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INSURANCE CODE - INS

DIVISION 1. GENERAL RULES GOVERNING INSURANCE [100 - 1879.8] (*Division 1 enacted by Stats. 1935, Ch. 145.)*

PART 2. THE BUSINESS OF INSURANCE [680 - 1879.8] (*Part 2 enacted by Stats. 1935, Ch. 145.)*

CHAPTER 3. Reciprocal Insurers [1280 - 1560.19] (*Chapter 3 enacted by Stats. 1935, Ch. 145.)*

ARTICLE 17. Conversion of Certain Reciprocal Insurers to Incorporated Stock Insurers [1560 - 1560.19] (*Article 17 added by Stats. 1998, Ch. 421, Sec. 2.)*

1560. This article shall apply only to domestic reciprocal insurers organized after 1974 to provide medical malpractice insurance.
(*Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.*)

1560.01. By following the procedure specified in this article, any domestic reciprocal insurer described in Section 1560 may be converted into an incorporated stock insurer. To that end, it may provide and carry out a plan for the conversion by complying with the requirements of this article.

(*Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.*)

1560.02. The definitions in this section apply to the following terms when used in this article:

- (a) "Adoption date" means the date the governing body adopts the plan of conversion.
- (b) "Converted insurer" means the incorporated stock insurer into which a domestic reciprocal insurer has been converted in accordance with the provisions of this article.
- (c) "Converting insurer" means, for a plan of conversion under this article, the domestic reciprocal insurer that is converting under the plan.
- (d) "Effective date" means the date upon which the conversion of a domestic reciprocal insurer is effective, as specified in the amended articles of incorporation of the reciprocal holding company filed with the Secretary of State, as a result of conversion proceedings under this article.
- (e) "Eligible subscribers" means the subscribers of the domestic reciprocal insurer who are of record, fully paid-up, and otherwise in good standing on the domestic reciprocal insurer's adoption date and on its effective date, but shall not include those persons covered solely under a reporting endorsement to a claims-made policy on either date.
- (f) "Governing body" means the body exercising subscribers' rights selected pursuant to Section 1308 for the domestic reciprocal insurer.
- (g) "Independent director" means a member of the governing body of the reciprocal holding company who does not own shares, options, or any other equity interests in the stock holding company.
- (h) "Person" means an individual, partnership, firm, association, corporation, joint-stock company, limited liability company, trust, government or governmental agency, state or political subdivision of a state, public or private corporation, board, association, estate, trustee, or fiduciary, or any similar entity.
- (i) "Plan of conversion" or "plan" means a plan adopted by a domestic reciprocal insurer in compliance with this article.
- (j) "Policy" means an individual or group policy of insurance issued by a domestic reciprocal insurer. If a policy takes a form other than an individual form but holders of certificates or other interests under the policy are treated by the domestic reciprocal insurer as if they were holders of individual policies, the domestic reciprocal insurer may provide in its plan of conversion under this article that such a certificate or other interest is deemed to be a policy and deem the holder of the certificate or other interest to be an owner of a policy. Such a provision shall be for the sole purpose of determining the rights, if any, of policyholders of the domestic reciprocal insurer to vote upon and receive consideration under the plan of conversion and shall not affect the other voting rights and qualifications of members of the domestic reciprocal insurer.

(k) "Policyholder" means the holder of a policy other than a reinsurance contract or a person covered solely under a reporting endorsement to a claims-made policy.

(l) "Reciprocal holding company" means a corporation organized under the laws of this state subject to the General Corporation Law as set forth in the Corporations Code. The articles of incorporation of a reciprocal holding company shall contain provisions stating the following:

(1) It is a reciprocal holding company organized under this article.

(2) One purpose of the reciprocal holding company is to hold not less than 51 percent of the voting stock of a stock holding company, which in turn holds all of the voting stock of a converted insurer. In addition, the reciprocal holding company shall own not less than 51 percent of the total stockholders' equity of the stock holding company at all times.

(3) It is not authorized to issue voting stock.

(4) Its subscribers have the rights specified in Section 1560.11 and in its articles of incorporation and bylaws.

(5) Its assets and liabilities are subject to inclusion in the estate of the converted insurer in any proceedings successfully prosecuted against the converted insurer under Article 14 (commencing with Section 1010) or Article 14.3 (commencing with Section 1064.1) of Chapter 1.

