

# **CAMIC Proposed Demutualization Rules**

## **Mutual Company (Property & Casualty Insurance) Conversion Regulations**

### **INSURANCE COMPANIES ACT**

#### Mutual Company (Property & Casualty Insurance) Conversion Regulations

His Excellency the Governor General in Council, on the recommendation of the Minister of Finance, pursuant to sections 236.1 and 237 of the *Insurance Companies Act*, hereby makes the annexed *Mutual Company (Property & Casualty Insurance) Conversion Regulations*.

#### **INTERPRETATION**

1. The following definitions apply in these Regulations.

“Act”

“Act” means the *Insurance Companies Act*. (*Loi*)

“conversion”

“conversion” means the conversion of a property & casualty company that is a mutual company into a company with common shares. (*transformation*)

“converted company”

“converted company” means a property & casualty company that was a mutual company and that has been converted into a company with common shares. (*société transformée*)

“converting company”

“converting company” means a property & casualty company that is a mutual company that is proposing to convert into a company with common shares. (*société en transformation*)

“effective date”

“effective date”, in respect of a conversion, means the day stated in the letters patent of conversion as the day on which the conversion becomes effective. (*version anglaise seulement*)

“eligibility day”

“eligibility day” means the day selected by a converting company under subsection 4(3). (*date d'admissibilité*)

“eligible policyholder”

“eligible policyholder” means a person who

(a) is the holder of a policy;

(b) is the holder of a policy issued by a converting company, if the policy was applied for by that person on or before the eligibility day and the application was received by the company within a period specified by the company in the conversion proposal;

(c) is the holder of a policy that lapsed before the company's eligibility day and was reinstated during the period beginning on the eligibility day and ending 90 days before the day on which the company's special meeting is held, and was the holder of that policy at the time it lapsed; or

(d) is included as an eligible policyholder under subsection 4(4). (*souscripteur admissible*)

“residual recipient”

means the person receiving any benefits through a conversion proposal under Section 4, which person shall be either:

(i) property & casualty mutual insurance companies headquartered in Canada and whose business is primarily in Canada and whose income comes primarily from writing policies in Canada (“the mutual companies”); or,

(ii) charitable organizations headquartered and carrying on their charitable work in Canada and registered with the Canada Revenue Agency, and, having as their sole charitable purpose, the betterment of communities in Canada.

“special meeting”

“special meeting” means a meeting of eligible policyholders referred to in subsection 237(1.1) of the Act. (*assemblée extraordinaire*)

“value”

“value”, in respect of a converting company, means the estimated market value or range of market values referred to in subsection 3(1). (*valeur*)

“voting policy”

“voting policy”, for the purpose of this regulation, in respect of a converting company, means all policies issued by the converting company, whether or not

the holding of such a policy ordinarily entitles its holder to vote at the meetings of eligible policyholders of the converting company, but does not include a policy issued or assumed by a company with common shares that amalgamated with a mutual company after the making of a public announcement by the mutual company of its intention to develop a conversion proposal. (*police avec droit de vote*)

## **APPLICATION**

**2.** These Regulations apply in respect of the conversion of a property & casualty company that is a mutual company into a company with common shares.

## **VALUATION**

**3. (1)** For the purposes of these Regulations, a converting company shall state as its value an estimated market value or range of market values, but shall exclude

- (a) the value of capital contributions made to the mutual company at the time of its incorporation as a mutual company;
- (b) any expenses expected to be incurred by the converting company to effect the conversion.

(2) The Superintendent may specify a day as at which the value of a converting company shall be estimated for the purposes of subsection (1).

