscription rights received under subsection (1)(c).

(3) The plan shall provide that any shares of capital stock not subscribed to by persons exercising subscription rights received under subsection (1)(c) shall be sold in a public offering through an underwriter. If the number of shares of capital stock not subscribed by eligible members is so small in number that it does not warrant the expense of a public offering, the plan of conversion may provide for purchasing unsubscribed shares by a private placement or other alternative method approved by the commissioner that is fair and equitable to eligible members.

(4) The plan shall set the total price of the capital stock equal to the estimated pro forma market value of the converted stock company or the stock of another corporation that is participating in the conversion plan, as provided in subsection (1)(c)(i)(A), (B), or (C) based upon an independent evaluation by a qualified expert. This pro forma market value may be that value that is estimated to be necessary to attract full subscription for the shares, as indicated by the independent evaluation.

(5) The plan shall set the purchase price per share of capital stock equal to any reasonable amount.

(6) The plan shall provide for notice and a clear explanation to eligible members of their right to subscribe to stock of the converted stock company or the stock of another corporation that is participating in the conversion plan.

History: Add. 1995, Act 215, Imd. Eff. Nov. 29, 1995;—Am. 2000, Act 8, Imd. Eff. Feb. 25, 2000.

Popular name: Act 218