

1999 SENATE INDUSTRY, BUSINESS AND LABOR

SB 2221

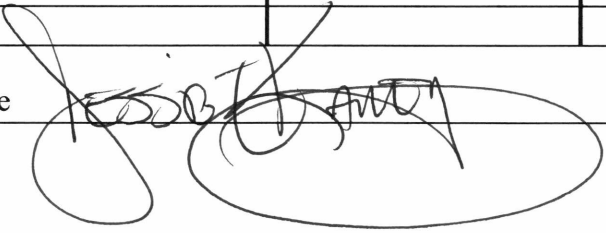
1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2221

Senate Industry, Business and Labor Committee

Conference Committee

Hearing Date January 20, 1999

Tape Number	Side A	Side B	Meter #
1		x	2,270
Committee Clerk Signature 			

Minutes:

Senator Mutch opened the hearing on SB2221. All senators were present.

Tom Smith testified in support of SB2221. His testimony is included.

Greg Morris testified in support of the bill. His testimony is included.

Senator Heitkamp asked him if he had looked at how this would effect other mutuals. His reply indicated that they cannot use this section.

Senator Krebsbach asked Mr. Morris if they were seeking to combine with another mutual, but want to use the mutual in their name. He said yes.

Senator Sand asked how the policy holder would benefit from this legislation. His reply was that a larger company can offer a larger return.

Senator Mutch closed the hearing on SB2221.

Committee discussion took place on January 27, 1999.

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Senate Industry, Business and Labor Committee

Bill/Resolution Number Sb2221

Hearing Date January 20, 1999

Senator Sand motioned for a do pass action on the bill. Senator Mathern seconded his motion.

The motion carried with a 6-0-1 vote.

SRI 81361

Date: 1/27/99
Roll Call Vote #: 2221

**1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.**

Senate INDUSTRY, BUSINESS AND LABOR COMMITTEE Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken DO PASS

Motion Made By SAND Seconded By MATHERN

Senators	Yes	No	Senators	Yes	No
Senator Mutch	X				
Senator Sand	X				
Senator Klein	X				
Senator Krebsbach	X				
Senator Heitkamp					
Senator Mathern	X				
Senator Thompson	X				

Total (Yes) 6 No 0

Absent 1

Floor Assignment MUTCH

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
January 28, 1999 10:15 a.m.

Module No: SR-18-1361
Carrier: Mutch
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2221: Industry, Business and Labor Committee (Sen. Mutch, Chairman) recommends **DO PASS** (6 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2221 was placed on the Eleventh order on the calendar.

1999 HOUSE INDUSTRY, BUSINESS AND LABOR

SB 2221

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2221

House Industry, Business and Labor Committee

Conference Committee

Hearing Date 3-1-99

Tape Number	Side A	Side B	Meter #
1	x		44 - 3525
2		x	2675 - 3642
Committee Clerk Signature <i>Lisa Horner</i>			

Minutes: **SB 2221**

Tom Smith of Domestic Insurance Companies introduced SB 2221 relating to foreign mutual insurance holding companies; and definition and approval of a reorganization by eligible members of a domestic mutual insurance company.

Rep. Severson: In the reorganization, leaving the word Mutual in on the first portion is basically just for the reorganization?

Tom Smith: Yes. There is a provision in the law where you could de-mutualize entirely and become a stock insurance company and that wouldn't apply to this situation. It only applies to the situation where you have a procedure under the insurance mutual holding company act.

Gregory Morris, Vice President and general council of Pioneer Mutual Life Insurance Company testified in support of SB 2221. (See written testimony)

Rep. Keiser: When you bring new products to the market, who will file with the insurance commissioner, at what level?

Gregory Morris: The lowest level. The actual stock company is your operating life insurance company. They would be responsible for filing.

Trent Heinemeyer, deputy Insurance Commissioner, testified in support of SB 2221.

Holding companies own the stock. Mutual companies sell the stock.

Rep. Keiser: Why not deregulate this name change?

Trent Heinemeyer: The name is so that the sophisticated buyer can distinguish the difference in the names of the companies.

Chairman Berg closed the hearing.

Tape 2, side B. Meter No. 2675

Chairman Berg opened the discussion of SB 2221.

There was a discussion of mutual holding companies.

Tom Smith answered some of the questions asked by the committee.

Chairman Berg put the bill on hold and closed the discussion.

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2221 3-2-99

House Industry, Business and Labor Committee

Conference Committee

Hearing Date 3-2-99

Tape Number	Side A	Side B	Meter #
3	x		38.7 - 42.7
Committee Clerk Signature <i>Lisa Horner</i>			

Minutes: **SB 2221**

Chairman Berg opened the discussion of SB 2221.

Tom Smith of Domestic Insurance Companies talked to the committee about the bill and the reorganization of the Insurance Mutual Holding Act.

Rep. Severson made a motion for a Do Pass.