## **CONVERSION PROPOSAL**

**4. (1)** A conversion proposal shall include

- (a) a report setting out the value of the converting company and a description of how that value was estimated, the method used and any assumptions made;
- (b) the eligibility day selected by the converting company;
- (c) the period specified by the converting company for the purpose of paragraph (b) of the definition of “eligible policyholder” in section 1, within which an application for a policy must be received by the company;
- (d) a description of the form, amount and aggregate value of the benefits to be provided to the residual recipient;
- (e) a detailed description of the benefits to be provided to the residual recipient and the method to be used to apportion the value of the converting company indicating the form, amount and aggregate value of the benefits to be provided to the residual recipient;
- (f) a statement confirming that all the benefits in respect of the conversion will be provided only to the residual recipient; and where the residual recipient is mutual insurance companies, then the statement shall show the share of the benefits each mutual company shall receive based on a pro rate share of the benefits, calculated

using the premium written by each such company in their last fiscal year as a percentage of the total premiums written by all such companies in their last fiscal year;

- (g) a description of the mechanisms proposed to effect an initial issuance of common shares of the converted company, including a copy of the proposed by-law authorizing the issuance of those shares;
- (h) where the benefits referred to in paragraph (d) include shares of the converted company, a description of the measures to be taken by the company, in the two years following the effective date of the conversion, to ensure that the residual recipient will be able to sell those shares on a public market;
- (i) a description of how the measures referred to in paragraph (h) would be affected if the converted company were to issue additional shares during the two years following the effective date of the conversion; and
- (j) a statement that the directors of the converting company may withdraw the conversion proposal at any time before the issue of letters patent of conversion.

(2) A converting company shall confirm that it has not, nor shall it prior to conversion or distribution of any benefits as a result of conversion, confer any benefits, directly or indirectly, to its existing policyholder, mutual policyholder or not, whether by a premium refund, issuance of shares, dividends, or otherwise.

(3) A converting company shall select as its eligibility day

- (a) the day of the public announcement by the converting company of its intention to develop a conversion proposal; or
- (b) an alternative date proposed by the Minister of Finance.

(4) Where a converting company selects the eligibility day referred to in paragraph (3)(b), the company shall include as eligible policyholders all persons whose policies were involuntarily terminated on or after the day referred to in paragraph (3)(a) and who would have been eligible policyholders if the eligibility day were the day referred to in paragraph (3)(a).

## **MATERIAL TO SUPERINTENDENT**

**5.** (1) Subject to section 11, prior to sending a notice of a special meeting, a converting company shall submit to the Superintendent

- (a) an opinion prepared by the actuary of the company and an opinion prepared by an independent actuary, stating that the future financial strength and vitality of the company and the security of eligible policyholders will not be materially adversely affected by the conversion;
- (b) an opinion from a valuation expert that the method and assumptions referred to in paragraph 4(1)(a) employed to estimate the value of the company are appropriate and

that that value reasonably reflects prevailing market conditions as at the day it was estimated;

- (c) where, in respect of a conversion, other benefits are to be provided in lieu of shares, an opinion from an independent actuary, or from a valuation expert, that those benefits are appropriate substitutes for the shares as at the day the value of the company was estimated;
- (d) an opinion from a financial market expert that the measures referred into paragraph 4(1)(h) are likely to ensure that the residual recipient who receive shares will be able to sell those shares, within the two years following the effective date of the conversion, on a public market;
- (e) the annual statement for the most recently completed financial year of the converting company, accompanied by reports for that year of the auditor and actuary of the company;
- (f) where a notice of a special meeting is to be sent to eligible policyholders more than 120 days after the end of the most recently completed financial year of the converting company, financial statements for the portion of the current financial year ending prior to a day that is not more than 120 days before the day on which the notice is sent, and an auditor's comfort letter in respect thereof;
- (g) *pro forma* financial statements of the converted company, showing the effect of the conversion and any other significant transactions contemplated in connection with the conversion, including any proposed initial public offering of common shares, based on
  - (i) the annual statement for the most recently completed financial year, or
  - (ii) in the circumstances referred to in paragraph (f), the financial statements for the portion of the current financial year referred to in that paragraph;
- (h) the compilation report of the auditor of the company, and a statement of reconciliation, in respect of the financial statements referred to in paragraph (g);
- (i) a detailed description of any significant transaction contemplated in connection with the conversion;
- (j) the conversion proposal referred to in subsection 4(1);
- (k) the summaries referred to in paragraph 7(1)(e);
- (l) the notice of the special meeting and the information to be sent with the notice with the notice;
- (m) the proposed letters patent of conversion;
- (n) the proposed resolutions referred to in subsection 237(1.5) of the Act; and
  - (2) The financial statements referred to in paragraphs (1)(f) and (g)

- (a) shall be prepared in accordance with the accounting principles referred to in subsection 331(4) of the Act; and
- (b) shall be accompanied by a report of the chief financial officer of the company stating that the financial statements have not been audited but have been prepared in accordance with the accounting principles referred to in subsection 331(4) of the Act.

