

PUBLIC HEARING
ON
BILL 15-409, “UNCLAIMED PROPERTY
DEMUTUALIZATION OF PROCEEDS ACT OF 2003”

Before the
Committee on Finance and Revenue
Council of the District of Columbia
The Honorable Jack Evans, Chairman

November 17, 2003, 10:00 a.m.
Room 120, John A. Wilson Building



Testimony of
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Good morning, Chairman Evans and members of the committee. My name is Anthony Calhoun, and I am the treasurer and deputy chief financial officer for finance and treasury in the Office of the Chief Financial Officer (OCFO). I am here to testify on behalf of the OCFO regarding Bill 15-409, the “Unclaimed Property Demutualization of Proceeds Act of 2003.”

Purpose of the Bill

Bill 15-409 would aid “lost” insurance policyholders and heirs of policyholders who could be located faster by the District’s Unclaimed Property Division. In addition, it would expedite the receipt of unclaimed proceeds by the District’s General Fund.

The recent demutualization of large insurance companies presents a unique opportunity for the District of Columbia and its citizens. Current District of Columbia law defers the receipt of unclaimed proceeds from these large insurance companies until FY 2006. By passing of Bill 15-409 and pursuing audits of the insurance company records, I anticipate in excess of \$3.3 million in net unclaimed proceeds could be deposited in the General Fund this fiscal year. I also anticipate that the Unclaimed Property Division can reunite up to 4,000 policyholders with their unclaimed demutualization proceeds. Passage of this bill would immediately promote and protect the interests of “lost” District of Columbia policyholders, permit immediate and effective efforts to reunite policyholders with their demutualization proceeds, and achieve a significant increase in revenue without requiring additional budgetary outlays for staffing, travel or auditing expense.

Demutualization Described

Demutualization is the process by which insurance companies convert from being mutual companies to stock companies. The difference between mutual companies and stock companies is the following:

1. The policyholders own mutual companies.
2. The shareholders own stock companies. (The shareholders may or may not be policyholders.)

When a demutualization occurs, the policyholders are entitled to payment representing their share of ownership in the mutual fund company. If the company cannot find a policyholder to receive that payment, the funds become unclaimed property and are turned over to the states (or the District of Columbia) at a specific time.

Under the District of Columbia's current law, an insurance company holds abandoned demutualization proceeds for three years after the company demutualizes. Under the proposed amendment, abandoned demutualization proceeds would be declared unclaimed property one year from the date the company last had contact with the policyholder.

Historically, insurance companies were established as mutual companies where individual policyholders received an ownership interest in the company through their respective insurance policies. In recent years, however, insurance companies have been restructuring their capital base in an effort to raise more capital and create more financial stability in the industry.

The primary way for insurance companies to achieve this is to “demutualize” or issue stock and become a publicly traded company. This event requires a mutual company to convert its net worth (equity or capital surplus), originally derived from premiums for insurance policies, into the form of stock. Conversion may also be made in the form of cash or credits for additional insurance coverage. While contractual obligations to pay benefits remain unchanged throughout demutualization, all capital originally contributed to the mutual company must be converted.

Each policyholder had an ownership interest in the mutual company and, therefore, is entitled to a share of the proceeds of the demutualization. Those proceeds are covered under the District of Columbia’s unclaimed property law, and if the insurance company has lost contact with the policyholder, the proceeds would be deemed abandoned after three years.

Status of Demutualization in Other States

There are 21 states that have enacted demutualization legislation to accelerate their collection of unclaimed demutualization proceeds. Similar legislation is currently pending in Pennsylvania.

Mr. Chairman, this concludes my testimony. I would be happy to respond to any questions you may have.

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