

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of Blue Cross and Blue : Companies Act, Article XIV of the
Shield of Michigan in Support of the : Insurance Company Law of 1921, Act
Request for Approval to Acquire Control : of May 17, 1921, P. L. 682, as
of CBHNP Services, Inc. : amended, 40 P.S. §§991.1401,
: 991.1402 and 991.1403
:
: Order No. ID-RC-11-30

DECISION AND ORDER

AND NOW, on this 23rd day of November, 2011, Michael F. Consedine, Insurance Commissioner of the Commonwealth of Pennsylvania (“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 Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

1. CBHNP Services, Inc. (“CBHNP”) is a domestic risk assuming preferred provider organization organized under the laws of Pennsylvania with its principal place of business in Harrisburg, Pennsylvania.
2. Community Behavioral Health Network of Pennsylvania (“CP”) is a domestic company organized under the laws of Pennsylvania with its principal place of business in Harrisburg, Pennsylvania. CP currently holds 100% of the issued and outstanding stock of CBHNP.
3. AMHP Holdings Corp. (“AHC”) is a domestic company organized under the laws of Pennsylvania with its principal place of business in Philadelphia, Pennsylvania. AHC currently holds 100% of the issued and outstanding stock of CP.

4. AmeriHealth Mercy Health Plan (“AMHP”) is a general partnership organized under the laws of Pennsylvania with its principal place of business in Philadelphia, Pennsylvania. AMHP currently holds 100% of the issued and outstanding stock of AHC.
5. BMH SUBCO I, LLC (“BSI”) is a newly created limited liability company organized under the laws of Delaware with its principal place of business in Philadelphia, Pennsylvania. BSI currently holds a 50% general partnership interest in AMHP.
6. BMH LLC (“BMH”) is a newly created limited liability company organized under the laws of Delaware with its principal place of business in Philadelphia, Pennsylvania. BMH currently holds 100% of the membership interests in BSI.
7. IBC MH LLC (“IMH”) is a newly created limited liability company organized under the laws of Pennsylvania with its principal place of business in Philadelphia, Pennsylvania. IMH currently holds 100% of the membership interests in BMH.
8. Keystone Health Plan East, Inc. (“KHPE”) is a domestic health maintenance organization organized under the laws of Pennsylvania with its principal place of business in Philadelphia, Pennsylvania. KHPE currently holds 23.5% of the membership interests in IMH.
9. AmeriHealth HMO, Inc. (“AHMO”) is a domestic health maintenance organization organized under the laws of Pennsylvania with its principal place of business in Philadelphia, Pennsylvania. AHMO currently holds 100% of the issued and outstanding stock of KHPE.
10. AmeriHealth Integrated Benefits, Inc. (“AIB”) is a foreign company organized under the laws of Delaware with its principal place of business in Philadelphia, Pennsylvania. AIB currently holds 100% of the issued and outstanding stock of AHMO.
11. QCC Insurance Company (“QCC”) is a domestic stock life insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Philadelphia, Pennsylvania. QCC currently holds 23.5% of the membership interests in IMH.
12. AmeriHealth, Inc. (“AH”) is a domestic company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Philadelphia, Pennsylvania. AH currently holds 100% of the issued and outstanding stock of QCC and AIB.
13. Independence Blue Cross (“IBC”) is a domestic non-profit hospital plan corporation organized under the laws of the Commonwealth of Pennsylvania with its principal place

of business in Philadelphia, Pennsylvania. IBC currently holds 100% of the issued and outstanding stock of AH and 53% of the membership interests in IMH.

14. IBC is an ultimate controlling person of CBHNP.
15. Blue Cross and Blue Shield of Michigan (“BCBSM”) is a nonprofit corporation organized under the laws of the state of Michigan, with its principal place of business located in Detroit, Michigan.

Acquisition Filing

16. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1922, 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 Commissioner for approval or disapproval.
17. On September 26, 2011, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an application (which together with all material received subsequently is hereinafter referenced as “Application”) from BCBSM for approval to acquire control of CBHNP.
18. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

19. On October 8, 2011, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by BCBSM and such notice invited interested persons to submit comments to the Department regarding the Application for thirty days following the date of the publication (“Comment Period”).
20. The Department received no comments regarding the Application during the thirty day Comment Period.

Description of the Proposed Acquisition

21. As described in the Application, IBC has entered into an agreement (“the Agreement”) with BCBSM under which they will co-invest in BMH in a joint venture.
22. As described in the Application and pursuant to the Agreement, BCBSM intends to purchase a 38.74% interest in BMH (“the Acquisition”).

23. As described in the Application, BCBSM would become an ultimate controlling person of CBHNP as a result of the Acquisition.

Standards for Review

24. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a change in control of a domestic insurer.

Licensing Requirements

25. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.
26. The minimum capital and reserves required of a preferred provider organization is set out in 31 PA Code § 152.9.
27. In accordance with 31 PA Code §152.9, CBHNP is required to maintain a minimum policyholder surplus of \$1,125,000.
28. Upon completion of the transaction, CBHNP will have policyholder surplus in an amount that will satisfy the minimum required of a preferred provider organization.

Competitive Impact

29. The acquisition of control of the PA Domestic Insurers is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition or tend to create a monopoly in the Commonwealth.
30. The acquisition of control of CBHNP will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of BCBSM does not exceed the market share levels established in Section 1403.

Financial Condition of Applicant

31. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of the acquiring person(s).
32. The Department has reviewed the annual financial statement submitted by BCBSM as of December 31, 2010.

33. As of December 31, 2010, BCBSM reported:

Assets of \$6,953,279,892
Liabilities of \$4,038,155,202
Total Equity of \$2,759,467,557

34. The financial condition of BCBSM will not pose any impediments to the change in control nor jeopardize the financial condition of CBHNP.

Plans for the Acquired Insurer

35. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the insurer.

36. As stated in the Application, BCBSM has no future plans or proposals to liquidate CBHNP, to sell its assets, to merge or consolidate it with any person or persons, or to make any other material change in its business operations or corporate structure.

Management

37. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired insurer.

38. Biographical affidavits for all directors and executive officers of BCBSM were reviewed by the Department.

39. The Department is satisfied that the persons who would control the operations of CBHNP have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

40. 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 change in control of CBHNP.
2. Under Section 1402 of the Insurance Holding Companies Act, the Department must approve an application for a change in control unless the Department has found that:
 - a) The insurer will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which they are presently licensed;
 - b) The change in control will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
 - c) The financial condition of the acquiring company is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;
 - d) Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurers and not in the public interest;
 - e) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control; or,
 - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.
 - g) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.
3. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has not found that any of the above conditions are present with respect to the change in control of CBHNP.
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 Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”) hereby makes the following Order:

The application of Blue Cross and Blue Shield of Michigan (“BCBSM”) in support of the request for approval to acquire control of CBHNP Services, Inc. as set forth in the application, is hereby approved, subject to this Order and the following condition:

BCBSM shall provide to the Department a list of closing documents within five (5) days after consummation of the subject transaction and shall maintain the listed documents and make them available to the Department for a period of not less than five (5) years from the date of consummation.

This Order is effective immediately and valid for one (1) year, provided no material changes are made to the transaction prior to consummation. This one year limitation does not apply to any conditions prescribed by the Department in the Order.

Michael F. Consedine
Insurance Commissioner
Commonwealth of Pennsylvania