### **AUTHORIZATION OF SUPERINTENDENT**

**6.** (1) Prior to sending a notice of a special meeting, a converting company shall obtain from the Superintendent an authorization to send the notice.

(2) In considering whether to grant an authorization under subsection (1), the Superintendent may consider any other information, including an opinion or report on any aspect of the conversion proposal.

(3) As a condition of granting an authorization under subsection (1), the Superintendent may require that the notice of the special meeting contain such additional information as the Superintendent considers appropriate.

### **INFORMATION TO ELIGIBLE POLICYHOLDERS**

**7.** (1) Subject to subsection (2) and section 11, the notice of a special meeting referred to in paragraph 237(1.2)(a) of the Act shall include

- (a) a description of the advantages and disadvantages of the proposed conversion to the eligible policyholders of the company;
- (b) a description of the alternatives to the conversion of the company that the directors of the converting company have considered, including but not limited to an amalgamation of the converting company with another mutual company or a cooperatively owned insurance company that would preserve the mutualistic or cooperative character of the converting company, and the reasons why, in their opinion, the conversion is in the best interests of the company's eligible policyholders as a whole;
- (c) a description of the form, amount and estimated market value or range of market values of the benefits to be provided as a result of the conversion to the residual recipient following the conversion;
- (d) the conversion proposal referred to in subsection 4(1);
- (e) summaries of the opinions referred to in paragraphs 5(1)(a) to (d), other than any opinions not required to be submitted under those paragraphs by virtue of an exemption under section 11
- (f) the financial statements referred to in paragraphs 5(1)(e) to (g), other than any financial statements not required to be submitted under those paragraphs by virtue of an exemption under section 11;

- (g) the documents referred to in paragraphs 5(1)(h) and (i), other than any documents not required to be submitted under those paragraphs by virtue of an exemption under section 11;
- (h) a brief description of the business carried on by the converting company and its subsidiaries, and the general development of that business, during the three years preceding a day that is not more than 120 days before the day on which the notice of the meeting is sent to eligible policyholders, and any future business foreseen as of that day;
- (i) a brief description of any substantial variations in the operating results of the converting company during the three most recently completed financial years preceding the notice of the meeting and, where the notice of the meeting is sent more than 120 days after the end of the most recently completed financial year of the converting company, during the portion of the current financial year ending on a day that is not more than 120 days before the day on which the notice is sent;
- (j) the name and address of the auditor of the converted company;
- (k) the names and addresses of the proposed transfer agents and registrars;
- (l) the proposed location for the securities registers for the initial issuance of common shares of the converted company;
- (m) a description of any sales by the converting company, within the 12 months preceding a day that is not more than 120 days before the day on which the notice of the meeting is sent to the eligible policyholders, of securities of the same type as those to be provided as benefits to the residual recipient under the conversion proposal;
- (n) a description of the restrictions set out in sections 13 and 14 and of any plans that the converting company may have for the establishment of stock-option or stock-incentive plans for directors, officers or employees of the converted company after the period referred to in section 14;
- (o) a description of any measures, including the establishment of toll-free lines and internet sites, the holding of information sessions, and the placement of advertisements in widely circulated publications, that the converting company has taken or will take before holding a special meeting, to provide eligible policyholders with information about the proposed conversion and an opportunity to raise questions or concerns about the proposed conversion;
- (p) a description of the measures that the converting company has taken or will take to encourage eligible policyholders to vote on the conversion proposal, in person at the special meeting, by ballot or electronically; and any ballot or electronic voting format shall require the eligible policyholder to answer Yes or No to the Conversion Proposal question and shall not assign the right of the voting policyholder to vote on the conversion question to any other party.

