

**SENATE APPROPRIATIONS COMMITTEE
FISCAL NOTE**

BILL NO. House Bill 159

PRINTER NO. 145

AMOUNT

No Adverse Fiscal Impact

FUND

General Fund

DATE INTRODUCED

January 22, 2015

PRIME SPONSOR

Representative Kampf

DESCRIPTION AND PURPOSE OF BILL

House Bill 159 amends Title 40 (Insurance) of the Pennsylvania Consolidated Statutes to allow medical malpractice reciprocal insurance exchanges to reorganize and convert into stock insurance companies.

HB 159 Adds a new chapter, entitled "Medical Professional Liability Reciprocal Exchange-to-Stock Conversion," to Title 40 (Insurance) to allow medical malpractice reciprocal insurers to convert to stock insurance companies. Currently, mutual insurance companies are permitted to convert their 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 insurer to convert to a stock company under a similar process.

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.

The bill defines a "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 receiving 50% of its direct written premium from medical professional liability insurance.

The bill requires that a plan of conversion 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 be approved by the Insurance Commissioner.

The bill requires the reciprocal insurer to send notice to eligible subscribers advising of the filing of the plan and their ability to provide comment to the Insurance Commissioner.

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The following must be included in a conversion plan: 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 provides for optional and alternative conversion plans that may be approved by the Commissioner; includes specific provisions regarding stock companies and amending policies; and 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 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.

This act shall take effect in 60 days.

FISCAL IMPACT:

House Bill 159 will have no impact to the Commonwealth.