(m) "Rights in surplus" for a domestic reciprocal insurer, means rights of subscribers to a return of that portion of the surplus that has not been apportioned or declared by the governing body for policyholder dividends. "Rights in surplus" includes rights of subscribers to a distribution of surplus in liquidation or conservation of the insurer under this code, or in a dissolution or winding up. "Rights in surplus" does not include any right expressly conferred solely by the terms of an insurance policy.

(n) "Stock holding company" means a corporation authorized to issue one or more classes of capital stock, the corporate purposes of which include holding all of the voting stock in an insurer that has been converted from a domestic reciprocal insurer into a stock insurer in proceedings under this article in which a reciprocal holding company is formed.

(o) "Subscriber" means a person who, by the records of the domestic reciprocal insurer and its rules and regulations, is deemed to be a holder of a subscriber's interest in the domestic reciprocal insurer. On and after the effective date of a plan of conversion, the term "subscriber" means a member of a reciprocal holding company, as provided in Section 1560.11.

(p) "Subscriber interests" mean the interests of subscribers arising under this code and the rules and regulations of the domestic reciprocal insurer or otherwise by law.

(q) "Voting stock" means securities of any class or any ownership interest having voting power for the election of directors, trustees, or management of a person, other than securities having voting power only because of the occurrence of a contingency. All references to a specified percentage of voting stock of any person mean securities having the specified percentage of the voting power in that person for the election of directors, trustees, or management of that person, other than securities having voting power only because of the occurrence of a contingency.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)

1560.03. A plan of conversion adopted by a domestic reciprocal insurer for the establishment of a reciprocal holding company shall provide that the domestic reciprocal insurer will become a stock insurer, that the subscribers of the domestic reciprocal insurer will become subscribers of a reciprocal holding company, that the reciprocal holding company will acquire at least 51 percent of the voting stock of the stock holding company, and that the stock holding company will acquire all of the voting stock of the converted insurer. The plan of conversion shall include appropriate proceedings for amending the domestic reciprocal insurer's rules and regulations and other charter documents to give effect to the conversion from a domestic reciprocal insurer into a stock corporation. The plan shall be:

(a) As approved by a resolution of two-thirds of the governing board. The resolution shall specify the reasons for and the purposes of the proposed conversion of the domestic reciprocal insurer and the manner in which the conversion is expected to benefit and serve the best interests of the policyholders.

(b) Submitted to the commissioner for consent in writing, subject to the provisions of Section 1560.05, by an application executed by an authorized officer of the domestic reciprocal insurer and accompanied by the following documents, or true and correct copies of the following documents:

(1) The proposed plan of conversion.

(2) The proposed articles of incorporation of each corporation that is a constituent corporation of the conversion.

(3) The proposed bylaws of each corporation that is a constituent corporation of the conversion.

(4) A list of the officers and directors, together with their biographies in the form customarily required by the commissioner, of each corporation that is a constituent corporation of the conversion.

(5) The resolution of the governing board of the domestic reciprocal insurer, certified by the secretary of the domestic reciprocal insurer, authorizing the conversion under this article, and a report of the percentage of directors approving the resolution.

(6) Financial statements, which may be prepared on a pro forma basis, in the form required by the commissioner.

(7) A plan of operations for the converted insurer.

(8) A summary of the plan of conversion and drafts of written materials to be mailed to subscribers seeking their approval of the plan, including an information statement containing, at a minimum, the information required under Section 1560.06.

(9) A description of any plans for an initial public offering, including a description of the maximum percentage of stock to be sold, the process to be used in offering the stock and setting the initial sale price for the stock, and how policyholders would be treated in an initial public offering.

(10) A description of any plans for the transfer of assets and liabilities, including any subsidiaries, to the reciprocal holding company.

(11) Any final rulings relating to the plan of reorganization obtained from any federal government agency, and all supporting documents submitted to the agency in connection with the rulings.

(12) A copy of the proposed form of notice of special meeting to be sent to members pursuant to Section 1560.06.

(13) Other relevant information that the commissioner may require.

(c) Approved by two-thirds vote of the subscribers of the domestic reciprocal insurer voting at a meeting of the subscribers called for that purpose, subject to the provisions of Section 1560.06.

(d) Filed in the office of the commissioner after receipt of the commissioner's consent, and after having been approved as provided in Sections 1560.05 and 1560.06.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)

1560.05. (a) The commissioner shall examine the plan submitted pursuant to Section 1560.03. As a part of the examination the commissioner shall order a public hearing of the plan after written notice of the hearing to the domestic reciprocal insurer and its subscribers and the public, all of whom shall have the right to appear at the hearing. The hearing shall occur before the policyholder vote. The commissioner may require as a condition of consent that the domestic reciprocal insurer make modifications of the proposed plan that the commissioner finds necessary for the protection of policyholders. The commissioner shall consent to the plan if he or she finds all of the following:

(1) The plan is fair, just, and equitable to the insurer and its policyholders.

(2) The plan does not violate the law.

(3) The converted insurer will, after the conversion, satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed.

(4) The plan will not require subscribers to pay additional funds to retain their rights in surplus, but nothing herein is intended to prohibit or restrict a reciprocal insurer that is converting to a stock insurer by establishing a reciprocal holding company from offering to its subscribers subscription rights that are in addition to the rights in surplus to be held in the reciprocal holding company.

(5) Any stock issued to officers, directors, employees, or employee benefit plans for their benefit, if any, will be fair, just, and equitable and not hazardous to policyholders, stockholders, or creditors.

(6) The plan provides sufficient means for the accumulated earnings, cash, and/or other non-operating assets held by the reciprocal holding company to inure to the exclusive benefit of its members.

(b) The commissioner may appoint one or more actuarial, financial, or other consultants, including legal counsel, as the commissioner finds necessary to advise the commissioner in making the determination of whether the proposed plan of conversion meets the applicable requirements of this article. The domestic reciprocal insurer is responsible for the reasonable fees and expenses of any actuarial, financial, or other consultants, including legal counsel, appointed, and for the mailing and publication of notices to the domestic reciprocal insurer and its members.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)

1560.06. The meeting of subscribers prescribed by subdivision (c) of Section 1560.03 shall be called by the governing board, the chairperson of the board, or the president of the domestic reciprocal insurer. Notice of the meeting shall be given to eligible subscribers by mail at least 45 days prior to the date set for the meeting to subscribers of the domestic reciprocal insurer of record on the date the plan of conversion was adopted by the governing board. The notice shall be accompanied by an information statement describing the proposed reorganization. The information statement shall include, at a minimum, all of the following items:

- (a) A full copy and summary of the plan of reorganization.
- (b) A discussion addressing the reasons and purposes of the proposed restructuring, which shall include a comparison to a dereciprocalization.
- (c) An analysis of the benefits and risks associated with the proposed reorganization to the reciprocal company and its policyholders.
- (d) An explanation of how the restructuring will benefit policyholders, as well as a description of any potential risks to policyholder interests and a description of how the policyholders' rights differ at the reciprocal holding company level from those in the existing company.
- (e) A description of any stock issuance, including any shares or options to be issued to directors, officers, agents, employees, or employee benefit plans, for their benefit, that will be made in conjunction with the plan of conversion, if any, and the guidelines and parameters that shall apply in the event stock is to be issued, including a detailed discussion of subscription rights that are to be granted to policyholders.
- (f) The converted insurer's proposed articles of incorporation and bylaws.
- (g) Any proposed articles and bylaws of the reciprocal holding company and any other entities to be created in the reorganization.
- (h) Financial information.
- (i) Any other information that the commissioner determines is necessary to make a complete and adequate disclosure to policyholders.

Voting shall be by ballot, in person, or by proxy. A quorum shall consist of 10 percent of the subscribers of the domestic reciprocal insurer entitled to vote at the meeting.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)

1560.07. Nothing in this article shall be deemed to prohibit the inclusion in the plan of conversion of provisions under which the insurer's officers, directors, employees, agents, and employee benefit plans for their benefit may be entitled, in accordance with reasonable classifications of those individuals and employee benefit plans as may be included in the plan, to purchase for cash, at the same price as offered to the public in the initial public offering, voting stock not purchased by subscribers upon exercise of subscription rights. Nothing in this code shall be deemed to prohibit the establishment of stock option, incentive, and share ownership plans customary for publicly traded companies in the same and similar industries. The plan may not permit those persons to acquire any of the following:

- (a) Greater than 25 percent of the voting stock issued pursuant to the plan for a domestic reciprocal insurer having assets in excess of two hundred million dollars (\$200,000,000) or 35 percent for a domestic reciprocal insurer having assets of two hundred million dollars (\$200,000,000) or less.
- (b) Greater than 25 percent of the stockholders' equity for a medical malpractice reciprocal insurer having assets in excess of two hundred million dollars (\$200,000,000) or 35 percent for a medical malpractice reciprocal insurer having assets of less than two hundred million dollars (\$200,000,000).
- (c) Unexercised options that exceed 20 percent of the number of issued and outstanding shares.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)

