

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:

Application of Independence Blue Cross	:	Pursuant to Sections 1401, 1402
on behalf of HoldCo #1 in Support of a	:	and 1403 of the Insurance Holding
Request for Approval to Restructure its	:	Companies Act, Article XIV of the
Holding Company System Resulting in a	:	Insurance Company Law of 1921, Act
Change of Control of Independence Blue	:	of May 17, 1921, P. L. 682, <u>as</u>
Cross; QCC Insurance Company;	:	<u>amended</u> , 40 P.S. §§ 991.1401,
Keystone Health Plan East, Inc.;	:	991.1402 and 991.1403; and Chapter
AmeriHealth HMO, Inc.; Vista Health	:	25 of Title 31 of the Pennsylvania
Plan, Inc.; Region 6 Rx Corp.; CBHNP	:	Code, 31 Pa. Code §§ 25.1-25.23.
Services, Inc.; Inter-County Health Plan,		
Inc.; Inter-County Hospitalization Plan,		Order No. ID-RC-14-07
Inc.		

DECISION AND ORDER

WHEREAS, on August 7, 2013, Independence Blue Cross (“IBC”) on behalf of HoldCo #1 filed an application on Form A, “Statement regarding the acquisition of control of or merger with a domestic insurer” (the “Original Application”), in support of a request for approval to restructure its holding company system (the “Restructuring”) resulting in a change of control (the “Change of Control”) of IBC and its other domestic insurance companies.

WHEREAS, the Original Application was supplemented or revised by IBC (i) on December 13, 2013, pursuant to which IBC provided certain revised pro forma financial statements and other information; (ii) on December 18, 2013, pursuant to which it provided a revised plan of division (the “Plan of Division”); and (iii) on May 22, 2014, pursuant to which IBC submitted amended versions of several parts of the Original Application. The Original Application, as so supplemented or revised, is referred to as the “Application.”

WHEREAS, the domestic insurance companies included in the Application are IBC; QCC Insurance Company; Keystone Health Plan East, Inc.; AmeriHealth HMO, Inc.; Vista Health Plan, Inc.; Region 6 Rx Corp.; CBHNP Services, Inc.; Inter-County Health Plan, Inc.; and Inter-County Hospitalization Plan, Inc.

WHEREAS, pursuant to the Restructuring, the Change of Control of IBC would occur in connection with the Plan of Division to be filed by IBC with the Commonwealth of Pennsylvania, Department of State (the “Department of State”) under 15 Pa.C.S. §§ 5951 et. seq., pursuant to which IBC proposes to divide into: (i) itself and (ii) HoldCo #1, with

HoldCo #1 being the ultimate parent of IBC, the other PA Domestic Insurers and IBC's other subsidiary companies.

WHEREAS, 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., provides that all changes in Control of domestic insurers must be filed with the Department for approval or disapproval.

WHEREAS, the Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

AND NOW, on this 9th day of June, 2014, 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 and conclusions of law:¹

FINDINGS OF FACT

I. Identity of Involved Parties

1. IBC is a hospital plan corporation organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Philadelphia, Pennsylvania. As required by statute, IBC is a nonprofit corporation, a "charitable and benevolent institution" and exempt from taxation by the Commonwealth.² IBC has publicly stated that its mission is "to enhance the health and wellness of the people and communities" it serves.³ IBC is subject to the February 9, 2005 Determination and Order of former Insurance Commissioner Koken regarding its reserves and surplus (the "2005 Surplus Determination").

2. IBC has filed the Application on behalf of HoldCo #1 which is to be formed upon the Effective Time. As described in the Application, HoldCo #1 will be named "Independence Health Group, Inc."⁴ and IBC will be named Independence Hospital Indemnity Plan, Inc.

3. AmeriHealth Inc. ("AHI") is a business corporation organized pursuant to the laws of the Commonwealth of Pennsylvania, with its principal place of business in Philadelphia, Pennsylvania. AHI is a direct wholly owned subsidiary of IBC and in connection with the Plan of Division will be the second-tier parent of IBC.

¹ In addition to words or terms otherwise defined in this Decision and Order, capitalized terms used in this Decision and Order and the appendix hereto shall have the meanings set forth in Appendix 1.

² 40 Pa.C.S. §§ 6101, 6103(b).

³ IBC response to public comments of Samuel Marshall and of Ms. Connie Briggs, IBC Filing – Cumulative Log, Documents 19 and 20, http://www.portal.state.pa.us/portal/server.pt/community/industry_activity/9276/ibc_filing_-_cumulative_log/1567620

⁴ SubHoldCo #1 will also be formed in connection with the Restructuring. SubHoldCo #1 will be named "Independence Blue Cross, LLC."

4. QCC Insurance Company (“QCC”) is a stock life insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Philadelphia, Pennsylvania. QCC is a direct, wholly owned subsidiary of AHI.

5. Region 6 Rx Corp (“Region 6”) is a stock life insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Philadelphia, Pennsylvania. Region 6 is a direct, wholly owned subsidiary of AHI.

6. AmeriHealth HMO, Inc. (“AmeriHealth”) is a health maintenance organization organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Philadelphia, Pennsylvania. AmeriHealth is an indirect, wholly owned subsidiary of AHI.

7. Vista Health Plan, Inc. (“Vista”) is a health maintenance organization organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Philadelphia, Pennsylvania. Vista is a direct, wholly owned subsidiary of AmeriHealth.

8. Keystone Health Plan East, Inc. (“Keystone”) is a health maintenance organization organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Philadelphia, Pennsylvania. Keystone is a direct, wholly owned subsidiary of AmeriHealth.

9. CBHNP Services, Inc. (“CBHNP”) is a risk-assuming preferred provider organization, which is not a licensed insurer (“RANLI PPO”), organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Harrisburg, Pennsylvania. IBC indirectly Controls 61.3% of the interests of CBHNP.

10. Inter-County Hospitalization Plan, Inc. (“IC Hospital”) is a nonprofit hospital plan corporation organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Horsham, Pennsylvania. IBC has a 50% membership interest in IC Hospital.

11. Inter-County Health Plan, Inc. (“IC Health”) is a nonprofit professional health services plan corporation organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Horsham, Pennsylvania. IBC has a 50% membership interest in IC Health.

II. Description of the Restructuring

12. As a nonprofit corporation, IBC is subject to the Pennsylvania Nonprofit Corporation Law of 1988, 15 Pa.C.S. §§ 5101 et seq., as amended (the “Nonprofit Law”).

13. The Nonprofit Law permits a domestic nonprofit corporation to divide into two or more nonprofit corporations pursuant to the provisions of Chapter 59, Subchapter D, 15 Pa.C.S. §§ 5951 et seq., of the Nonprofit Law.

14. The Restructuring of IBC and its subsidiaries will be accomplished in connection with the Plan of Division and certain proposed actions after the Plan of Division becomes effective.

15. The Plan of Division is to become effective at such time as the Articles of Division (the "Articles of Division"), executed in accordance with 15 Pa.C.S. § 5954, are duly filed with the Department of State, or at such later time as may be specified in the Articles of Division (the "Effective Time").

16. Pursuant to the Plan of Division, at the Effective Time, IBC is to divide (the "Division") into (i) itself (the licensed hospital plan corporation) and (ii) HoldCo #1 as a newly organized Pennsylvania nonprofit and nonmember corporation. IBC, the dividing corporation, will survive the Division.

