

Bybee, Cressinda

From: Samuel R. Marshall [smarshall@ifpenn.org]
Sent: Wednesday, October 09, 2013 1:25 PM
To: Bybee, Cressinda
Subject: IBC Form A filing - comments
Attachments: ibcrestructure.doc

Attached are comments from the Insurance Federation of Pennsylvania on the IBC Application for restructuring published in the August 10 Pennsylvania Bulletin.

Sam Marshall

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Samuel R. Marshall
President & CEO

October 9, 2013

Cressinda Bybee
Company Licensing Division
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

Re: Application by Independence Blue Cross for Approval to Restructure its Insurance Company Holding System

Dear Ms. Bybee:

The Insurance Federation submits the following comments on the Form A Application filed by Independence Blue Cross (IBC) and published in the August 10 **Pennsylvania Bulletin**. The Federation's membership includes a number of commercial health insurers with whom IBC competes, both in its Blue Cross/Blue Shield Association territory and, through its subsidiaries, in a number of states.

- 1. The Insurance Department should require an explanation of what happens to IBC's non-profit endeavors and social mission under the proposed restructuring.**

Exhibit D of the filing sets forth the reasons for the restructuring and how IBC envisions operating if the filing is approved. It notes that IBC's first 45 years were as a non-profit entity operating in a restricted territory; it then notes IBC's focus and expansion in the last 30 years has sifted to the for-profit side, outside its original five-county territory and in lines far different than traditional indemnity health insurance.

The exhibit goes on to explain the purpose of the restructuring is to "more easily allocate and deploy capital to particular operating areas and lines of business" so

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that IBC can “support and grow existing and new lines of business” and better “respond to new market opportunities presented by the Patient Protection and Affordable Care Act.”

We appreciate the need for an insurer’s corporate structure to be sufficiently flexible that it can fulfill its goals. This filing, however, seems an admission by IBC that whatever its goals, they apparently don’t include its social mission or its non-profit charitable objectives. In past filings, IBC has touted that social mission and non-profit standing as a reason for various proposed changes, but it is wholly lacking here.

We recommend IBC explain the impact of the proposed restructuring on its social mission commitment and non-profit endeavors, and specifically whether and how its objective of more easily moving capital will help in those areas. We understand its objective of having “the flexibility to move earnings and capital where needed” – but IBC should explain whether advancing its social mission and non-profit activities will remain part of that need.

Absent that, the proposed restructuring seems tantamount to a conversion to a for-profit entity, or at least one where the for-profit entities are the focus of all anticipated growth and the recipients of all anticipated earnings and capital. That seems a significant change from the purported objectives of IBC as expressed in recent Form A filings, as with its proposed merger with Highmark several years ago, where an enhanced ability to fulfill its social mission was one of the main justifications for the proposal.

If this is a de facto conversion by IBC to a for-profit insurer, the Department should consider putting limits on it and ensuring an ongoing level of contribution to its traditional social mission and non-profit purposes. In any event, the Department should request clarification from IBC on what it will do in those areas and how this restructuring improves its ability in those areas, as well a guarantee going forward that IBC will remain committed in those areas.

Exhibit D states the proposed restructuring will “preserve IBC’s traditional indemnity hospital plan business in a dedicated single-purpose ‘standalone’ operating company.” IBC should further explain if that will be the extent of its non-profit operations and whether “preserve” means grow and protect, or isolate.

2. The Insurance Department should revisit IBC's Risk-Based Capital and surplus allowances.

In 2005, the Insurance Department set RBC levels for the four Blues plans, including IBC. One of the factors justifying high levels for the Blues, certainly relative to those of commercial insurers, was the Blues' lack of access to capital, presumably not only outside capital but also capital among affiliates.

The Department should re-examine whether the RBC levels established in its 2005 order should remain valid for IBC under the proposed restructuring. This restructuring may allow IBC to gain access to capital to a degree not envisioned in 2005, and therefore may merit a change in the Department's RBC ranges set forth in that order.

3. The Insurance Department should require an explanation of the competitive impact and consumer benefit in the proposed restructuring.

From both competitive and consumer benefit perspectives (the two overlap), the proposed restructuring raises the possibility that earnings built up over the years under IBC's non-profit (and premium tax-free) operations will fund IBC's growing for-profit operations.

The Department should determine whether that is the case. If it is, the Department should establish conditions to ensure that consumers whose premiums form the foundation of IBC's non-profit based capital get the benefits of it. The filing suggests the emerging and presumably for-profit subsidiaries are the sole beneficiaries.

We appreciate IBC's desire to be as nimble as its commercial competitors. We question, however, whether that nimbleness includes using its non-profit earnings to fund its for-profit expansion, at least if there is no benefit to the non-profit operations.

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4. The Insurance Department should require clarification of where and how IBC will use the Blue Cross/Blue Shield brand among its affiliates and subsidiaries.

Exhibit D states that IBC and its controlled affiliates will be able to use the BC/BSA brand. The Department should request clarification of the extent to which IBC entities that are for-profit and/or operating out of its five-county service area will be using the brand. We question whether use of the brand in either setting is appropriate.

We recognize the changing landscape of health insurance and the need for all insurers to adapt and compete, and this filing is presumably made in that spirit.

Nonetheless, it raises fundamental questions about the future of IBC, particularly as it relates to its historic non-profit status and corresponding social mission. Those questions should be answered, and any resulting safeguards and conditions established, as part of the Department's Form A review.

Thank you for the opportunity to comment.

Sincerely,

Samuel R. Marshall