§ 7311. Conversion of domestic mutual property/casualty insurance companies or advance premium corporations into domestic stock property/casualty insurance companies; insurers in rehabilitation. (a) A domestic mutual insurer organized under article twelve of this chapter and licensed pursuant to article forty-one of this chapter and operating pursuant to an order of rehabilitation, or a domestic advance premium corporation organized and licensed under article sixty-six of this chapter and operating pursuant to an order of rehabilitation, may, upon application of the superintendent and pursuant to an order granted by the court in which the rehabilitation is pending, be converted by the superintendent into a domestic stock insurer in rehabilitation to be organized under article twelve and licensed under article forty-one of this chapter, in accordance with the provisions of subsection (b) of this section.

(b) Before making such application to the court, the superintendent shall hold a public hearing, notice of which shall be given by publication in a newspaper of general circulation in the county in which the insurer has its principal office and in the two largest cities in each state in which the insurer has underwritten insurance within one year preceding the date of the order of rehabilitation.

(c) If, after such hearing, the superintendent concludes that such conversion is appropriate and is necessary for a successful rehabilitation or is likely to materially enhance the probability of a successful rehabilitation, he may apply to the court in which the rehabilitation is pending for an order directing him to convert such insurer into a domestic stock insurer in rehabilitation, pursuant to the plan of conversion that the superintendent shall propose, subject to court approval. The primary objective of the plan shall be the successful rehabilitation of the insurer. In the development of such plan the superintendent shall take into account the policyholders' equity, if any, at the time of conversion and may in his discretion provide for a distribution of such equity to each person who had a policy in effect at any time during the three year period (or such shorter period that the superintendent determines is practicable) preceding the date of the filing of the application by the superintendent. The plan shall provide for appropriate procedures necessary for the implementation of the proposed conversion. Such stock

insurer in rehabilitation shall be subject to all of the applicable provisions of this chapter, except those provisions relating to licensing and financial requirements from which it is exempted by the superintendent. Upon the termination of the order of rehabilitation, the exemptions granted by the superintendent shall cease and the insurer shall become subject to all applicable provisions of this chapter.

(d) The authorized capital stock of the new domestic stock insurer shall be held for the benefit of the qualifying prospective shareholders or purchasers by an escrow agent appointed by the superintendent. Such stock shall be released to the owners of record after the court approves the conversion and the order of rehabilitation is terminated.

(e) All expenses of the conversion, including the expenses incurred by the department of financial services, shall be borne by the company being converted.