

CLIENT ALERT

# Iowa Adopts Insurance Company Division Law

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## AUTHORS

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In recent years, several U.S. states have enacted insurance business transfer legislation or promulgated regulations allowing an insurer to transfer its business, or a book of business, to another entity without the need for individual policyholder consent. Separately, a few other U.S. states have taken a step in the direction of corporate reorganization by allowing an insurer to divide into separate companies. We have [previously reported](#) on such legislation and regulations in Connecticut, Oklahoma, Rhode Island, Vermont, [Illinois](#) and [Michigan](#).

On April 9, 2019, Governor Kim Reynolds of Iowa signed House File 264, An Act Relating to the Division of Domestic Stock Insurers (the “Iowa Division Law”), which we summarize in this alert.

### Law

The Iowa Division Law, which we expect to become effective on July 1, 2019 per Iowa legislative procedure, allows an Iowa domestic stock insurer (a “Dividing Company”) to divide into two or more insurance companies (the “Resulting Companies”) and allocate its assets and liabilities, including policy liabilities, among the Resulting Companies pursuant to a plan of division approved by the Commissioner of the Iowa Insurance Division (the “Commissioner”). The Iowa Division Law is similar to insurer division statutes passed in Connecticut in October 2017 and Illinois and Michigan in late 2018.

### Application Process

The Dividing Company must submit a plan of division to the Commissioner to divide into two or more insurers. The plan of division must identify each Resulting Company to be created by the division and describe, among other things, the manner of allocating assets and liabilities among the Resulting Companies. The plan of division will also specify whether or not the Dividing Company will survive the division. Pursuant to Section 8 of the Iowa Division Law, the Commissioner

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shall select and retain an independent expert to review the plan of division and issue a report to the Commissioner. The division laws of Connecticut, Illinois and Michigan do not include an explicit requirement for an independent expert review, although they contemplate that the regulator may hire experts and specify that such costs would be borne by the Dividing Company.

The Iowa Division Law provides that the Commissioner may approve the plan of division if the Commissioner finds that all of the following apply: (a) the interest of policyholders, creditors or shareholders of the Dividing Company will be adequately protected and the plan of division is not unfair or unreasonable to policyholders or contrary to the public interest; (b) the financial condition of the Resulting Companies will not jeopardize the financial stability of a Dividing Company or the Resulting Companies or prejudice the interests of their policyholders; (c) all Resulting Companies will be qualified and eligible to receive a certificate of authority to transact insurance in Iowa; (d) the division does not violate a provision of the Iowa Voidable Transfers Act; (e) the division is not being made for the purpose of hindering, delaying or defrauding any policyholders or other creditors; (f) all Resulting Companies will be solvent when the division becomes effective; and (g) the assets of a Resulting Company will not be unreasonably small in relation to its business. Notably, the Connecticut, Illinois and Michigan division laws provide that the insurance commissioner shall approve a plan of division unless it violates standards similar to those enumerated above. The “may approve” language in the Iowa Division Law appears to give the regulator greater discretion to disapprove a plan for reasons beyond those enumerated in the statute.

Unlike the division laws in Illinois and Connecticut, under which a hearing is discretionary, the Iowa Division Law requires that the Commissioner hold a public hearing prior to approving a plan of division. Also unlike the preceding state division laws, under the Iowa Division Law the Dividing Company must mail written notice of the hearing to the Dividing Company’s policyholders.

### Effects of Division

After approval by the Commissioner, the plan of division becomes effective after the Dividing Company executes and files a certificate of division with the Iowa Secretary of State, with a concurrent copy to the Commissioner. The Commissioner shall also issue a certificate of authority for each Resulting Company to transact insurance in Iowa.

Following a division, each Resulting Company is responsible individually for (i) the policies and liabilities that the Resulting Company issues or incurs after the division; and (ii) the policies and liabilities of the Dividing Company that are allocated to the Resulting Company by the plan of division. If the Dividing Company survives the division, it remains responsible for the policies and liabilities that are not allocated by the plan of division. If the Dividing Company does not survive the division, each Resulting Company is liable pro rata individually for the liabilities that are not allocated by the plan of division.

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### Related Transactions

Similar to the predecessor division statutes, the Iowa Division Law amends the insurance company merger law (Iowa Code 521.1, *et seq.*) to provide that a Dividing Company may adopt and execute a plan of merger or consolidation on behalf of a Resulting Company. If provided in the plan of division, the merger or consolidation shall be effective simultaneously with the effectiveness of a division.

If you have any questions regarding this client alert, please contact the following attorneys or the Willkie attorney with whom you regularly work.

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