Rep. Klein second the motion.

The roll call vote was 15 yea, 0 nay.

The motion carried.

Rep. Severson will carry the bill.

Date: 3-1-99
 Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2221

House Industry, Business and Labor Committee

Subcommittee on _____
 or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken do pass

Motion Made By Severson Seconded By Klein

Representatives	Yes	No	Representatives	Yes	No
Chairman Berg	/		Rep. Thorpe	/	
Vice Chairman Kempenich	/				
Rep. Brekke	/				
Rep. Ekstrom	/				
Rep. Froseth	/				
Rep. Glassheim	/				
Rep. Johnson	/				
Rep. Keiser	/				
Rep. Klein	/				
Rep. Koppang	/				
Rep. Lemieux	/				
Rep. Martinson	/				
Rep. Severson	/				
Rep. Stefonowicz	/				

Total (Yes) 15 No 0

Absent _____

Floor Assignment Severson

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
March 2, 1999 4:13 p.m.

Module No: HR-37-3888
Carrier: Severson
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2221: Industry, Business and Labor Committee (Rep. Berg, Chairman) recommends **DO PASS** (15 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2221 was placed on the Fourteenth order on the calendar.

1999 TESTIMONY

SB 2221

Testimony of Gregory D. Morris,
Vice President, Secretary and
General Counsel of Pioneer Mutual
Life Insurance Company on behalf
Of Pioneer Mutual Life Insurance
Company in support of SB 2221.

Senate Industry, Business
and Labor Committee
January 20, 1999

Pioneer Mutual Life originated as a fraternal organization, the Ancient Order of United Workmen (AOUW) in 1868, providing life insurance benefits to its members. In November of 1947, it incorporated and started doing business as a mutual life insurance company.

Pioneer Mutual has been doing business out of Fargo since incorporation. It is now a company with assets of around \$440,000,000 and capital and statutory surplus of \$31,000,000 as of the end of 1998. There are approximately 60,000 policyholders and 75 employees. The company is authorized to do business in 28 states.

Pioneer Mutual is rated A- (Excellent) by A.M. Best Company which according to A.M. Best is a rating: "Assigned to companies which in our opinion, have demonstrated excellent overall performance when compared to the standards established by the A.M. Best Company. A and A- companies have a strong ability to meet their obligation to policyholders over a long period of time."

Pioneer supported passage of the Mutual Holding Company Law last session. We, like most companies are looking to grow. To grow we need access to capital. Pioneer Mutual is planning to enter a Mutual Holding Company affiliation with two Indiana companies, American United Life and Indianapolis Life – both are mutual life insurance companies domiciled in Indiana and located in Indianapolis. We are looking to utilize the North Dakota Mutual Holding Company statute to do this.

Unfortunately, after review of the statute and a discussion with the North Dakota Insurance Department we concluded the statute does not clearly permit the direct transition of a domestic mutual into a foreign mutual holding company nor a foreign mutual company into a domestic mutual holding company in a single process in each state. This is what we are trying to facilitate through these amendments. We are not changing the nature of the law but clarifying that it extends to and allows domestic mutuals and foreign mutuals to combine under this act.

We are also asking that with all that we have invested in our name in the last 50 years, we be permitted to keep it. We do not believe it is misleading as we are still part of a mutual system. In fact, it may be less confusing to our policyholders, and less expensive to the company.

For these reasons we respectfully ask for your support of these amendments.

26.1-12.1-04. Plan of reorganization — Contents. No insurer authorized to do business in this state may take part in a reorganization unless the reorganization has first been approved by the commissioner in accordance with this chapter. A reorganizing insurer shall file a plan of reorganization consistent with the requirements of this section, approved by the affirmative vote of a majority of its board of directors, for review and approval by the commissioner. The plan must include:

1. A description of the nature and content, or a copy, of the annual report and financial statement to be sent to each eligible member.
2. An analysis of the benefits and risks attendant to the proposed reorganization, including the rationale for the reorganization and analysis of the comparative benefits and risks to the reorganizing insurer of the reorganization.
3. Information sufficient to demonstrate the financial condition of the reorganizing insurer will not be affected adversely upon reorganization.
4. Information demonstrating that the reorganization will:
 - a. Establish a mutual insurance holding company with at least one stock insurance company subsidiary, the majority of whose shares must be owned, either directly or through an intermediate stock holding company, by the mutual insurance holding company;
 - b. Ensure immediate membership in the mutual insurance holding company of all existing eligible members of the reorganizing mutual insurance company;
 - c. Describe a plan providing for membership interest of future policyholders;
 - d. Include a copy of the proposed mutual insurance holding company's articles of incorporation and bylaws specifying all membership rights;
 - e. Include a copy of the articles of incorporation and bylaws of the reorganizing insurer, any proposed insurance company subsidiary, or intermediate holding company subsidiary; and
 - f. Describe the number of members of the board of directors of the mutual insurance holding company required to be policyholders.
5. Information demonstrating that upon an insolvency involving a stock insurance company subsidiary of the mutual insurance holding company that resulted from the reorganization, the assets of the mutual holding company will be available to satisfy the policyholder obligations of the stock insurance company.
6. Information describing the mutual insurance holding company's general plans regarding whether any accumulation or prospective accumulation of earnings by the mutual insurance holding company which is or would be in excess of that determined by the board of directors of the mutual insurance holding company to be necessary will inure to the exclusive benefit of the policyholders of its insurance company subsidiaries who are members.