17. At the Effective Time, IBC's Articles of Incorporation (the "IBC Articles") are to be amended and restated (the "Amended IBC Articles") pursuant to the Plan of Division, as shown at Schedule A to the Application. The Amended IBC Articles are to take effect at the Effective Time.

18. At the Effective Time, HoldCo #1's articles of incorporation (the "HoldCo #1 Articles") are to be in the form shown as Schedule B to the Application.

19. The HoldCo #1 Articles are to become effective at the Effective Time. As provided in the Application, HoldCo #1 will not request to be classified as an organization exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code of 1986, as amended, but instead will be subject to federal income tax as a holding company for one or more "stock insurance companies."

20. IBC has represented that pursuant to 15 Pa.C.S. § 5957(b) at the Effective Time the assets and liabilities of IBC (as the dividing corporation) will be allocated between IBC and HoldCo #1 (as the survivors of the Division), as follows:

A. At the Effective Time, the assets and liabilities of IBC shall be allocated between IBC and HoldCo #1 as shown in Attachment 1 to Schedule C to the Application.

B. After the Effective Time, IBC will retain Control and management of its relationships with the IBC Foundation and the IBC/Highmark Caring Foundation.

C. After the Effective Time, IBC will retain its Control, relationships with, and interests in, IC Hospital and IC Health.

D. Prior to closing on the Plan of Division, IBC will identify which, if any, of the service and other affiliated interest agreements that are currently in effect between IBC and other members of its insurance holding company system (collectively, the "Affiliate Agreements") will be allocated to HoldCo #1 (or other Affiliates Controlled by HoldCo #1) as of the Effective Time.

21. IBC has represented that the incumbent directors of IBC prior to the Effective Time are to remain the directors of IBC following the Plan of Division and each is to be eligible to continue as such for the remaining balance of their respective terms, subject to the bylaws of IBC as in effect from and after the Effective Time.

22. IBC has represented that the chairperson and vice chairperson of the IBC Board of Directors prior to the Effective Time are to continue in such positions after the Effective Time for the remaining balance of their respective terms, subject to the bylaws of IBC as in effect from and after the Effective Time.

23. IBC has represented that the incumbent principal officers of IBC prior to the Effective Time will be the incumbent principal officers of IBC following the Effective Time, subject to the bylaws of IBC as in effect from and after the Effective Time.

24. IBC has represented that the Restructuring contemplated by the Plan of Division will be accomplished in the following steps and in the following order (the "Restructuring Steps"):

A. Under the Plan of Division, IBC divides into IBC (surviving corporation) and HoldCo #1, as a newly organized Pennsylvania nonprofit and nonmember corporation.

B. Pursuant to the Plan of Division:

- i) IBC amends the IBC Articles to provide for IBC to become a nonprofit corporation with a single member;
- ii) HoldCo #1 will become the sole member of IBC, so that IBC becomes a Controlled Affiliate of HoldCo #1; and
- iii) HoldCo #1's Articles will contain language intended by HoldCo #1 to disqualify HoldCo #1 as a tax-exempt entity for federal income tax purposes but still qualify HoldCo #1 as a nonprofit corporation under Pennsylvania law.

C. The Plan of Division will allocate IBC's directly owned subsidiaries and directly Controlled entities between IBC and HoldCo #1 as follows:

- i) IBC's stock ownership of AHI will be allocated to HoldCo #1;
- ii) IBC's 53% membership interest in IBC MH LLC ("IBC MH" a/k/a SubHoldCo #4) will be allocated to HoldCo #1;
- iii) IBC's 27.1% interest in InsPro Technologies Corp. ("IPT") will be allocated to HoldCo #1;
- iv) IBC's 50% membership interest in IC Health and IC Hospital will remain with IBC; and

- v) IBC's relationships with the IBC Foundation and the IBC/Highmark Caring Foundation will remain with IBC.
- D. HoldCo #1 will contribute the following to AHI:
- i) The membership interest in IBC;
 - ii) IBC's 53% membership interest in IBC MH; and
 - iii) IBC's 27.1% interest in IPT.
- E. AmeriHealth Integrated Benefits, Inc. ("AIBI") will dividend its ownership interest in AmeriHealth to AHI.
- F. AmeriHealth will contribute its ownership interest in Vista to Keystone.
- G. Keystone will contribute its ownership interest in Vista to IBC MH.
- H. AmeriHealth will dividend its ownership interest in Keystone to AHI.
- I. QCC will dividend its membership interest in IBC MH to AHI.
- J. The following entities are to be merged with and into Independence Holdings, Inc., as the merger survivor:
- i) AIBI;
 - ii) Keystone Benefits, Inc.; and
 - iii) Independence Healthcare Management, Inc.
- K. AHI will form SubHoldCo #1, a for-profit business corporation, and contribute the following to it:
- i) The IBC membership interest;
 - ii) IPT;
 - iii) 3BE Holdings LLC;
 - iv) AmeriHealth Assurance, Ltd.;
 - v) AmeriHealth;
 - vi) Keystone;
 - vii) The AmeriHealth Agency, Inc.;
 - viii) AmeriHealth Services, Inc.;

- ix) Region 6;
- x) Healthcare Delaware, Inc.;
- xi) Independence Holdings, Inc.;
- xii) Independence Insurance, Inc.;
- xiii) QCC; and
- xiv) AmeriHealth Administrators, Inc.

L. AHI forms SubHoldCo #2⁵ and contributes the following to it:

- i) AmeriHealth Casualty Insurance Company; and
- ii) CompServices, Inc.

M. AHI forms SubHoldCo #3⁶ and contributes AmeriHealth Insurance Company of New Jersey to it.

N. As noted above, IBC's membership interests in IC Health and IC Hospital will remain with IBC.

O. In connection with the Restructuring, IBC MH is referred to as SubHoldCo #4.

25. IBC has represented that it has obtained a favorable private letter ruling from the IRS concluding that the Restructuring Steps do not result in the termination of the IBC consolidated group of corporations of which IBC has historically been the common parent or does not result in any adverse tax consequences to IBC, HoldCo#1 or their Affiliates. After the Restructuring is completed, IBC intends to file a request for a second private letter ruling for the contributions by AmeriHealth of Vista to Keystone and the subsequent contribution by Keystone of Vista to IBC MH as described in Paragraph 24 above and until that second private letter ruling is obtained, Keystone will retain a 5% interest in IBC MH.

26. The Plan of Division provides that (i) except as otherwise provided in the Plan of Division, all of the property, rights, privileges, franchises, interests and liabilities of IBC not expressly allocated to HoldCo #1 will, upon the Effective Time, be unaffected by the Division and will continue as the property, rights, privileges, franchises, interests and liabilities of IBC, the surviving corporation; and (ii) IBC and HoldCo #1 are to each be responsible as separate and distinct corporations only for such liabilities as each corporation may explicitly undertake or incur pursuant to the division or after the Effective Time in its own name.

27. IBC has represented that it has no plans to declare any extraordinary dividend from, or to liquidate, and that it has no plans to sell assets of, or to merge, any of the PA

⁵ SubHoldCo #2 will be named AmeriHealth Casualty Holdings, LLC.

⁶ SubHoldCo #3 will be named AmeriHealth New Jersey Holdings, LLC.

Domestic Insurers except for (i) the allocation of assets and liabilities between IBC and HoldCo #1 under the Plan of Division; and (ii) the dividend and contribution transactions set forth in the Application.

