

**POLICYHOLDER RIGHTS/PROTECTIONS
UNDER IOWA AND WISCONSIN
DEMUTUALIZATION AND
MUTUAL HOLDING COMPANY LAWS**

The following paragraphs compare Iowa and Wisconsin mutual holding company and demutualization law with respect to policyholder rights and protections. It is a synopsis comparison only and not intended to include all of the detail of either state's laws.

Mutual Holding Company (MHC) Law (Iowa Code § 521A.14; Iowa Admin. Code ch. 191-46; Wis. Stat. ch. 644)

1. ***Public Hearing:*** Iowa law requires a public hearing with 20 days' notice to interested parties (as designated by the commissioner). Any person "whose interests may be affected" has the right to present evidence, examine and cross-examine witnesses, and offer oral and written arguments. Such persons also have the right to conduct discovery "in the same manner as is presently allowed" in Iowa district court. Wisconsin law also requires a public hearing and notice to all persons who were policyholders on the date the reorganizing company's board of directors adopted the resolution authorizing reorganization into an MHC. Wisconsin law requires that a copy or summary of the plan be sent with the notice to policyholders. Under Wisconsin law, any policyholder or commissioner may present written or oral testimony at the hearing or for a period of time after the hearing.
2. ***Standards for DOI/OCI Approval:*** Iowa law requires that the "policyholders are properly protected" and the plan be "fair and equitable to policyholders" before the commissioner can approve. The commissioner can also require changes to the plan to address issues of policyholder protection. Wisconsin law requires that the plan not violate the law, be fair and equitable to policyholders and not be contrary to the interests of policyholders or the public.
3. ***Stock Ownership by MHC:*** Under both Iowa and Wisconsin law, all initial shares of the reorganized mutual insurance company or any intermediate holding company must be owned by the MHC. Thereafter, under Iowa law the MHC must at all times own a majority of the voting shares and under Wisconsin law the MHC must own at least 51% of the voting stock. Under Iowa law, the stock cannot be "transferred, assigned, pledged, subjected to a security interest or lien, encumbered, or otherwise hypothecated or alienated" by the MHC. Under Wisconsin law, the stock cannot be "conveyed, transferred, assigned, pledged, subjected to a security interest or lien, placed in a voting trust, encumbered or otherwise hypothecated or alienated" by the MHC. Under both states' laws, any transfer of stock in violation is void in inverse chronological order. Any new company resulting from the merger of two or more reorganized insurance companies or intermediate holding companies are subject to the same requirements, restrictions and limitations.
4. ***Policyholder Membership:*** Under both Iowa and Wisconsin law, existing policyholders of the reorganized mutual insurance company have their membership interests transferred to the MHC and become immediate members of the MHC. Under Iowa law, the MHC plan must

also include provisions for membership interests in the MHC by future policyholders. Under Wisconsin law, the holders of policies issued after the effective date of conversion become members of the MHC in accordance with the articles of incorporation and bylaws of the MHC and ch. 644 immediately upon issuance of the policy.

5. **Articles of Incorporation:** Under Iowa law, the articles of incorporation of the MHC, any intermediary holding company and the reorganized insurer and any amendments to the articles of incorporation are subject to the approval of both the Iowa Commissioner and the Attorney General. Under Wisconsin law, the initial articles of incorporation are subject to the approval of the commissioner, and subsequent amendments must comply with law and be filed with the commissioner.
6. **Liquidation of Reorganized Insurer:** Under Iowa law, the assets of the MHC are deemed to be assets of the converted insurer if the converted insurer is put into liquidation. There is no similar Wisconsin provision.
7. **Demutualization of MHC:** Under both Iowa and Wisconsin law, the demutualization provisions that apply to mutual insurance companies also apply to MHCs.
8. **Policyholder Vote on MHC Reorganization:** Under both Iowa and Wisconsin law, policyholders must be given at least 20 days' notice of any vote. Voting is in accordance with the company's articles of incorporation and bylaws.
9. **Participating Policyholder dividends:** Iowa law provides that the plan must explain how the interests of existing policyholders are protected, but it contains no specific provisions on protecting the dividends of participating policyholders. Under Wisconsin law, prior to an initial public offering, the commission must find that the dividend plan is fair and equitable to policyholders.
10. **Earnings of MHC:** Under Iowa law, the earnings of the MHC that are in excess of what the board of directors determines necessary must be used to the exclusive benefit of the policyholders of the MHC's reorganized insurance company subsidiaries who are members of the MHC. There is no similar Wisconsin provision.
11. **MHC Reports to Members:** Under both Iowa and Wisconsin law, the MHC must send (or make available) an annual report and financial statement to each member.
12. **MHC Dividends:** Iowa law requires approval of any dividend, policy credit or other distribution to policyholders who are members of an MHC. There is no similar Wisconsin provision.
13. **Public Stock Offerings/Officer and Director Ownership/Shareholder Dividends:** Under both Wisconsin and Iowa law, any offer of stock of the reorganized insurance company or intermediate holding company requires the approval of the commissioner after hearing (hearing is discretionary with commissioner). Before approval is granted to a life insurance company under Wisconsin law, the commissioner must find that the dividend plan is fair and

