

Bill Summary

COMMITTEE: Banking and Insurance

DATE: 9/12/14

PRIME SPONSOR: Kampf

BILL NO: HB 2340

PREPARED BY: Carlton Logue

PRINTER'S NO: 3757

A. Synopsis:

Amends the Insurance Company Law of 1921 to allow medical malpractice reciprocal insurance exchanges to reorganize and covert into stock insurance companies.

B. Summary:

A reciprocal insurance exchange is a private unincorporated insurer that consists of members who insure each other through the payment of premiums and share the risk of loss. A stock insurance company, on the other hand, is a corporation with stockholders that participate in the gains and losses of the corporation, but also bear the losses of the company.

Currently, The Insurance Company Law allows a mutual insurance company to convert its structure to a stock insurance company and raise capital to enhance policyholder protection and provide growth capital. A reciprocal exchange, which is very similar to a mutual insurer, is not provided the same option. This legislation will modernize the law to allow a medical malpractice reciprocal to convert to a stock company under a similar process.

HB 2340 adds Article VIII-B titled "Medical Professional Liability Reciprocal Exchange-to-Stock Conversion" to the Insurance Company Law. This would allow "reciprocal insurers" to convert to stock insurance companies. HB 2340 defines reciprocal insurer as a Pennsylvania domiciled reciprocal and inter-insurance exchange that is organized under article X of the Insurance Company Law, authorized to write medical professional liability insurance and receives 50% of its direct written premium from medical professional liability insurance.

The bill requires that a plan of conversion plan must be approved by not less than two-thirds of the subscribers' advisory committee or any equivalent governing body.

The plan of conversion must also approved by the Insurance Commissioner. The following documents must be submitted to the Insurance Commissioner: plan of conversion, independent evaluation of pro forma market value, notice of subscriber's meeting, proxy form, and proposed

articles of incorporation and bylaws of the stock company, the acquisition of control statement, and other information the Commissioner may request.

Upon filing the plan, the reciprocal insurer shall send notice to eligible subscribers advising of the filing of the plan and their ability to provide comment to the Insurance Commissioner.

The contents of the plan of conversion are further defined in Section 803-B. The following must be included: reasons for conversion to a stock company; effect on existing insurance policies; voting rights of the eligible subscribers; stock options and purchase rights of eligible subscribers; valuation of stock for purposes of public or private offering; initial stock price for subscribers; limitations on the purchase of stock by eligible subscribers, directors and officers; limitations on the sale of stock by eligible subscribers, directors and officers; and restrictions on the repurchase of capital stock.

The bill further provides for optional and alternative conversion plans that may approved by the Commissioner; includes specific provisions regarding stock companies; provisions regarding amending policies; places restrictions on the ability of any entity to acquire ownership or control of the reciprocal's attorney-in-fact or successor stock company during the course of the conversion process.

The bill also contains an exception that allows the conversion requirements to be waived by the commissioner in the event that the reciprocal insurer is in a hazardous financial condition and conversion is in the best interests of the reciprocal insurer and policy holders.

Effective Date: 60 days