1560.08. No director, officer, agent, or employee of the domestic reciprocal insurer shall receive any fee, commission, or other valuable consideration whatsoever, other than regular salary and compensation, for in any manner aiding, promoting, or assisting in the conversion except as set forth in the plan approved by the commissioner. This provision shall not be deemed to prohibit the payment of reasonable fees and compensation to attorneys at law, accountants, and actuaries for services performed in the independent practice of their professions, even though they may also be directors of the domestic reciprocal insurer.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)

1560.09. At any time before that plan of conversion becomes effective, the domestic reciprocal company may, by resolution of at least two-thirds of the governing board, amend the plan of conversion or withdraw the plan of conversion. Any plan amendment shall require the written consent of the commissioner. For a plan amendment, all references in this article to the plan of conversion shall be deemed to refer to the plan as amended, but no amendment shall be deemed to change the adoption date of the plan of

conversion. No amendment may change the plan of conversion in a manner that the commissioner determines is materially disadvantageous to policyholders of the insurer or members of the reciprocal holding company, unless a further public hearing is held on the plan as amended, if the amendment is made after the initial public hearing, or if the plan as amended is submitted for reconsideration by the subscribers if the amendment is made after the plan has been approved by the subscribers.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)

1560.10. Upon consent by the commissioner to the plan of conversion of a domestic reciprocal insurer and filing of the plan of conversion in accordance with the provisions of this article, the commissioner shall issue a new certificate of authority to the converted insurer. Upon issuance of the certificate of authority to a domestic reciprocal insurer and subject to subdivision (a) of Section 110 of the Corporations Code, the Secretary of State shall accept for filing the articles of incorporation of the reciprocal holding company, the stock holding company, and the converted insurer. The plan is effective upon the filing of the articles of incorporation or the certificate of amendment of the articles of incorporation.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)

1560.11. (a) Upon the effective date of a plan of conversion in accordance with Section 1560.10, the domestic reciprocal insurer immediately becomes a stock corporation, the interests and rights in surplus of its subscribers are extinguished, the subscribers of the insurer immediately become members of the reciprocal holding company, and are granted rights in surplus in the reciprocal holding company equivalent to those rights in surplus previously held in the converted company, all of the voting stock initially issued by the converted insurer is owned by the stock holding company, and all of the voting stock initially issued by the stock holding company is owned by the reciprocal holding company. Except for the subscribership interests in the reciprocal insurer, which becomes membership interests in the reciprocal holding company, nothing herein is intended to, nor shall eliminate, curtail or otherwise diminish the contract rights of policyholders of a converted company. The stock holding company may thereafter, subject to compliance with Article 8 (commencing with Section 820) of Chapter 1, issue securities to other persons. After the effective date, owners of policies that are issued by a stock insurer that has been converted from a domestic reciprocal insurer pursuant to proceedings under this article shall become members of the reciprocal holding company immediately upon issuance of the policies, except that an owner solely of a reporting endorsement to a claims-made policy shall not be members of the reciprocal holding company.

(b) The converted insurer shall be a continuation of the original reciprocal insurer, and the conversion shall in no way annul, modify, or change any of the original reciprocal insurer's existing suits, rights, contracts, or liabilities except as provided in the approved plan. The converted insurer shall exercise all the rights and powers and perform all the duties conferred or imposed by law upon insurers writing the classes of insurance written by it, and shall retain the rights and contracts existing prior to conversion subject to the effect of the plan.

(c) From the effective date, the reciprocal holding company shall hold at least 51 percent of the issued and outstanding voting stock of the stock holding company and the stock holding company thereafter shall at all times hold all of the issued and outstanding voting stock of the converted insurer. The stock holding company may issue additional voting stock to the reciprocal holding company and, in addition, to other persons an amount of voting stock and securities convertible into voting stock, if in the aggregate, the issued and outstanding voting stock of the stock holding company held by the reciprocal holding company is not less than 51 percent of the issued and outstanding voting stock of the stock holding company. For purposes of the 51 percent limitation, any issued and outstanding securities of the stock holding company that are convertible into voting stock are considered issued and outstanding voting stock, provided that securities having voting power only because of the occurrence of a contingency shall not be considered securities convertible into voting stock where the contingency has not occurred.