28. IBC has represented, on behalf of HoldCo #1 that (i) HoldCo #1 will become the primary licensee of the Blue Cross Blue Shield Association in IBC's five-county service area; (ii) IBC, QCC, Vista and Keystone will be licensed to use the Blue Cross brand as controlled Affiliates of HoldCo #1; and (iii) effective upon the Effective Time and as a condition to receipt of its primary license, HoldCo #1 will execute financial guarantees of customer obligations owed by IBC, Vista and Keystone, but a guaranty will not be required for QCC because IBC asserts QCC is covered by the Pennsylvania Life and Health Guaranty Fund.

29. At the Effective Time, the directors of HoldCo #1 are represented by IBC to be:

Walter D'Alessio (Chairman)	Nicholas A. Giordano
Joseph A. Frick (Vice Chairman)	Daniel J. Hilferty
Charles P. Pizzi (Vice Chairman)	Anne F. Kelly King
Joseph A. Barilotti	Hon. James F. Kenney
Robert W. Bogle	Thomas A. Leonard, Esq.
Debra L. Brady	Andrew L. Lewis, IV
Charles D. Butler	Hon. Michael D. Marino, Esq.
Hon. Renee Cardwell-Hughes	J. William Mills, III
Edward S. Cooper, M.D.	Alan Paul Novak, Esq.
Edward Coryell	Denis P. O'Brien
A. Bruce Crawley	Thomas G. Paese, Esq.
Nicholas DeBenedictis	Michael V. Puppio, Jr., Esq.
Patrick J. Eiding	William R. Sautter
Patrick D. Finley	James C. Schwartzman, Esq.
Vail P. Garvin, FACHE	Robert W. Sorrell
Patrick B. Gillespie	Daniel L. Woodall, Jr.

30. At the Effective Time, the principal officers of HoldCo #1 are represented by IBC to be:

Daniel J. Hilferty	President and Chief Executive Officer
Yvette D. Bright	Executive Vice President and Chief Transformation Officer
Christopher Cashman	Executive Vice President and President, Commercial Markets
Alan Krigstein	Executive Vice President, Chief Financial Officer and Treasurer
Richard J. Neeson	Executive Vice President and President, Expanding Markets
Paul A. Tufano, Esq.	Executive Vice President and President, Government Markets
I. Steven Udvarhelyi, M.D.	Executive Vice President, Health Services and Chief Strategy Officer

III. Department Procedures

31. On August 10, 2013, the Department published notice in the Pennsylvania Bulletin that the Application was received and such notice invited interested persons to submit comments to the Department regarding the Application for 60 days following the date of the publication (the “Comment Period”).

32. By letters to counsel for IBC dated September 30, 2013 and November 27, 2013 and thereafter, the Department requested further information from IBC in connection with the Application.

33. IBC subsequently provided confidential and nonconfidential information to the Department in response to these requests.

34. The Department received comments regarding the Application from two interested parties during the Comment Period questioning the impact of the Restructuring on the commitment of IBC to its social mission and nonprofit endeavors, on competition and on Subscribers.

35. The Department shared the letters with IBC for appropriate responses.

36. The Department reviewed and considered, in its analysis of the Application, the comment letters as well as IBC’s responses to the letters.

37. The Department requested additional information from IBC regarding the Application and considered the responses from IBC in its review of the Application.

III. The Department’s Retention of Consultants and Advisors

38. Section 1402 of the Insurance Holding Companies Act (“Section 1402”) provides that the Commissioner may retain, at the acquiring person’s expense, any attorneys, actuaries, accountants and other experts not otherwise a part of the Department’s staff as may be reasonably necessary to assist the Department in reviewing the proposed change of control.

39. The Department retained Blank Rome LLP (“Blank Rome”) to act as its legal advisor in connection with matters relating to the Department’s examination of the Application.

40. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be deemed incorporated in the Conclusions of Law as if fully set forth therein and if any of the below Conclusions of Law are determined to be Findings of Fact, they shall be deemed incorporated in the Findings of Fact as if fully set forth therein.

CONCLUSIONS OF LAW

41. Under Section 1402, the Department has jurisdiction to review and approve the Change of Control of IBC and the other PA Domestic Insurers.

42. Section 1402 requires the Department to approve an application for a change of control unless the Department has found one or more of the following:

A. After the change of control, the PA Domestic Insurers would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which they are presently licensed; or

B. The effect of the change of control would be to substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein; or

C. The financial condition of the Applicant is such as might jeopardize the financial stability of one or more of the PA Domestic Insurers or prejudice the interests of any Policyholders; or

D. The change of control, including but not limited to any material change in the business or corporate structure or management of the Applicant or the PA Domestic Insurers, as described in the Application, is unfair and unreasonable and fails to confer a benefit on Policyholders of the PA Domestic Insurers and is not in the public interest; or

E. The competence, experience, and integrity of those persons who would control the operation of any of the PA Domestic Insurers are such that it would not be in the interest of the Policyholders of the PA Domestic Insurers and of the public to permit the change of control; or

F. The change of control is likely to be hazardous or prejudicial to the insurance buying public; or

G. The change of control is not in compliance with the laws of this Commonwealth.

43. The burden is on the Department to show a violation of these standards. The standards are phrased in the negative, and the Department is required to approve a transaction unless it finds that any of the standards are met.

44. The Department finds that, with the imposition of the Conditions set forth in the Order to protect the public interest and to protect the financial stability of PA Domestic Insurers, the Restructuring resulting in the Change of Control of IBC and the other PA Domestic Insurers does not violate Section 1402.

I. Standard 1: Condition Not Present - That The PA Domestic Insurers Would Not Be Able to Satisfy The Requirements For The Issuance Of A License To Write Lines Of Insurance.

45. When analyzing an application for change of control under Section 1402, the Department reviews the requirements for licensure of the domestic insurer(s) subject to the change of control.

46. Specifically, the Department reviews whether the domestic insurer(s) would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed after the acquisition.

47. The classes of insurance for which an insurance company may be incorporated and become licensed to write are set out in Section 202 of the Insurance Company Law, 40 P.S. § 386.

48. In order to satisfy requirements of a license to write the relevant lines of insurance, the PA Domestic Insurers must meet certain statutory minimum capital balance requirements.

49. These requirements are currently met for each of the PA Domestic Insurers:

(\$ in thousands)	Capital Balance			Surplus Balance			Net Worth Balance		
	2014 Q1	Requirement	Satisfy	2014 Q1	Requirement	Satisfy	2014 Q1	Requirement	Satisfy
Independence Blue Cross	-	-	Yes	-	-	Yes	2,123,106	-	Yes
AmeriHealth HMO, Inc.	400	-	Yes	262,080	-	Yes	1,212,646	1,500	Yes
CBHNP Services, Inc.	-	-	Yes	10,000	-	Yes	10,663	1,175	Yes
Inter-County Health Plan, Inc.	-	-	Yes	2,295	-	Yes	2,716	25	Yes
Inter-County Hospitalization Plan, Inc.	-	-	Yes	2,655	-	Yes	5,386	-	Yes
Keystone Health Plan East, Inc.	400	-	Yes	7,935	-	Yes	902,123	1,500	Yes
QCC Insurance Company	2,000	1,100	Yes	187,519	550	Yes	694,242	1,650	Yes
Region 6 Rx Corp	1,100	1,100	Yes	550	550	Yes	1,764	1,650	Yes
Vista Health Plan, Inc.	17	-	Yes	143,400	-	Yes	132,952	1,500	Yes

50. Based on IBC's pro forma financial projections, capital, surplus, and net worth balances, the PA Domestic Insurers would be able to satisfy the requirements for the issuance of a license to write the lines of insurance for which they are presently licensed upon completion of the Change of Control.

51. IBC has advised the Department that HoldCo #1 does not anticipate any changes to relevant capital, surplus or net worth balances of the PA Domestic Insurers resulting from the Change of Control that would cause the PA Domestic Insurers to fail to meet the relevant statutory capital balance.

II. Standard 2: Condition Not Present - That The Effect Of The Change Of Control Would Be To Substantially Lessen The Competition In Insurance In This Commonwealth Or Tend To Create Monopoly.

52. The Restructuring is subject to review and analysis under Section 1402(f)(1)(ii) and the applicable parts of Section 1403 of the Insurance Holding Companies Act ("Section 1403") to determine whether the effect of the Change of Control would be to substantially lessen competition or tend to create a monopoly in this Commonwealth (the "Competitive Standard").

53. In applying the Competitive Standard, the informational requirements of Section 1403(c)(2) and the standards of Section 1403(d)(2) are applicable.

54. Pursuant to Section 1403(d), the Department may not enter an order under Section 1403(e)(1) with respect to a change of control if there is substantial evidence that the effect of the change of control may be substantially to lessen competition in any line of insurance in the Commonwealth or tend to create a monopoly therein or if the insurer fails to file adequate information in compliance with Section 1403(c).

55. Any acquisition covered under Section 1403 involving two or more insurers competing in the same market is prima facie evidence of violation of the competitive standards of Section 1403 if the involved insurers possess certain market shares; and any acquisition, merger or consolidation covered under Section 1403 involving two or more insurers competing in the same market is prima facie evidence of violation of the competitive standard in Section 1403 if: (A) there is a significant trend toward increased concentration in the market; (B) one of the insurers involved is one of the insurers in a grouping of such large insurers showing the requisite increase in the market share; and (C) another involved insurer's market is 2% or more.

56. Section 1403(d)(2)(iv) further provides that even though an acquisition is not prima facie violative of the competitive standard under Section 1403(d)(2)(i) and (ii), the Department may establish the requisite anticompetitive effect based upon other substantial evidence and may consider relevant factors, such as, but not limited to, the following: market shares, volatility of ranking of market leaders, number of competitors, concentration, trend of concentration in the industry and ease of entry and exit into the market.

57. While the Restructuring is not a prima facie violation of the competitive standard of Section 1403(b), the Department requested from the Applicant additional information to determine whether the Restructuring, if consummated, would violate the competitive standard of Section 1403(d).

58. IBC stated in response to a question from the Department that the Restructuring does not combine the market shares of IBC or any of its insurance affiliates with the market share of any other insurer, vertically integrate IBC and its insurance affiliates with any other party or provider or horizontally combine the market share of IBC and its insurance affiliates with any other insurer.⁷

59. IBC stated that the Restructuring is internal and will have no immediate impact or effect on the health insurance and managed care businesses of IBC or any of its affiliates.⁸

60. Based upon its review, the Department cannot conclude that the Restructuring, when consummated, would violate the competitive standard of Section 1403(d), substantially lessen competition in insurance in this Commonwealth, or tend to create a monopoly therein.

⁷ See page 5 of IBC's response to the Department's November 27, 2013 information request, Document No. 0024 at http://www.portal.state.pa.us/portal/server.pt/community/industry_activity/9276/ibc_filing_cumulative_log/1567620.

⁸*Id.*

III. Standard 3: Condition Not Present - That The Financial Condition Of The Applicant Is Such That It Might Jeopardize The Financial Stability Of The PA Domestic Insurers Or Prejudice The Interests Of Policyholders.

61. When analyzing an application for an acquisition of control under Section 1402, the Department reviews the financial condition of the acquiring person(s).

62. The Department has reviewed the pro forma financial statements prepared for HoldCo #1 reflecting the results of the Restructuring.

63. Based upon the information provided, HoldCo #1 is projected on the Effective Time to have approximately \$2.015 billion in total assets, and paid in capital/surplus of approximately \$2.015 billion.

64. The Department does not find that the financial condition of HoldCo #1 is such that it might jeopardize the financial stability of the PA Domestic Insurers or prejudice the interests of Policyholders.

IV. Standard 4: Condition Not Present - That The Restructuring, Including Any Material Change In The Business Or Corporate Structure Or Management Of The Applicant Or PA Domestic Insurers Is Unfair Or Unreasonable And Fails To Confer Benefit On Policyholders And Is Not In The Public Interest.

65. When analyzing an application for an acquisition of control under Section 1402, the Department reviews the plans or proposals that the acquiring party has for the insurer to determine whether they are unfair or unreasonable and fail to confer benefit on Policyholders of the insurer and are not in the public interest.

66. As described below, the Restructuring provides for, among other things (i) changes in IBC's corporate structure; (ii) changes in the holding company system's governance; (iii) transfers of significant assets from IBC; and (iv) a potential effect on the holding company's community health reinvestment activities.

The Change In Corporate Structure

67. IBC explained that its "current structure consists of a nonprofit hospital plan corporation which is authorized to sell indemnity plans as the ultimate parent company of an insurance holding company system that includes for-profit insurance companies, health maintenance organizations, third-party administrators, Medicaid managed care organizations and a number of other affiliates engaged in other businesses related to health insurance and managed health care." In addition, IBC's "affiliates are not currently arranged by product line or geographic markets." Furthermore, "[a] number of these operating companies are regulated insurers and HMOs arrayed in vertically 'stacked' ownership chains."

68. IBC expressed the belief that "[t]his structure requires complex and time-consuming regulatory compliance functions with respect to the many inter-company transactions that occur each month as funds are moved between and among IBC and its affiliates to meet daily cash flow requirements." In addition, IBC expressed its belief that "[f]inancial reporting

[required by Pennsylvania law and the laws of other states where IBC's affiliates are domiciled] of stacked insurers and HMOs located below IBC . . . is complex and could be made simpler and more easily understandable if those insurers and HMOs were not in a direct parent/subsidiary relationship." According to IBC, its "current 'stacked structure' . . . is not efficient in redeploying capital generated by IBC's operating companies to support and grow existing and new lines of managed care business."

69. IBC stated that the Restructuring responds to these problems and complexities with its structure because it will "reorganize and group IBC and its affiliates by product and geographic markets under a non-profit holding company and a set of downstream holding companies."

70. IBC stated that it believes that the Restructuring will result in numerous benefits including (i) "[c]lear and direct lines of sight for insurance regulators in Pennsylvania and other states into regulated companies and lines of business"; (ii) "[a]n enhanced ability to measure, manage and improve performance by geographic and product markets"; (iii) "[a]n enhanced ability to allocate and deploy capital to particular operating areas and lines of business, at the appropriate level of the holding company structure, which will better position the regulated affiliates to respond to the requirements of customers and regulators"; (iv) "flattening operating subsidiaries will remove illiquid subsidiary stocks from balance sheets. . . [and] assure that the assets reflected on each regulated affiliate's balance sheet will be of the type, quality, and liquidity needed to pay policyholders and subscriber claims."

71. In addition, IBC asserts that the Restructuring will help ensure that the IBC companies maintain their status as major employers and taxpayers in Pennsylvania that can survive and compete with the national investor-owned insurance holding company systems that benefit from similar existing corporate structures.