equitable to policyholders.

Under both states' laws, members of the MHC must receive subscription rights in an initial public offering.

Under Iowa law, the officers, directors and insiders of the MHC and the MHC's subsidiaries and affiliates are prohibited from owning any stock or options for stock for at least six months following the date the offer was publicly and regularly traded. Under Wisconsin law, directors, officers and other members of management of the MHC, any intermediate holding company and the converted insurance company are prohibited from directly or beneficially acquiring voting stock for at least one year after the initial sale in a public offering.

Under Iowa law, the application for approval of the stock offering must specify, if known, the names of each entity, person, or group of persons to whom the stock offering is to be made who will control at least 5% of the total outstanding class of shares. There does not appear to be a limitation on insider ownership of shares. Any director or officer of the MHC, any subsidiary or affiliate who acquires direct or beneficial ownership in any security issued by any member of the MHC system must report to the commissioner within 15 days following the transaction. Under Wisconsin law, directors, officers and other members of management of the MHC, any intermediate holding company or the converted insurance company may not individually, directly or beneficially, own more than 5% or, in the aggregate, more than 10% of any class of voting stock.

Under Iowa law, the board of the company offering stock must establish a pricing committee consisting of persons who are not interested persons and whose responsibility it is to evaluate and approve the price of the stock. The method for pricing the stock must be consistent with generally accepted market or industry practices for establishing stock offering prices in similar transactions. Wisconsin law requires the commissioner to approve the price of the stock or the procedure for setting the price of the stock as fair and equitable to the issuing company.

Under both Iowa and Wisconsin law, a reorganized insurance company or intermediate holding company may issue more than one class of stock. Under Iowa law, at all times a majority of the voting stock must be held by the MHC or a subsidiary of the MHC and no class of common stock can have greater dividend or other rights than the class held by the MHC or its subsidiary. Under Wisconsin law, at all times 51% of the voting stock must be held by the MHC or the intermediate holding company.

Under Iowa law, once the stock is publicly traded, any future stock offering is subject to commissioner approval under an abbreviated procedure. Under Wisconsin law, sec. 611.31(2) applies in addition to the commissioner's approval of the price of the stock or procedure for setting the price as fair and equitable to the issuing company.

Under Iowa law, the articles of incorporation of the MHC must prohibit any waiver of dividends from stock subsidiaries except as specified in the articles of incorporation and only after approval of the waiver by the board of directors of the MHC and the Iowa

commissioner. Under Wisconsin law, dividends and other distributions to shareholders of the converted insurance company or any intermediate holding company must comply with §§ 617.22 and 617.225.

14. **Board of Directors:** Under Iowa law, if the company issues stock in an IPO, the majority of the MHC board of directors must not be interested persons. Under Iowa law, after an initial stock offering, each insurance company subsidiary and any intermediate holding company board must contain at least three directors who are not interested persons of the MHC. Wisconsin law applies Wis. Stat. § 611.51 applies to the board of an MHC.
15. **Insurance Department Jurisdiction:** Under both Iowa and Wisconsin law, the commissioner at all times retains jurisdiction over the MHC and any intermediate holding companies with stock insurance company subsidiaries.
16. **Holding Company Act Application:** Under both Iowa and Wisconsin law, the insurance holding company system act applies to the MHC.
17. **MHC Mergers:** Under both Iowa and Wisconsin law, MHC mergers are subject to the same requirements as mergers of insurance companies.
18. **MHC Financial Reporting:** Under both Iowa and Wisconsin law, MHCs are required to submit financial reports to the commissioner.
19. **Violation of Law/Rules:** Under both Iowa and Wisconsin law, the commissioner may prohibit or order rescission of any transaction relating to the MHC that violates the law.