- (q) any other information that the Superintendent has required the notice of a special meeting to contain under subsection 6(3).
  - (2) The information described in subsection (1) may be included in the notice of a special meeting.
  - (3) The Superintendent may, to assist eligible policyholders in forming a reasoned judgment on a conversion proposal of a converting company,
    - (a) direct the company to hold one or more information sessions for eligible policyholders prior to the holding of a special meeting and set the rules under which those sessions must be held; and
    - (b) direct the company to take such other measures, prior to the holding of a special meeting, as the Superintendent considers appropriate.

### **QUORUM AND APPROVAL THRESHOLD**

**8.** (1) The quorum of eligible policyholders exercising their right to vote at the special meeting in person by ballot or electronically must represent 75% of eligible policyholders.

(2) The motion to approve the demutualization proposal shall only be passed and the demutualization proposal be submitted to the Minister of Finance if 2/3 of the eligible policyholders voting at the meeting in person by ballot or electronically vote in favour of the demutualization proposal.

### **MINISTERIAL APPROVAL**

**9.** Within three months after the approval of a conversion proposal by the eligible policyholders, the directors of a converting company shall, unless the conversion proposal is withdrawn, apply to the Minister for

- (a) approval of the conversion proposal pursuant to paragraph 237(1)(a) of the Act; and
- (b) issuance of letters patent of conversion pursuant to paragraph 237(1)(b) of the Act.

**10.** (1) An application made by a converting company to the Minister pursuant to subsection 237(1) of the Act shall include

- (a) the conversion proposal referred to in subsection 4(1);
- (b) the documents referred to in paragraphs 5(1)(a) to (i) and (k), other than any documents not required to be submitted under those paragraphs by virtue of an exemption under section 11;
- (c) the notice of the special meeting at which the conversion proposal was considered and the documentation sent with that notice;

- (d) the proposed letters patent of conversion and any by-laws, amendments to by-laws or repeals of by-laws, that are necessary to implement the conversion proposal; and
- (e) the special resolutions of the eligible policyholders for the purpose of these regulations, accompanied by a certificate of the company indicating the results of the votes held in respect of those resolutions.

(2) On receipt of an application referred to in subsection (1), the Minister shall refer it to the Superintendent for a recommendation, whereupon the Superintendent may request any additional information that the Superintendent considers necessary to evaluate the application.

### **AMENDMENT OR WITHDRAWAL OF CONVERSION PROPOSAL**

**11.** (1) The directors of a converting company may amend a conversion proposal of the company at any time before the vote of eligible policyholders is held at the special meeting, if measures approved by the Superintendent are taken by the converting company in respect of the amendment.

(2) The directors of a converting company may withdraw a conversion proposal of the company at any time before the issuance of letters patent of conversion.

### **EXEMPTION BY SUPERINTENDENT**

**12.** The Superintendent may exempt a converting company from any of the requirements of paragraphs 5(1)(c) to (h) and 7(1)(i), on such terms and conditions as the Superintendent considers appropriate.

### **RESTRICTIONS ON BENEFITS**

**13.** (1) A converting company shall not provide any director, officer or employee of the company with a fee, compensation or any other consideration in relation to the conversion of the company, other than

- (a) the regular compensation provided to the person in that person's capacity as a director, officer or employee of the company; and
- (b) any benefits provided to the person as an eligible policyholder.

**14.** A converted company or a related company to the converted company, shall not, prior to the listing of its shares on a recognized stock exchange in Canada and for a period of two years after such a listing, issue or provide shares, share options or rights to acquire shares of the converted company to

- (a) any directors, officers or employee of the company, or
- (b) any person who was a director, officer or employee of the company during the year preceding the effective date of the conversion of the company and who ceased to be a director, officer or employee of the company.

## **COMING INTO FORCE**

**15.** These Regulations come into force on the day on which they are registered.

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