72. The Nonprofit Law provides for the conversion of nonprofit corporations to for-profit corporations. 15 Pa.C.S. § 5961(a). However, any nonprofit corporation which "by the laws of this Commonwealth is subject to the supervision of. . .the Insurance Department" may not be converted into a for-profit business corporation. 15 Pa.C.S. § 5961(b)(iii).

73. IBC acknowledged that "[w]hether HoldCo #1 would be deemed a corporation that 'is subject to the supervision of. . .the Insurance Department' for purposes of Section 5961(b)(1)(iii) of the Nonprofit Corporation Law of 1988 is an unsettled legal question."

74. IBC further observed that "whether or not HoldCo #1 is covered by this section [Section 5961(b)(iii) of the Nonprofit Law], HoldCo #1 could not convert to a 'for profit' business corporation under current law without first obtaining the prior approval of the Department. Any such conversion would necessarily involve a change-in-control of HoldCo #1's Pennsylvania domiciled insurance companies and HMOs, and therefore would be subject to Form A review and approval under 40 P.S. § 991.1402."⁹

75. Assuming, as IBC asserted, that all transactions relating to the conversion of HoldCo #1 would necessarily involve a change of control and thus be subject to review standards

⁹ *Id.*

of Section 1402, the review standards of 1402 are different than a legislative prohibition on conversion and, thus, certain transactions could be permitted under a Section 1402 review that would be prohibited if Section 5961(b)(iii) of the Nonprofit Law were applicable.

76. The Department concludes that a conversion of HoldCo #1, if permitted, could result in the diversion of the former assets of IBC to for-profit use in a manner inconsistent with the restrictions imposed upon IBC under the Nonprofit Law as the then owner of such assets, and that allowing such a result would be unfair and unreasonable, would fail to confer benefit on Policyholders, and would not be in the public interest. Consequently, it is necessary to impose a condition that prohibits HoldCo #1 from converting to a for-profit entity so long as the Nonprofit Law or other law of the Commonwealth prohibits or materially limits the right of corporations that are subject to the supervision of the Department from converting to for-profit entities.

Holding Company System Governance Changes

77. Currently, IBC is the ultimate controlling person of an insurance holding company system. The Restructuring will result in the formation of HoldCo #1 as the ultimate controlling person of the PA Domestic Insurers.

78. The Amended IBC Articles¹⁰ contain several provisions that provide for Subscriber oversight of IBC's board of directors.

79. Specifically,

- A. Article VI of the Amended IBC Articles requires the bylaws of IBC to permit that a group of 300 or more subscribers may submit one or more nominees for election to the IBC board of directors.
- B. Article VII of the Amended IBC Articles requires that a special meeting be called upon petition of 5% of the Subscribers to consider the removal of one or more IBC directors and that any one or more directors may be removed by majority vote of those subscribers present, voting in person or by proxy.
- C. Article VII of the Amended IBC Articles also provides that a group of 5% of the Subscribers may petition the board of directors to consider (i) the amendment of the articles or the adoption, amendment and repeal of the bylaws; (ii) a plan of sale, lease, or exchange of assets; (iii) a plan of merger, consolidation, division or conversion; or (iv) the voluntary dissolution of the corporation.

80. Following the Restructuring, IBC has represented that these subscriber oversight provisions will continue without change as part of the Amended IBC Articles and the IBC bylaws, as applicable. However, comparable provisions will not be included in the HoldCo #1 Articles. IBC states that these provisions will not be included in the HoldCo #1 Articles because:

A. "These provisions are not typical governance provisions for a non-member nonprofit corporation. . . .IBC is the only [Blue Cross or Blue Shield licensee] in

¹⁰ These provisions continue in effect from the IBC Articles

Pennsylvania that has such provisions in its articles or bylaws. They are an anachronism and are fundamentally inconsistent with good governance ‘best practices.’”

B. “The customers served by IBC and its affiliates are located in diverse geographic markets and purchase very different products. The customers purchase based on quality of service and price (and their status as customers can and does often change from year to year based on market pricing and product features available from competitors). There is a real potential for conflicts of interest among these customer groups who will each act (properly so) to protect their own economic interests as insurance customers. They are not owners of the enterprise and have no equity stake or vested interest in, or ownership claim to, the holding company system.”

81. The changes in the composition of HoldCo #1’s board of directors may allow HoldCo #1, for itself and as controlling member of the applicable HoldCo #1 Entity, to more effectively, appropriately, and responsibly oversee HoldCo #1 and its Affiliates during a challenging period of change in health care regulation.

82. The Amended IBC Articles also contain a provision that provides for governmental appointees to the IBC board of directors. Specifically, Article VI of the Amended IBC Articles provides for service on the board of directors of IBC by one person appointed by each of the following: the Governor of the Commonwealth of Pennsylvania; the Mayor of the City of Philadelphia; the President of the Philadelphia City Council; the Chairman of the County Council of Delaware County, Pennsylvania; and the Chairman of the respective Boards of Commissioners of Bucks, Chester and Montgomery Counties, Pennsylvania (the “Appointed Directors”).

83. Following the Restructuring, IBC has represented that its government appointee provision will continue without change as part of the Amended IBC Articles. In addition, the Appointed Directors who today serve on IBC’s board of directors will be named to HoldCo #1’s board of directors for terms equal to the unexpired portion of their current terms of service on the IBC Board.

84. Pursuant to the Amended IBC Articles, the sole member of IBC has the right to amend the IBC bylaws and pursuant to the Nonprofit Law, the sole member of IBC has the right to amend the Amended IBC Articles, except for the Subscriber governance provisions contained in Article VII of the Amended IBC Articles, amendments to which are reserved to the Subscribers as provided in the Amended IBC Articles.

85. While the Amended IBC Articles restrict the ability of the sole member to amend the rights of Subscribers in Article VII, the sole member of IBC may not be restricted from amending the IBC Articles to remove or amend the Appointed Director provisions.

86. Accordingly, appropriate conditions are needed to restrict the ability of the sole member of IBC to amend or modify the IBC Articles.

Transfer of Assets from the Control of IBC to the Control of HoldCo #1.

87. The Restructuring contemplates the transfer of approximately 80% of the assets from the control of IBC to the ultimate control of HoldCo #1.

88. HoldCo #1 is required to execute a guaranty of the obligations of IBC and certain other Affiliates to its customers in connection with obtaining its primary license.

89. While the guaranty applies to customer contract obligations, the transfer of assets to HoldCo #1's control may cause these assets to be unavailable for the benefit of Subscribers after the Plan of Division, and the Department concludes that in the absence of certain conditions, the Restructuring would be unfair and unreasonable, fail to confer a benefit on Policyholders, and not be in the public interest due to the inability of the Department to limit or review future asset transfers that could impair the financial condition of IBC or the PA Domestic Insurers or impede the ability of Policyholders to enforce their insurance contracts.

90. In order to assure benefits to the public from the Restructuring, the Department determines that it is necessary to impose conditions that limit the amount of present and former holding company system funds that may be transferred to Health Care Entities without notice to or approval of the Department.

Community Health Reinvestment

91. IBC has stated that "HoldCo #1 intends to continue IBC's decades-long commitment to its mission of enhancing the health and wellness of the people and communities it serves, and the proposed restructuring will not have any impact on the types or amounts of any future health, wellness or community investment activities." IBC cautioned, however, that "[s]imilar to the circumstances affecting IBC today, HoldCo #1's financial support of community health and wellness activities will be subject to the future financial results of the core businesses conducted by HoldCo #1 and its Affiliates following closing on the restructuring. This would be true whether or not the restructuring is approved."

