

BEFORE THE DEPUTY INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402 and
: 1403 of the Insurance Holding
Application of Capital Blue Cross : Companies Act, Article XIV of the
Requesting Exemption from the : Insurance Company Law of 1921, Act of
Requirements of 40 P.S. §991.1402 for : May 17, 1921, P.L. 682, as amended, 40
the Reorganization from a Member to : P.S. §§991.1401, 991.1402 and
Non-Member Organization : 991.1403
:
: Order No. ID-RC-10-01

DECISION AND ORDER

AND NOW, on this 20th day of January 2010, Stephen J. Johnson, Deputy Insurance Commissioner of the Commonwealth of Pennsylvania (“Deputy Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Holding Companies Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Deputy Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Entities

1. Capital Blue Cross (“CBC”) is a Pennsylvania nonprofit health plan corporation which operates a hospital plan corporation under Article A, Health Plan Corporations, Part III, Special Provisions Related to Particular Classes of Insurers, 40 P.S. §§6101 et seq. (“Health Plan Corporations Act,” or “HPCA”). CBC’s principal place of business is in Harrisburg, Pennsylvania.
2. CBC is organized under the Pennsylvania Nonprofit Corporation Law, 15 Pa.C.S. §§5101 et seq. (“Nonprofit Law”) as a member organization.

Filing of the Application

3. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that all changes in control of domestic insurers must be filed with the Department for approval or disapproval.
4. On December 28, 2009, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received a request (which together with all material received subsequently is hereinafter referenced as “Request”) from CBC for approval to reorganize from a member to non-member organization (“Non-Member Reorganization”).
5. The Request was filed pursuant to Section 1402 of the Insurance Holding Companies Act.
6. Section 1402(g) of the Insurance Holding Companies Act provides for the exemption from the requirements of Section 1402(b) if the transaction:
 - a) does not have the effect of changing or influencing the control of a domestic insurer; or
 - b) is otherwise not comprehended within the purposes of the section.
7. As described in the Request, in Pennsylvania, nonprofit entities are organized as either member or non-member organizations.
8. As described in the Request, member nonprofits have members who are entitled to vote on certain corporate issues, which include approval of certain fundamental changes. In contrast, a non-member organization is governed by a Board of Directors.
9. As described in the Request, CBC has a current membership composition consisting of the following:
 - a) a minimum of 42 and a maximum of 70 members appointed from among CBC subscribers by the Nominating Committee of the Consumer Advisory Council, and
 - b) the members of the Board of Directors.
10. As described in the Request, the Non-Member Reorganization will be accomplished through an amendment of CBC’s Articles of Incorporation.

11. As described in the Request, the amendment of the Articles of Incorporation requires member approval.
12. As described in the Request, CBC will not proceed with the Non-Member Reorganization without an affirmative vote of two-thirds (2/3) of the members.
13. As described in the Request, both before and after the proposed Non-Member Reorganization, the Board of Directors of CBC shall have the full power to conduct, manage, and direct the business and affairs of CBC.
14. The Deputy Commissioner finds that the transaction described in the Request does not have the effect of changing or influencing the control of a domestic insurer.
15. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Department has jurisdiction to review and approve the Request.
2. The Request was properly filed pursuant to and in accordance with Section 1402(g) of the Insurance Holding Companies Act.
3. The proposed change to a non-member organization as presented in the Request is not made or entered into for the purpose of and does not have the effect of changing or influencing the control of CBC, and, therefore, is exempt from the requirements of Section 1402(b) of the Insurance Holding Companies Act.
4. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

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ORDER

Upon consideration of the foregoing, the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania hereby makes the following Order:

An approval of the application of Capital Blue Cross (“CBC”) requesting exemption from the requirements of 40 P.S. §991.1402 for the reorganization from a member to non-member organization, as set forth in the Request, is hereby granted subject to the following conditions:

1. CBC shall provide to the Department for review and comment the notice materials CBC proposes to send to each member advising of the proposed reorganization.
2. CBC shall receive an affirmative vote of two-thirds (2/3) of the members of the reorganization.

This Order is effective immediately and valid for one year from the date of signature, provided there are no material changes from the Request.

Stephen J. Johnson
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation