

INSURANCE CODE

TITLE 6. ORGANIZATION OF INSURERS AND RELATED ENTITIES

SUBTITLE B. ORGANIZATION OF REGULATED ENTITIES

CHAPTER 825. CONVERSION OF STOCK INSURANCE COMPANY TO MUTUAL
INSURANCE COMPANY

SUBCHAPTER A. GENERAL PROVISIONS

Sec. 825.001. DEFINITIONS. In this chapter:

(1) "Converting company" means a stock insurance company that converts to a mutual insurance company under this chapter.

(2) "Resulting company" means a mutual insurance company to which a stock insurance company converts under this chapter.

(3) "Stock acquisition plan" means a converting company's plan for the acquisition of shares of its capital stock.
Added by Acts 2001, 77th Leg., ch. 1419, Sec. 1, eff. June 1, 2003.

Sec. 825.002. AUTHORITY TO CONVERT TO MUTUAL INSURANCE COMPANY. (a) A domestic stock insurance company, as defined by law, may convert to a mutual insurance company.

(b) To convert to a mutual insurance company, a stock insurance company must implement a plan for the acquisition of shares of its capital stock.

(c) In implementing a stock acquisition plan under this chapter, a converting company may acquire shares of its stock by gift, bequest, or purchase.

Added by Acts 2001, 77th Leg., ch. 1419, Sec. 1, eff. June 1, 2003.

SUBCHAPTER B. STOCK ACQUISITION PLAN

Sec. 825.051. CONTENTS OF STOCK ACQUISITION PLAN. (a) A stock acquisition plan must:

(1) be adopted by a vote of a majority of the directors of the corporation at a directors' meeting called for that purpose;

(2) be approved by a vote of shareholders representing

a majority of the capital stock at a meeting of shareholders called for that purpose;

(3) enable each shareholder to dispose of the same proportion of the shareholder's holdings at the same price per share and on the same terms as any other shareholder;

(4) be approved by a vote of the majority of the policyholders eligible under Section 825.054 to participate at a meeting of the policyholders called for that purpose; and

(5) be submitted to the commissioner and approved by the commissioner in writing.

(b) If the purchase price for the company's acquisition of shares of its capital stock is not set by the stock acquisition plan, each payment for those shares is subject to the commissioner's approval.

Added by Acts 2001, 77th Leg., ch. 1419, Sec. 1, eff. June 1, 2003.

Sec. 825.052. SUFFICIENT ASSETS REQUIRED. The commissioner may not approve a stock acquisition plan or a payment for stock under Section 825.051(b) unless, at the time of the approval, the company has assets equal to at least \$500,000 more than the entire liability of the company, including the net values of its outstanding contracts computed as required by law, and all funds and contingent reserves, after deducting:

(1) the aggregate amount allocated by the plan for the acquisition of any part or all of its capital stock, to be paid in cash or other assets of the company; and

(2) the amount of any payment not set by the plan and subject to separate approval by the commissioner after the approval of the plan.

Added by Acts 2001, 77th Leg., ch. 1419, Sec. 1, eff. June 1, 2003.

Sec. 825.053. STOCK ACQUISITION PLAN APPROVAL. A policyholders' meeting for approval of a stock acquisition plan may not be called until Sections 825.051(a)(1) and (2) are satisfied.

Added by Acts 2001, 77th Leg., ch. 1419, Sec. 1, eff. June 1, 2003.

Sec. 825.054. POLICYHOLDER ELIGIBILITY. To be eligible to

participate in a policyholders' meeting held to approve a stock acquisition plan, a policyholder must have insurance coverage issued by the converting company that:

(1) is in the amount of at least \$1,000;

(2) is in force on the date of the policyholders' meeting; and

(3) has been in force for at least one year before the date of the policyholders' meeting.

Added by Acts 2001, 77th Leg., ch. 1419, Sec. 1, eff. June 1, 2003.

Sec. 825.055. POLICYHOLDERS' MEETING. (a) A converting company shall give notice of the policyholders' meeting to each eligible policyholder.

(b) The notice must be mailed from the home office of the converting company not later than the 31st day before the scheduled date of the meeting in a sealed envelope, postage prepaid, to the policyholder at the policyholder's last known mailing address.

(c) The policyholders' meeting shall be conducted in the manner provided by the stock acquisition plan.

(d) The commissioner shall supervise and direct the procedure of the policyholders' meeting. The converting company shall pay all necessary expenses incurred by the commissioner as certified by the commissioner.

Added by Acts 2001, 77th Leg., ch. 1419, Sec. 1, eff. June 1, 2003.

Sec. 825.056. POLICYHOLDER VOTING. (a) A policyholder may vote in person, by proxy, or by mail. All votes must be cast by ballot.

(b) The commissioner shall appoint an adequate number of inspectors to conduct the voting at the policyholders' meeting.

(c) The inspectors determine all questions concerning the verification of the ballots, the validity of the ballots, the qualification of the voters, and the canvass of the vote and shall certify the results to the commissioner and the converting company.

(d) An inspector shall act under rules prescribed by the commissioner.

Added by Acts 2001, 77th Leg., ch. 1419, Sec. 1, eff. June 1, 2003.

SUBCHAPTER C. ACQUISITION OF SHARES

Sec. 825.101. ISSUANCE OF ANNUITY BONDS IN PAYMENT OF STOCK. (a) A stock acquisition plan may provide that all or part of the purchase price of any part or all of the shares of stock of a converting company that are acquired by the company under the plan may be paid by the company through the issuance of annuity bonds payable in annual amounts and for the term provided by the plan.

(b) Each annuity bond issued under Subsection (a) must expressly provide, on the face of the bond, that the bond is payable only out of the surplus of the converting company remaining after all liabilities, including reserves, are provided for and is not otherwise a liability or claim against the converting company or any of its assets, as provided by Section [882.253](#).

(c) Not more than three-fourths of the net earnings of the converting company during any calendar year may be used or applied to the payment of the annuity bonds.

(d) On the approval of the commissioner, the company issuing the annuity bonds or any life insurance company may invest its funds in the annuity bonds. The investment in the annuity bonds may not at any time exceed 10 percent of the company's total admitted assets.

Added by Acts 2001, 77th Leg., ch. 1419, Sec. 1, eff. June 1, 2003.

Sec. 825.102. ACQUISITION IN TRUST. (a) Until all of the shares of a converting company are acquired, any shares acquired under the stock acquisition plan shall be held in trust for the policyholders of the converting company by three trustees appointed as provided by the stock acquisition plan.

(b) Each appointee must file with the converting company a verified acceptance of the appointment and a declaration that the appointee will faithfully discharge the appointee's duties.

(c) The shares shall be assigned and transferred on the books of the converting company to the trustees. The trustees shall vote the shares at each meeting at which shareholders are entitled to vote, until all the capital stock of the converting company is

canceled under Section 825.104.

(d) After paying the necessary expenses of executing the trust, the trustees shall immediately pay all dividends and other amounts received on the shares of stock acquired under Section 825.101 to the converting company for the benefit of those who are or become policyholders of the resulting company entitled to participate in the profits of the resulting company.

(e) All amounts received by the converting company under Subsection (d) shall be added to the surplus earned by the resulting company and accordingly are apportionable as a part of the surplus among the resulting company's policyholders.

(f) A vacancy among the trustees shall be filled as provided by the stock acquisition plan.

Added by Acts 2001, 77th Leg., ch. 1419, Sec. 1, eff. June 1, 2003.

Sec. 825.103. DISTRIBUTION OF DIVIDENDS. After conversion, the converting company shall annually distribute among its policyholders, under terms approved by the commissioner, dividends or earnings accruing to the converting company as the result of the acquisition of shares of the converting company's stock under this chapter.

Added by Acts 2001, 77th Leg., ch. 1419, Sec. 1, eff. June 1, 2003.

Sec. 825.104. CONVERSION COMPLETE ON CANCELLATION OF STOCK; APPLICATION OF CERTAIN LAWS. (a) When the converting company acquires all of its capital stock and the purchase price for that stock, including any annuity bond issued for the purchase of the stock, is paid in full, the stock shall be canceled.

(b) On cancellation of the stock, the converting company becomes a mutual insurance company without capital stock and is subject to the laws of this state governing mutual insurance companies.

Added by Acts 2001, 77th Leg., ch. 1419, Sec. 1, eff. June 1, 2003.