92. Currently, IBC is required by Article XXV of the Insurance Company Law of 1921, 40 P.S. § 991.2502(a)(1) and (a)(2), to submit an annual proposal of its community health reinvestment activities.

93. At the time that Article XXV was enacted, IBC was the ultimate controlling person of its holding company system.

94. The Restructuring involves the creation of a new ultimate controlling Person, HoldCo #1, which is not the type of Entity technically required to submit a proposal of its community health reinvestment by Article XXV.

95. Under the Restructuring, IBC would become a third-tier subsidiary of HoldCo #1.

96. These changes could adversely impact the public interest, including the continued availability of community health reinvestment activities under Article XXV.

97. Accordingly, the Department determines that, in addition to the other conditions described above, and in furtherance of the public interest, it is necessary to impose a condition that requires HoldCo #1 to comply with Article XXV on behalf of itself, SubHoldCo #1 and any HoldCo #1 Entity that was required to comply with Article XXV prior to the Restructuring.

V. Standard 5: Condition Not Present - That The Competence, Experience, And Integrity Of Those Persons Who Would Control The Operation Of HoldCo #1 Are Such That It Would Not Be In The Interest Of The Policyholders And The Public To Permit The Change Of Control.

98. When analyzing an application for an acquisition of control under Section 1402, the Department reviews the competence, experience and integrity of the Persons who will control the operations of the acquired insurer.

99. IBC has represented that the HoldCo #1 directors and principal officers, upon the Effective Time will be the same individuals who serve in the same positions as IBC directors and principal officers as of the Effective Time.

100. IBC represented to the Department that there will be no change to the boards of directors or principal officers of IBC or any of the PA Domestic Insurers as a result of the Restructuring.

101. The Department is thus satisfied that the Persons who would control the operations of HoldCo #1 have such competence, experience and integrity that the interests of Policyholders and the public would not be jeopardized.

102. With regard to the composition of the Boards of Directors, IBC stated in the Application, “[a]s IBC does today, HoldCo #1 will have a board and board committee structure that complies with the requirements of 40 P.S. § 991.1405(c)(3) through (c)(4.1). However, IBC’s regulated affiliates historically have relied on IBC’s board and committee structures to satisfy their own compliance obligations, as permitted by 40 P.S. § 991.1405(c)(5).”

103. IBC has requested that the Department continue to allow the regulated operating subsidiaries to rely on a compliant parent company board and committee structure as permitted by 40 P.S. § 991.1405(c)(5), since there will be no substantive change in the governance practices followed by the holding company system, reasoning that “the alternative of replicating a fully compliant board and committed structure at each regulated subsidiary would be impractical, extraordinarily expensive and inefficient, and would provide no countervailing benefits to anyone.”

104. HoldCo #1 is not an insurer, an attorney-in-fact for a reciprocal exchange, a mutual insurance holding company or a publicly held corporation having a board of directors and committees thereof which meets the requirements of 40 P.S. § 991.1405(c)(3), (c)(4), and (c)(4.1). Nonetheless, based upon IBC’s representations, the Department is willing at this time to grant IBC’s request to allow IBC and the PA Domestic Insurers to rely on the provisions of 40 P.S. § 991.1405(c)(5) as if HoldCo #1 were an insurer. However, the Department reserves the right to withdraw this approval at any time with 90 days prior notice to HoldCo #1.

VI. Standard 6: Condition Not Present - That The Restructuring Is Likely To Be Hazardous Or Prejudicial To The Insurance Buying Public.

105. The analysis stated in Paragraphs 70 to 90 above is incorporated herein as if fully set forth herein.

106. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department evaluates whether the acquisition of control is likely to be hazardous or prejudicial to the insurance buying public.

107. Although the Restructuring contemplates the transfer of approximately 80% of the assets from the control of IBC to the ultimate control of HoldCo #1, HoldCo #1 will be required to execute financial guarantees of customer obligations owed by IBC, Vista, and Keystone, but a guaranty will not be required for QCC because IBC asserted that it is covered by the Pennsylvania Life and Health Guaranty Fund.

108. The financial guaranty of customer claims addresses one aspect of the Restructuring – the ability to honor claims – that potentially affects the insurance buying public.

109. As provided in Paragraphs 70 to 90, the Restructuring provides for changes in the holding company system's governance and for transfers of significant assets from IBC.

110. These changes potentially could impair the financial condition of IBC or the PA Domestic Insurers or impede the ability of Policyholders to enforce their insurance contracts and thus require the imposition of conditions that limit the activity of HoldCo #1 that may be undertaken.

111. With the imposition of appropriate conditions to allow the Department to limit or review future asset transfers that could impair the financial condition of IBC or the PA Domestic Insurers or impede the ability of Policyholders to enforce their insurance contracts, the Department cannot conclude that the Restructuring is likely to be hazardous or prejudicial to the insurance buying public.

VII. Standard 7: Condition Not Present - That The Restructuring Is Not In Compliance With The Laws Of The Commonwealth.

112. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department evaluates whether the acquisition of control is not in compliance with the laws of this Commonwealth.

113. The Department has evaluated the Change of Control to be consummated in connection with the Restructuring as set forth in the Application as to whether it is in compliance with the laws of Pennsylvania.

114. The Department has further determined that the imposition of the conditions prohibiting the conversion of HoldCo #1 is sufficient to ensure that the provision of 15 Pa.C.S. § 5961(a) of Nonprofit Law will not be violated by an attempted conversion of HoldCo #1.

115. The Department has not identified any other provisions of Pennsylvania law that could be violated as a result of approval of the Change of Control of IBC.

VIII. Miscellaneous.

116. Section 1402(f)(2) does not require that the Department conduct a hearing in review of a change of control unless the Persons or insurers involved in the filing so request, or the Department, in its discretion, elects to hold a hearing.

117. IBC did not request a public informational hearing under Section 1402.

118. The Department's decision not to conduct a public informational hearing in the absence of a request from IBC was a proper exercise of the Department's discretionary authority under Section 1402.

**BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA**

In Re:

Application of Independence Blue Cross on behalf of HoldCo #1 in Support of a Request for Approval to Restructure its Holding Company System Resulting in a Change of Control of Independence Blue Cross; QCC Insurance Company; Keystone Health Plan East, Inc.; AmeriHealth HMO, Inc.; Vista Health Plan, Inc.; Region 6 Rx Corp.; CBHNP Services, Inc.; Inter-County Health Plan, Inc.; Inter-County Hospitalization Plan, Inc.	: Pursuant to Sections 1401, 1402 and 1403 of the Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P. L. 682, <u>as amended</u> , 40 P.S. §§ 991.1401, 991.1402 and 991.1403; and Chapter 25 of Title 31 of the Pennsylvania Code, 31 Pa. Code §§ 25.1-25.23.
	Order No. ID-RC-14-07

ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania (the "Commissioner") hereby makes the following Order:¹

1. The application of Independence Blue Cross on behalf of HoldCo #1 in support of a request for approval to restructure its holding company system resulting in the Change of Control of Independence Blue Cross and its Pennsylvania domiciled insurance company subsidiaries, as set forth in the Application, is hereby approved, subject to this Order and the following conditions (each a "Condition" and collectively, the "Conditions"):

¹ In addition to the words or terms otherwise defined in this Order, as used in this Order and the appendix thereto, the following terms have the meanings set forth in Appendix 1 to the Decision and Order.