From the effective date, the reciprocal holding company's equity interest in the stock holding company shall not be less than 51 percent of the total stockholders' equity in the stock holding company. For purposes of the 51 percent limitation, any issued and outstanding securities of the stock holding company that are convertible into equity securities, whether voting or nonvoting, shall be considered stockholders' equity. Debt securities that include a default contingency conversion interest shall not be considered stockholders' equity for compliance with the foregoing limitation.

(d) The commissioner shall retain jurisdiction over the reciprocal holding company organized pursuant to this article. Except as provided in this code, a reciprocal holding company is subject to the provisions of the General Corporation Law in like manner with other corporations. However, provisions of that law referring to shareholders or subscribers shall be applied as though those provisions referred to the members of a reciprocal holding company. For purposes of Section 1215.5, the reciprocal holding company shall be considered as if it were an insurance company. The commissioner shall retain jurisdiction over the issuance of debt securities in accordance with the protections provided in Article 8 (commencing with Section 820) of Chapter 1.

(e) If any proceedings under Article 14 (commencing with Section 1010), Article 14.3 (commencing with Section 1064.1), Article 14.5 (commencing with Section 1065.1), or Article 15.5 (commencing with Section 1077), of Chapter 1, are brought naming as a party a stock insurer created as a result of proceedings authorized by this article, the reciprocal holding company formed as part of the conversion automatically becomes a party to the proceedings. All of the assets of the reciprocal holding company, including, but not limited to, its interest in the stock holding company formed pursuant to this article, are deemed assets of the estate of this stock

insurer to the extent necessary to satisfy claims of persons against the stock insurer who have claims falling within the priorities established in paragraphs (1) to (5), inclusive, of subdivision (a) of Section 1033. Claims of persons in their capacity as members of the reciprocal holding company shall be claims falling within the priority established in paragraph (6) of subdivision (a) of Section 1033. A reciprocal holding company may not dissolve, liquidate, or wind up and dissolve without the prior written approval of the commissioner or the court pursuant to proceedings brought pursuant to Article 15 (commencing with Section 1070) of Chapter 1.

(f) With respect to the management, records, and affairs of a reciprocal holding company and except as otherwise provided in this article, a member of a reciprocal holding company has the same character of rights and relationship as a stockholder has toward a domestic stock life insurer subject to the provisions of this code.

(g) Each member of a reciprocal holding company is entitled to one vote on each matter coming to a vote at any meeting of members, regardless of the number of policies that the member holds.

(h) Notice of all meetings of members of a reciprocal holding company, whether annual or special, shall be given in writing to the members entitled to vote. The notice shall be given by the secretary, assistant secretary, or other persons charged with that duty. If there is no officer so charged, or if he or she neglects or refuses this duty, notice may be given by any director. At the option of the converted insurer, the notice may be imprinted on premium notices or receipts or on both. A notice may be given to any member either personally, or by mail, or other means of written communication, charges prepaid, addressed to the member at his or her address appearing on the books of the insurer, or given by the member to the converted insurer for the purpose of notice. If a member gives no address, and if there is no address on the books of the insurer, notice shall be deemed to have been given the member if sent by mail or other means of written communication addressed to the place where the principal office of the converted insurer is situated, or if published at least once in a newspaper of general circulation in the county in which the office is located and in the newspaper that has the largest daily circulation in this state. Notice of any meeting of members shall be sent to each member entitled to notice not less than 14 days before a meeting. Notice of any meeting of members shall specify the place, the day, and the hour of the meeting and the general nature of the business to be transacted.

For any member who gives no address and has no address on the books of the insurer, notice of an annual meeting to be held at the time and place specified is deemed adequate if published at least once in each of four successive weeks in a newspaper of general circulation in the county in which the principal office of the converted insurer is located and in the newspaper that has the largest daily circulation in this state. If the notice is so published, no other notice of the meeting is required.

(i) The presence in person or by proxy of 5 percent of the members of a reciprocal holding company entitled to vote at any meeting constitutes a quorum for the transaction of all business of the reciprocal holding company, including, but not limited to, the amendment of the articles of incorporation or bylaws of the reciprocal holding company.

(j) Any required member approval shall be by the affirmative vote of a majority of the members who vote, or a higher percentage of the members as may be required by law or the articles of incorporation, a quorum being present.

(k) The governing body of the reciprocal holding company shall be comprised of not less than 6 nor more than 18 directors. A majority of the reciprocal holding company directors shall be policyholders of the converted insurer. Unless the plan provides that at least a majority of the directors of the boards of the stock holding company and the converted insurer are also directors of the reciprocal holding company, the commissioner shall determine whether the proposed composition of the boards of directors of each of the constituent corporations of the reciprocal holding company system, as provided in the articles of incorporation and bylaws, facilitate the control of the converted insurer by the reciprocal holding company. No term shall continue longer than six years. In the absence of such provisions, each director shall be elected for a term of one year. All directors shall hold office for the term for which they are elected and until their successors are elected and qualified. The bylaws of the reciprocal holding company shall set forth a procedure for establishing reciprocal holding company independent directors in the event that the stock holding company issues securities. Not less than one of every six directors of the reciprocal holding company shall be so designated. A director may, but need not, be a member of the reciprocal holding company of which he or she is acting as director. Vacancies in the board of directors may be filled by a majority of the remaining directors, though less than a quorum. Each director so elected shall hold office until the next annual meeting.

(l) Member interests in a reciprocal holding company are exempt from Article 8 (commencing with Section 820) of Chapter 1. A description of the member interests and related factual disclosure shall not be considered to be an inducement to buy insurance in violation of Section 10430. Any promise of returns, profits, or distributions, or representations with regard to the benefits of membership, made as an inducement in connection with the issuance and delivery of a policy is subject to Section 10430 and the remedy provided in Section 10433.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)

1560.12. (a) Prior to, and for a period of five years following, the effective date of the plan of conversion, no person or group of persons acting in concert shall directly or indirectly offer to acquire or acquire in any manner the beneficial ownership of 5 percent or more of any class of voting securities of a converted insurer or of a person that controls, as defined by subdivision (c) of Section 1215, the converted insurer, without the prior consent of the commissioner. Any application for that approval shall contain information

as the commissioner may require and shall be accompanied by a filing fee in an amount equal to the filing fee specified in Section 1215.2.

(b) In the event of any violation of this section, or of any action that, if consummated, would constitute a violation, all voting securities of the converted insurer or of the person acquired by any person in excess of the maximum amount permitted to be acquired by the person pursuant to this subdivision shall be deemed to be nonvoting securities of the converted insurer or of that person. The violation or action may be enforced or enjoined by an appropriate proceeding commenced by the converted insurer, a person, the commissioner, any policyholder or stockholder of the converted insurer, or the person on behalf of the converted insurer or the person in the superior court in the judicial district in which the converted insurer has its home office or in any other court having jurisdiction. The court may issue any order it finds necessary to cure the violation or to prevent the proposed action. In addition to the foregoing, whenever it appears to the commissioner that any person has committed a violation of this section, the commissioner may proceed as provided in Article 14 (commencing with Section 1010) of Chapter 1 to take possession of the property of the converted insurer and to conduct the business thereof.

(c) For the purposes of this section, "beneficial ownership," with respect to voting securities, means the sole or shared power to vote, or direct the voting of, voting securities or the sole or shared power to dispose, or direct the disposition, of voting securities.

(d) For the purposes of this section, "voting security" includes voting stock as defined in Section 1560.02, any preorganization certificate or subscription, including subscription rights issued pursuant to a plan of conversion, or any security convertible, with or without consideration, into voting security, or carrying any warrant or right to subscribe for, or purchase any, voting security, or any such warrant or right.

(e) For the purposes of this section, "offer" includes an offer to buy or acquire, solicitation of an offer to sell, tender offer for, or request or invitation for tenders of a security or interest in a security for value.

(Amended by Stats. 2017, Ch. 417, Sec. 10. (AB 1696) Effective January 1, 2018.)

1560.13. Unless otherwise provided in the plan of conversion, the governing body and officers of the domestic reciprocal insurer shall serve as directors and officers of the converted insurer until new directors and officers have been duly elected and qualified pursuant to the articles of incorporation and bylaws of the stock company.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)

1560.14. (a) Notwithstanding any other provision of law and except as otherwise provided in subdivision (b), actions concerning any plan of conversion, proposed plan of conversion, plan amendment, or proposed plan amendment under this article or any acts taken or proposed to be taken under this article shall be commenced within one year after the plan of conversion or plan amendment is filed in the office of the commissioner pursuant to subdivision (d) of Section 1560.03 or Section 1560.10, or six months from the effective date of the plan of conversion, whichever is later. If the plan of conversion is withdrawn, the actions or acts shall be commenced within six months from the date the governing body approves a resolution to withdraw the plan. If an action concerns or arises out of a plan amendment or proposed plan amendment made under Section 1560.09, the applicable time period is measured from the filing, effective date, or approval of withdrawal of the plan amendment, whichever is later.

