

**SUBJECT:** Converting mutual life insurance companies to stock insurance companies

**COMMITTEE:** Insurance — favorable, without amendment

**VOTE:** 8 ayes — Smithee, Seaman, Eiland, Isett, B. Keffer, Taylor, Thompson,  
Van Arsdale

0 nays

1 absent — Oliveira

**WITNESSES:** For — Jay Thompson, Texas Association of Life and Health Insurers,  
GPM Life

Against — None

**BACKGROUND:** A mutual insurance company is owned entirely by its policyholders and does not issue stock. Profits in a mutual company are distributed among all policyholders through dividends or reductions in premiums.

In recent years, some mutual companies have chosen to convert from mutual companies to publicly traded stock companies. These conversions can be accomplished in various ways. In one type of conversion, a mutual company issues "subscription rights" to eligible members, which may include policyholders, employees, and company officers and directors. Recipients can use subscriptions to purchase stock before the stock is offered to the general public, usually at a significantly lower price.

Another conversion method is to allow executives to create a nonprofit, mutually owned parent that sells stock to the general public. The nonprofit corporation holds the stock of the insurance company, and members of the nonprofit corporation may be policyholders of the converted company.

Insurance Code, ch. 826 establishes regulations and guidelines for the conversion of a property and casualty mutual insurance company to a stock insurance company. To convert to a stock insurance company, mutual companies must adopt, by the affirmative vote of at least two-thirds of the members of its board of directors, a conversion plan, which must be approved by the insurance commissioner as well as the eligible

members of the mutual company. Conversion plans must provide each eligible member of the mutual company with nontransferable subscription rights to purchase a portion of the capital stock of the converted company up to 100 percent of the capital stock, after capital stock has been offered to company employees and officers and directors. Conversion plans may give directors and officers up to 35 percent of subscription rights for a company with assets of up to \$50 million and up to 25 percent of subscription rights for a company with assets of between \$50 million and \$500 million; company employees can receive up to 10 percent of subscription rights. Directors or officers may not sell stock before the first anniversary of the effective date of the conversion.

**DIGEST:** HB 1746 would add a new subchapter to Insurance Code, ch. 882, to allow a mutual life insurance company to form a mutual insurance holding company and continue the company's corporate existence as a stock company if the commissioner determined that the conversion was fair and equitable to the policyholders of the converting company and approved the conversion plan.

Insurance Code, ch. 826, would apply to conversion of a mutual life insurance company unless it conflicted with the new subchapter. The insurance commissioner would retain jurisdiction over a company that converted from a mutual to a stock life insurance company, and any new articles of incorporation resulting from a conversion would be subject to approval by the commissioner.

A sale, issuance, or offering of securities as part of a conversion of mutual life insurance companies would be exempt from registration and licensing requirements under the state Securities Act, and an officer, director or employee who participated in the conversion would not be subject to state registration and licensing provisions. A person could not receive compensation, other than the person's usual salary or compensation, for services performed under this exemption.

The bill would take effect September 1, 2005.

**SUPPORTERS SAY:** HB 1746 would allow the two mutual life insurance companies operating in Texas to convert to mutual holding companies that issue stock. Only one of the two companies affected by the bill, San Antonio-based GPM Life, has indicated an interest in converting to a not-for-profit mutual holding company that could sell stock on behalf of its policyholders.

Converting to a not-for-profit mutual holding company that owned stock would give the company greater access to capital markets while maintaining benefits of a mutual company, such as enabling policyholders to elect directors. GPM Life is a financially strong company with a long history of loyalty to its policyholders, and if the company decided to pursue a conversion, it would be careful to inform its members about the process.

Under current law, property and casualty companies can choose to convert to mutual holding companies but life insurance companies cannot. HB 1746 would simply extend this provision of current law to life insurance companies. In recent years, directors and executives of companies that have switched from mutual to stock companies have experienced windfalls because they have been able to purchase company stock at a reduced rate before it is issued to the public. GPM Life does not intend to pursue such a course, although it could do so under current law.

Conversions allowed by HB 1746 would be conducted under the oversight of the insurance commissioner. If the company adopted a conversion plan, the insurance commissioner would have to determine that the plan was fair and equitable to the policyholders of the converting company. The commissioner would have the power to reject a conversion plan outright or have the terms adjusted so the policyholders would be protected.

**OPPONENTS  
SAY:**

HB 1746 would include no requirement that a conversion be in the best interests of the policyholder. The bill would include only a vague requirement that the commissioner determine that the conversion be fair and equitable. Although GPM Life claims to be acting in the interests of its policyholders in considering a conversion to a nonprofit mutual holding company, the company should be required to substantiate the benefits of this conversion.

The current statute governing conversions from mutual to stock companies was enacted in 1997 primarily to allow the Fort Worth-based Millers Mutual Fire Insurance Company to convert to a stock insurance company to gain access to capital. Following that conversion, the company became insolvent in March, 2003. Conversion from a mutual to a stock company is not always the best way to protect the financial interests of a mutual company's policyholders.

The current law governing conversions would not contain adequate notice and hearing provisions to protect the interests of policyholders. The company would have to provide only a brief explanation if the conversion process were approved. Many policyholders are not sophisticated enough to understand the implications of a conversion from a mutual company to a stock company.

**NOTES:**

The companion bill, SB 449 by Wentworth, passed the Senate by 30-0 on April 27 and is currently pending in the House Insurance Committee.