A. HoldCo #1 is prohibited from converting to a for-profit Entity. This Condition shall stay in effect so long as the provisions of the Pennsylvania Nonprofit Corporation Law of 1988, 15 Pa.C.S. §§ 5101 et. seq. or other applicable law of the Commonwealth of Pennsylvania (i) provides that corporations subject to the supervision of the Insurance Department of the Commonwealth of Pennsylvania (“Department”) may not convert to a for-profit business corporation or other for-profit Entity, or (ii) materially limits the right of corporations subject to the supervision of the Department to convert to a for-profit business corporation or other for-profit Entity. By implementation of the Restructuring, HoldCo #1 agrees that it shall be deemed to be an Entity “subject to supervision of the Insurance Department” for purposes of 15 Pa.C.S. § 5961(a).

B. The provisions regarding (i) Subscriber governance oversight and (ii) government official appointees to the IBC board of directors that currently exist in the IBC Articles and/or the IBC bylaws, including those as contained in the proposed Amended IBC Articles and summarized in the Findings of Fact Number 82 shall (a) remain in the IBC Articles and/or the IBC bylaws in their current form or as proposed in the Amended IBC Articles; and (b) may not be amended or deleted, in whole or in part, without the Commissioner’s prior written consent.

C. With respect to community health reinvestment activities, HoldCo #1 shall (on behalf of itself, SubHoldCo #1 and any HoldCo #1 Entity that was required to comply with 40 P.S. § 991.2502(a)(1) and (a)(2) prior to the Restructuring) (i) comply with Article XXV of the Insurance Company Law of 1921, 40 P.S. §§ 991.2501-991.2504, and (ii) submit annually the proposal required by 40 P.S. § 991.2502(a)(1) and the report required by 40 P.S. § 991.2502(a)(2).

D. Without the Approval of the Department (“Donation Approval”), no PA Domestic Insurer shall make, or agree to make, directly or indirectly, any Donation to or for one or more Health Care Entities, if such Donation(s) equals or exceeds in Aggregate Amount the lesser of (i) 3% of the PA Domestic Insurer’s surplus as regards Policyholders, as shown on its latest annual statement on file with the Department; or (ii) the greater of \$4,000,000 or 25% of the PA Domestic Insurer’s net income as shown on its latest annual statement (“Donation Approval Threshold”). As used in this Condition D, the term “Aggregate Amount” shall include (i) the amount of the currently proposed Donation(s) and (ii) the sum of all other Donations made to any and all Health Care Entities and any and all other HoldCo #1 Entities during the preceding 12-month period by any and all PA Domestic Insurers.

(1) Once a Donation Approval has been issued by the Department, the PA Domestic Insurers, without additional Approval of the Department, may make Donations to or for one or more Health Care Entities (exclusive of the Donation(s) subject to that Donation Approval) up to \$1,000,000 in the aggregate for all PA Domestic Insurers during the 12-month period following that Donation Approval. Once an additional total of \$1,000,000 in Donations to or for any one or more Health Care Entities have been made by one or more PA Domestic Insurers during the 12-month period following a Donation Approval, all additional Donations made to or for any Health Care Entities shall be subject to Approval of the Department for the remainder of that 12-month period following that Donation Approval.

(2) In no event shall a PA Domestic Insurer have any right, directly or

indirectly, to make a Donation to or for any one or more Health Care Entities if the RBC Rating of such PA Domestic Insurer is, or as a result of the Donation is likely to be, 525% or below. No Approval of the Department shall be required under this Condition D, if Department approval for the Financial Commitment has been obtained under 40 P.S. § 991.1405.

E. Any Financial Commitment made or agreed to be made to or for any one or more Health Care Entities by any of the HoldCo #1 Entities, directly or indirectly, shall satisfy the following requirements:

(1) Transactions Requiring Only Notice. If the amount of any Financial Commitment made or agreed to be made by one or more of the HoldCo #1 Entities to or for any one or more Health Care Entities equals or exceeds \$100,000,000 in the aggregate (the "Aggregate Amount"), the HoldCo #1 Entity making or agreeing to make such Financial Commitment shall deliver to the Department written notice 30 days in advance of making or agreeing to make such Financial Commitment (the "Financial Commitment Notice"). For purposes of determining the Aggregate Amount for the purpose of this Condition E.1, the Aggregate Amount of a Financial Commitment shall include (i) the amount of the currently proposed Financial Commitment, and (ii) the total of all other Financial Commitments made to or for any one or more Health Care Entities during the preceding 12-month period by any and all of the HoldCo #1 Entities. The Financial Commitment Notice shall describe such Financial Commitment, and provide such information as is required by 31 Pa. Code § 27.3 relating to material transactions, together with such other information as the Department shall request. No notice is required under this Condition if notice of the Financial Commitment is provided to the Department pursuant to 40 P.S. § 991.1405.

(2) Transactions Requiring Department Approval. Without the Approval of the Department ("Financial Commitment Approval"), no HoldCo #1 Entity shall make or agree to make, directly or indirectly, any Financial Commitment to or for any one or more Health Care Entities if (i) the Aggregate Amount thereof equals or exceeds \$250,000,000; or (ii) the RBC Rating of any PA Domestic Insurer that is a party to or participating in the Financial Commitment is, or as a result of the Financial Commitment is likely to be, 525% or below. For purposes of determining the Aggregate Amount for the purpose of this Condition E.2, the Aggregate Amount of a Financial Commitment shall include (i) the amount of the currently proposed Financial Commitment, and (ii) the sum of all other Financial Commitments made to or for any one or more Health Care Entities during the preceding 12-month period by any and all of the HoldCo #1 Entities. Notwithstanding the foregoing, once a Financial Commitment Approval has been issued for one or more Financial Commitment(s) that equals or exceed \$250,000,000, without additional Financial Commitment Approval, HoldCo #1 Entities may make Financial Commitments to or for any Health Care Entities (exclusive of the Financial Commitment(s) subject to the Financial Commitment Approval) up to \$1,000,000 in the aggregate for all HoldCo #1 Entities. Once an additional total of \$1,000,000 in Financial Commitments have been made to one or more Health Care Entities all additional Financial Commitments made to or for any Health Care Entities shall be subject to Approval of the Department for the remainder of that 12-month period following that Financial Commitment Approval.

(3) A PA Domestic Insurer may not make or agree to make, directly or

indirectly, a Donation and/or a HoldCo #1 Entity may not make or agree to make, directly or indirectly, a Financial Commitment to or for one or more Health Care Entities, that is or are part of a plan or series of Donations, Financial Commitments and/or other transactions by itself or with other HoldCo #1 Entities, the purpose, design or intent of which is, or could reasonably be construed to be, to evade the amount set forth in Condition D or E of this Order and thus avoid the review that would occur otherwise.

F. Upon written request by a HoldCo #1 Entity setting forth (a) the specific Condition(s) for which such HoldCo #1 Entity seeks relief; (b) the reason for which such relief is necessary; and (c) an undertaking by such HoldCo #1 Entity to provide all such further information as the Department shall require to evaluate the request, the Department may evaluate and, after evaluation of the request, the Commissioner, in the Commissioner's sole discretion, may grant relief, in whole or in part, from one or more of the Conditions as the Commissioner may be deem appropriate.