Demutualization Law (Iowa Code ch 508B; Wis. Stat. § 611.76)

1. **Standards for DOI/OCI Approval:** Under Iowa law, the plan must comply with the law, be “fair and equitable to policyholders” and the reorganized company must comply with the state’s financial requirements. Under Wisconsin law, the commissioner must approve the plan unless he/she finds that it violates the law or is contrary to the interests of the policyholders or the public. The commissioner may consider whether the plan would be detrimental to the financial soundness of the company or the contractual rights and reasonable expectations of the policyholders.
2. **Right to a Hearing:** The Iowa commissioner “may” hold a hearing on the fairness of the plan at which the company’s policyholders and other interest persons have a right to appear. Wisconsin law requires a hearing and each person who was a policyholder on the date the board passed the conversion resolution has the right to notice and a copy of the plan of conversion or a summary of the plan along with any additional comments that the commissioner believes necessary to adequately inform the policyholders. Under Wisconsin law, policyholders have a right to present written and oral statements at the hearing and for a period after the hearing as determined by the commissioner.

3. ***Policyholder Rights to Stock:*** Under Iowa law, a demutualization can take place in one of three different forms:
- (a) Policyholders' membership interests are exchanged for all of the common shares of the reorganized company or its parent company in a manner taking into account the estimated proportionate contribution to surplus of each class of participating policies. In lieu of policyholder receiving all of the common shares, the company may use either or a combination of common shares issued to the policyholders and consideration equal to the proceeds of the sale of the common shares. The consideration comes from the sale of the common shares either directly by the converting company or by a trust or other entity established by the converting company for the sole benefit of the policyholders to which the shares are issued. The conversion plan must specify the process of distribution of the consideration, but the distribution must be made no longer than the lesser of ten years from the date of conversion or the death of the policyholder. The company must use best efforts to facilitate a public market.
 - (b) The mutual company puts its participating business into a closed block with assets equal to the reserves and liabilities of the policies in the closed block. Consideration is given in exchange for the mutual company policyholder interests in a form or forms selected by the converting company equal to the value of the company's statutory surplus. This amount is allocated among the policyholders in a fair and equitable manner. The company sells shares in an initial offering at a price determined by the market.
 - (c) Consideration to policyholders is equal to the sum of the assets allocated to the participating business, nontransferable preemptive subscription rights to purchase all of the common shares of the issuer, and the establishment of a liquidation account for the benefit of the policyholders in the event of a subsequent complete liquidation of the converting company. The manner of distribution among policyholders must take into account the estimated contribution of each class of participating policies. The liquidation account equals the amount by which the converting company's total assets on the date of conversion exceeds the total assets allocated to the closed block of participating policies and the policyholders' consideration and other reserves and liabilities attributed to policies and contracts not included in the amount attributable to policies and contracts in force on the effective date. The sole function of the liquidation account is to establish a priority in liquidation. The liquidation account is allocated equally to participating policies as of the effective date. The amount never increases and reduces to zero when the policy terminates. If the company liquidates, the liquidation account is distributed to policyholders before any distribution is made to shareholders.

Unless the common shares have a public market when issued, officers and directors of the issuer and its affiliates cannot purchase common shares for at least 90 days after the date of conversion except in negotiated transactions involving more than 10% of the outstanding common shares. The issuer cannot repurchase any common shares for at least three years following conversion except pursuant to a pro rata tender offer to all

shareholders.

Until the liquidation account has been reduced to zero, the issuer cannot declare a dividend or repurchase any of its shares in an amount in excess of its cumulative earned surplus generated after the conversion if it would cause the amount of its statutory surplus to be reduced below the amount of the liquidation account at that time.

At the converting company's option, the consideration given to policyholders may consist of cash, securities of the converting company or another company, a certificate of contribution, additional life insurance, annuity benefits, increased dividends, or other consideration or any combination of forms of consideration. Consideration given to different classes of policyholders may differ. If a certificate of contribution, it must be payable in ten years with interest equal to what the company charges on policy loans as of the effective date of conversion.

Also at the converting company's option, the shares of the reorganized insurer or its parent company included in the policyholders' consideration may be placed in a trust or other entity existing for the exclusive benefit of the participating policyholders. The shares will be sold over a period of not more than ten years and the proceeds distributed to the policyholders using distribution priorities described in the plan.

Under Wisconsin law, a mutual life insurance company may provide the consideration to its policyholders in the form of common stock, cash, increased benefits, lower premiums or a combination of those forms.

4. ***Policyholders Entitled To Notice and to Vote:*** Under Iowa law, policyholders who have a right to notice of the conversion and to vote on the plan are those who have policies or contracts that are in force on the date of adoption of the plan of conversion. Under Wisconsin law, all persons who were policyholders on the date the board adopted the resolution on conversion have a right to vote.
5. ***Policyholders Entitled to Consideration:*** Under Iowa law, policyholders are entitled to consideration if their policy or contract is in force on the effective date of conversion and has been in effect continuously for one year prior to the date of adoption of the plan of conversion. Under Wisconsin law, all persons who have been policyholders and have paid premiums within five years prior to the board resolution adopting the plan of conversion have a right to participate.
6. ***Form of Policyholder Consideration:*** Under Iowa law, compensation may be given in the form of stock, cash, or "such forms selected by the company having a value equal to the amount of the statutory surplus of the mutual life insurer." The form of consideration under Iowa law depends somewhat on the type of demutualization. Under Wisconsin law, consideration may be "common stock, cash, increased benefits, lower premiums or a combination of those forms."

7. ***Policyholder Preemptive Rights:*** Under Wisconsin law, if the form of policyholder consideration is stock in a holding company which holds the stock of the converted insurance company, then no stock may be issued by the converted insurance company except to the holding company for a period of five years after the conversion effective date. Under Iowa law, if the shares are issued to the policyholders or for the benefit of the policyholders (not a sponsored demutualization), then for two years after the date of conversion, the converting company, unless it otherwise discloses, cannot issue common shares or securities convertible into common shares or any warrant, right or option to subscribe to or purchase the common shares except to the benefit of the policyholders or for employee stock option plans.
8. ***Equitable Share Determination:*** Under Wisconsin law for life insurance companies, a person's equitable share is determined "based on a formula which fairly reflects the policyholder's interest in the company" and includes consideration of premiums paid, cash surrender values, policy loans, reserves, surplus, benefits payable and other relevant factors. Under Iowa law, the policyholder's membership interest must take into account the "estimated proportionate contribution of surplus of each class of participating policies and the consideration must be allocated among the policyholders in a "fair and equitable" manner.
9. ***Determination of Company's Value:*** Under Iowa law, a consultant may be hired to assist in the determination of value. Under Wisconsin law, a three-person appraisal committee determines value. Under Iowa law, the consultant "may assist in determining the equity of the policyholders or value of the mutual company," and may consider the value of the consideration to be given to policyholders in exchange for their interests. Company valuations are based on the company's latest filed annual statement updated to the effective date and any significant developments occurring subsequent to the date of the statement. Under Wisconsin law, the appraisal committee considers the assets and liabilities of the insurer (and may adjust reserves as necessary), the value of the marketing organization, goodwill, going-concern value and any other relevant factor.
10. ***Policyholder Approval:*** Iowa law requires a two-thirds affirmative vote of the policyholders voting on the plan. Policyholders must receive a copy of the plan or a summary of the plan. Wisconsin law requires a majority affirmative vote of persons voting on the plan. Wisconsin law is silent on the information that policyholders must receive with the notice on the vote; however, policyholders are required to receive a copy of the plan or a summary of the plan when they receive notice of the regulatory hearing on the conversion.
11. ***Consideration for Officers/Directors:*** Under Iowa law, no director, officer, agent or employee may receive a fee, commission or other valuable consideration for aiding, promoting or assisting in the conversion except as set forth in the plan approved by the DOI. Wisconsin law also prohibits compensation other than regular salaries but does not appear to give the OCI the flexibility to approve any additional compensation provided in the plan.
12. ***Management Stock Ownership:*** Under Iowa law, prior to and for a five-year period following the effective date of the conversion (or the date of distribution of consideration to policyholders in exchange for their membership interests), no person (other than an employee

benefit plan or employee benefit trust sponsored by the reorganized company) can hold more than 5% of any class of voting stock of the reorganized company unless approved by the commissioner. Under Wisconsin law, without the approval of the commissioner, the directors and officers, and persons acting in concert with them, may not, in the aggregate, acquire more than 5% of the common stock of the converted life insurer or a holding company parent of the converted life insurer, or any other corporation that acquires more than 5% of the common stock of either the converted insurer or its holding company parent.

13. ***Determination of Stock Price:*** Wisconsin law contains a limitation prohibiting the stock price from exceeding “one-half of the median equitable share of all policyholders entitled to receive stock. Under Iowa law, the share price is set by the market.