Source: S.L. 1997, ch. 252, § 1.

26.1-12.1-14. Applicability. This chapter does not apply to any mutual insurance company that was formerly organized as a nonprofit health service corporation.

Source: S.L. 1997, ch. 252, § 1.

PREPARED TESTIMONY FOR SENATE BILL 2221
SENATE INDUSTRY, BUSINESS & LABOR COMMITTEE
January 20, 1999

Last session, the Legislature passed the Mutual Insurance Holding Company Act, codified as Ch. 26.1-12.1 of the North Dakota Century Code. This legislation was sought by the mutual insurance companies organized and existing under the laws of North Dakota who may have a need to access capital in order to grow their companies. Under existing law, a mutual insurance company converts to a stock insurance company with no less than 51 percent of the stock being owned by the mutual holding company and controlled by the policyholders of the mutual insurance company. The remaining 49 percent of the stock can be utilized in order to raise capital.

The existing law provides for the formation of a mutual insurance holding company or the merger of a domestic mutual insurance company into an existing mutual insurance holding company (N.D.C.C. § 26.1-12.1-02 and § 26.1-12.1-03). The existing law provides for the following:

1. Contents of the plan of reorganization which must be filed with the insurance commissioner (§ 26.1-12.1-04).
2. A hearing by the insurance commissioner on the plan of reorganization with approval or disapproval based upon criteria set forth in the statute (§ 26.1-12.1-06 and § 26.1-12.1-07).

3. The required notice to eligible members and approval of the plan reorganization by eligible members of the mutual insurance company (§ 26.1-12.1-08 and § 26.1-12.1-09).

SB 2221 expands the law to recognize multi-state transactions.

SB 2221 amends the present section relating to definitions and approval by eligible members and creates three new sections to Ch. 26.1-12.1. The definitions are changed to reflect that there are domestic and foreign mutual insurance companies and mutual insurance holding companies (subsections 2, 3, 5, and 6, p. 1 and 2). Subsection 7, “membership interest,” is amended for purposes of clarification. That amendment states that the membership interest does not include the contractual rights remaining with the reorganized insurance company, which is the stock insurance company that exists after the reorganization. Subsection 12, “reorganized insurance company,” is amended to add that a domestic or foreign mutual insurance company that has completed a reorganization may retain the word “mutual” in its name so long as it is clearly identified with its name that it is a stock insurance subsidiary of a domestic or foreign mutual insurance holding company.

Subsection 2 (p. 3) amends § 26.1-12.1-09 dealing with the approval of eligible members of a plan of reorganization. The changes are made to clarify that this only applies to the domestic mutual insurance company and does not apply to the foreign mutual insurance company.

Section 3 creates three new sections to Ch. 26.1-12.1. The first section allows a domestic mutual insurance company to reorganize with a foreign mutual insurance holding company created or existing under the laws of another state by complying with Ch. 26.1-

12.1. The insurance commissioner is given the authority to make sure that if a reorganization occurs between a domestic mutual insurance company and a foreign mutual insurance holding company, that the policyholders of the domestic mutual insurance company are protected by requiring compliance with the requirements and standards established under the existing law. The second new section created provides that an existing domestic mutual insurance holding company, with the prior approval of the insurance commissioner, and pursuant to the existing standards set forth in the law, may acquire a foreign mutual insurance holding company as a reorganized insurer. The insurance commissioner is required to consider the fairness of the terms and conditions of the transaction and the interest of the eligible members of the domestic mutual insurance holding company. This plan of reorganization must be approved by the eligible members of the domestic mutual insurance holding company.

The third section addresses a concurrent reorganization. This newly created section contemplates a concurrent reorganization of a domestic mutual insurance company with one or more mutual insurance company, whether domestic or foreign, into a single mutual insurance holding company structure. The mutual insurance holding company may be either a domestic or a foreign company. This is accomplished by a joint application and joint plan of reorganization submitted to the commissioner and subject to the same hearing and standards that exist under the present law.

We would hope this committee would give favorable consideration to SB 2221.

Testimony of Gregory D. Morris,
Vice President, Secretary and
General Counsel of Pioneer Mutual
Life Insurance Company on behalf
Of Pioneer Mutual Life Insurance
Company in support of SB 2221.

House Industry, Business
and Labor Committee
March 1, 1999

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