(b) Judicial review of any act of the commissioner or any other governmental body or officer concerning or arising out of any plan of conversion, proposed plan of conversion, plan amendment, or proposed plan amendment under this article may only be had by filing a petition for a writ of mandate within 30 days of the date of the act. However, any petition seeking judicial review shall be filed no later than 30 days from the effective date of the plan of conversion or plan amendment, whichever is the subject of the petition.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)

1560.15. The offer or sale of securities issued pursuant to the plan of conversion developed and approved in accordance with the provisions of this article, shall be exempt from Article 8 (commencing with Section 820) of Chapter 1.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)

1560.16. The commissioner shall have the authority from time to time, to make, amend, and rescind any rules and regulations necessary to carry out the provisions of this article. The commissioner shall also have the authority to charge and collect from the insurer for the actual amount of expenses reasonably incurred by the state in discharge of the commissioner's duties hereunder.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)

1560.17. Upon completion of the act of conversion and issuance of the certificate of authority under Section 1560.10, the Secretary of State shall accept for filing a verified copy of the articles of incorporation of the converted insurer.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)

1560.18. (a) The articles of incorporation of a converted insurer that have been adopted pursuant to a plan of conversion and filed with the Secretary of State in accordance with Section 1560.10 may be further amended after the effective date pursuant to applicable law. The plan of conversion may be amended in other respects after the effective date of the plan as specified in this section. An amendment of the plan of conversion shall take effect upon filing with the Secretary of State after compliance with the following:

(1) Approval by a resolution of at least two-thirds of the board of directors of the converted insurer. The resolution shall specify the reasons for and the purposes of the proposed amendment.

(2) Submission to the commissioner for consent in writing, subject to the provisions of Section 1560.05.

(3) Approval by at least two-thirds of those members of the corporation who were subscribers of the converting insurer and entitled to vote on the original plan of conversion approved pursuant to subdivision (c) of Section 1560.03 and who vote at a meeting called for that purpose.

(4) Filed in the office of the commissioner after having been consented to and approved as contemplated by paragraphs (2) and (3).

(b) If an amendment proposed under subdivision (a) would adversely affect the rights of one or more classes of subscribers, but not all of those subscribers, then only the subscribers of each class whose rights would be adversely affected by the proposed amendment are entitled to vote on the proposed plan amendment.

(c) A subscriber meeting prescribed by paragraph (3) of subdivision (a) shall be called by the board of directors, the chairperson of the board, or the president of the converted insurer. Notice of the meeting shall be given to subscribers entitled to vote at the meeting by mail at least 45 days prior to the date set for the meeting. Voting shall be by ballot, in person, or by proxy. A quorum consists of 10 percent of the subscribers of the converted insurer entitled to vote at the meeting.

(d) At any time before the plan amendment becomes effective, the converted insurer may, by resolution of at least two-thirds of the board of directors, amend the plan amendment or withdraw its plan amendment. For an amendment to a plan amendment, all references in this section to the plan amendment shall be deemed to refer to the plan amendment as amended. Any amendment of the plan amendment shall require the written consent of the commissioner. No amendment shall be deemed to change the date of adoption of the plan amendment. No amendment made after approval by the subscribers as provided in paragraph (3) of subdivision (a) may change the plan amendment in a manner that the commissioner determines is materially disadvantageous to any of the affected subscribers unless the plan amendment as amended is submitted for reconsideration under the procedures prescribed for the original plan amendment, subscriber approval.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)

1560.19. If the name of a domestic reciprocal insurer converting to a stock insurer pursuant to this article includes the word "reciprocal," the new stock insurer may continue to use the word "reciprocal" in its name if the name includes a word or words that identify the new stock insurer as a stock insurer and the commissioner finds that the continued use of the word "reciprocal" in its name is not likely to mislead or deceive the public.

(Added by Stats. 1998, Ch. 421, Sec. 2. Effective January 1, 1999.)