



# HOUSE BILL 346: Reorganization and Economic Development Act.

2023-2024 General Assembly

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<b>Committee:</b>		<b>Date:</b>	November 20, 2023
<b>Introduced by:</b>		<b>Prepared by:</b>	Jason Moran-Bates Staff Attorney
<b>Analysis of:</b>	S.L. 2023-33		

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**OVERVIEW:** *S.L. 2023-33 allows hospital service corporations to reorganize so that they can be controlled by a non-profit holding corporation. The act provides that a non-profit holding company is not subject to the provisions of Article 65 (Hospital Service Corporations) and Article 66 (Hospital Service Corporation Readable Insurance Certificates Act) of Chapter 58 (Insurance), but that most of those provisions continue to apply to the underlying hospital service corporation.*

*This act became effective June 9, 2023.*

**CURRENT LAW:** Under current law, hospital service corporations are regulated under Article 65 (Hospital Service Corporations) and Article 66 (Hospital Service Corporation Readable Insurance Certificates Act) of Chapter 58 (Insurance).

**BILL ANALYSIS:** S.L. 2023-33 allows existing hospital service corporations to reorganize to have a nonprofit holding corporation as the ultimate controlling person. Any reorganization of a hospital service corporation that does not affect the control of the hospital service corporation is not considered a change of control subject to G.S. 58-19-15. As part of the reorganization, the hospital service corporation can transfer property, assets, rights, liabilities, equity, or other ownership interests in the hospital service corporation to the nonprofit holding company, but that transfer cannot exceed 25% of the hospital service corporation's admitted assets. The conversion provisions of G.S. 58-65-131, 58-65-132, or 58-65-133 do not apply to a reorganization.

A hospital service corporation must provide the following information, which is considered a trade secret and not a public record, to the Insurance Commissioner (Commissioner) prior to reorganizing:

- A description of the transactions to effectuate the reorganization.
- Proposed amendments to the hospital service corporation's charter.
- The articles of incorporation of the nonprofit holding company.
- All information normally required of transactions within an insurance holding company.
- Information on the hospital service corporation's financial position.
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- A certification that all the hospital service corporation's subscriber contracts will remain in force.
- A certification that the nonprofit holding company's governing board will be made up only of individuals on the hospital service corporation's governing board.

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The Commissioner can contract with outside parties to verify the information submitted, and any trade secrets or personal information submitted to the Commissioner are not considered public records under Chapter 132.

The new holding company must remain a nonprofit company with no members. Substantially all of the holding company's net worth must be invested in entities that (i) engage in business that is permitted of any insurance company affiliate, (ii) contribute to the health needs of North Carolina residents, or (iii) promote affordability, access, better health, or customer experience. The Commissioner can waive the final criteria on a showing of good cause. The nonprofit holding company and its affiliates that are not hospital service corporations are not subject to the conversion statutes in Article 65 of Chapter 58. The nonprofit holding company and its subsidiaries are subject to delinquency proceedings against the hospital service corporation, and its assets are deemed to be those of the hospital service corporation.

The hospital service corporation's legal form and license to do business are not affected by the reorganization. It continues to be subject to most of the provisions of Article 65 and Article 66 of Chapter 58. Distributions and dividends payable from the hospital service corporation to the non-profit holding company are not considered a conversion. If the underlying hospital service corporation undertakes a conversion after the reorganization, the "fair market value of the company" as defined in the conversion statutes is that of the nonprofit holding company.

**EFFECTIVE DATE:** This act became effective June 9, 2023.