G. Nothing in this Order shall be construed to modify or repeal any term or condition of any prior order or approval of the Department. The Department shall determine whether and to what extent any conflict or inconsistency exists between or among this Order and any term or condition in any prior order(s) or approval(s) of the Department, and the Department shall have the authority to determine what term or condition controls.

H. If IBC and HoldCo #1 implement the Restructuring, HoldCo #1 and/or IBC shall provide to the Department a list of closing documents within 5 days after consummation of the Restructuring, shall maintain the listed documents and make them available to the Department for a period of not less than 5 years from the date of consummation of the Restructuring, and shall be deemed to have agreed expressly on behalf of itself and HoldCo #1 Entities to fully and promptly comply with each Condition to the extent applicable. A copy of the Articles of Division, HoldCo #1 Articles, the Amended IBC Articles and all other material documents executed in connection with the Restructuring must be filed with the Commissioner not later than 10 days after filing of the Articles of Division with the Department of State.

I. Each year, no later than the date on which the financial statements are required to be filed for the holding company system under Form B or otherwise filed pursuant to 40 P.S. § 991.1404(a), HoldCo #1 shall file with the Department audited financial statements (including but not limited to all footnotes) of HoldCo #1 for the immediately preceding calendar year, prepared in accordance with GAAP. Such financial statements (excluding any portion of such statements that contain confidential/proprietary/trade secret information and, if any such information is excluded, the auditors' opinion thereon) shall be a public record. In addition, HoldCo #1 shall file with the Department any letters from auditor(s) to management (which letters shall be held as confidential by the Department to the extent permitted by Pennsylvania law) and any other information requested by the Department.

J. Each PA Domestic Insurer shall comply with the 2005 Surplus Determination. On or before March 1 of each year, HoldCo #1 shall submit to the Department a confidential report of the consolidated risk factor ratio combined for all PA Domestic Insurers in accordance with the methodology outlined on pages 26-28 of the 2005 Surplus Determination. The total adjusted capital to be used shall be the sum of the total adjusted capital values of all PA Domestic

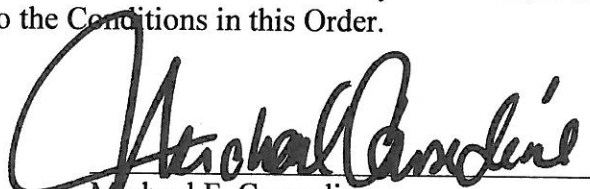
Insurers.

K. The Department may retain at the reasonable expense of HoldCo #1 and the PA Domestic Insurers, as determined by the Department, any attorneys, accountants and other experts not otherwise part of the Department's staff as, in the judgment of the Department, may be necessary to assist the Department, regardless whether retained before, on or after the date of this Order, in or with respect to (i) the enforcement, or any challenge or contest to enforcement or validity, of the Conditions or otherwise of this Order, including, but not limited to, reviewing and analyzing any certifications, reports, submissions or notices by or for any HoldCo #1 Entity or auditing and reviewing any books and records of any HoldCo #1 Entity to determine compliance with any of the Conditions; (ii) compliance by HoldCo #1, any other HoldCo #1 Entity with this Order; (iii) litigation, threatened litigation or inquiries or investigations regarding, arising from or related to the Application, the process surrounding the approval of the Application and/or this Order; (iv) evaluation and assessment of any certifications, reports submissions, or notices given or required to be given in connection with this Order; and/or (v) the defense of any request or action to require public disclosure of information that any HoldCo #1 Entity or the Department deems confidential. The obligations of the HoldCo #1 Entities to the Department for all such costs and expenses shall be joint and several obligations.

2. The request from IBC to change its name to "Independence Hospital Indemnity Plan, Inc." is hereby approved, subject to any requirements of other regulatory authorities or other Persons, appropriate notice being given promptly to all relevant Policyholders, agents and other interested Persons, and the filing of the articles of amendment to the IBC Articles with the Pennsylvania Department of State.
3. The request from IBC for an exception to 40 P.S. § 991.1405(c)(5) to allow IBC and the PA Domestic Insurers to rely on the provisions of 40 P.S. § 991.1405(c)(5) as if HoldCo #1 were an insurer is hereby approved, subject to the right of the Department to withdraw such approval upon 90 days prior notice to HoldCo #1.

This Order is effective immediately and valid for 1 year, provided that no material changes are made to the transaction prior to consummation. This 1 year limitation does not apply to Paragraphs 2 to 3 of this Order or to the Conditions in this Order.




Michael F. Consedine
Insurance Commissioner
Commonwealth of Pennsylvania

Appendix 1 (Definitions)

In addition to the words or terms otherwise defined in this Decision and Order, as used in this Decision and Order and this appendix, the following terms have the following meanings:

“2005 Surplus Determination” shall have the meaning as set forth in Paragraph 1 of this Decision and Order.

“Affiliate” means any present Person or any future Person that, directly or indirectly through one or more intermediaries, Controls, is Controlled by, or is under Common Control with any other HoldCo #1 Entity and its successors or assigns to the extent that its successors or assigns are HoldCo #1 Entities. “Affiliate” is presumed to include but is not limited to each Person in which any HoldCo #1 Entity, directly or indirectly, has a membership interest equal to 10% or more of all issued and outstanding membership interests of such Person or that is otherwise Controlled by any HoldCo #1 Entity, and this presumption may be rebutted by showing that a Person presumed to be an Affiliate does not Control, or is not Controlled by or under Common Control with, any HoldCo #1 Entity or its successors or assigns to the extent that its successors or assigns are HoldCo #1 Entities.

“Affiliate Agreements” shall have the meaning as set forth in Paragraph 20 D of this Decision and Order.

“Aggregate Amount” shall have the meaning set forth in Condition D and E of the Order.

“AHI” shall have the meaning as set forth in Paragraph 3 of this Decision and Order.

“AIBI” shall have the meaning as set forth in Paragraph 24E of this Decision and Order.

“Amended IBC Articles” shall have the meaning as set forth in Paragraph 17 of this Decision and Order.

“AmeriHealth” shall have the meaning as set forth in Paragraph 6 of this Decision and Order.

“Application” means the application on Form A filed by IBC on behalf of HoldCo #1, as applicant, with the Department on August 7, 2013, as amended and supplemented by filings made by IBC on behalf of HoldCo #1 with the Department.

“Appointed Directors” shall have the meaning as set forth in Paragraph 82 of this Decision and Order.

“Approval of the Department” means when the Department expressly grants its written approval to a written request by the applicable requesting party for Department approval.

“Articles of Division” shall have the meaning as set forth in Paragraph 15 of this Decision and Order.

“Blank Rome” shall have the meaning as defined in Paragraph 39 of this Decision and Order.

“CBHNP” shall have the meaning as set forth in Paragraph 9 of this Decision and Order.

“Change of Control” shall have the meaning as set forth in the first “Whereas” clause of this Decision and Order.

“Comment Period” shall have the meaning as defined in Paragraph 31 of this Decision and Order.

“Commissioner” means the Insurance Commissioner of the Commonwealth of Pennsylvania.

“Competitive Standard” shall have the meaning as set forth in Paragraph 52 of this Decision and Order.

“Conditions” means the Conditions to the Order.

“Control,” “Controlling,” “Controlled by” or “under Common Control with” shall have the meaning given to those terms in 40 P.S. § 991.1401.

“Department” means the Insurance Department of the Commonwealth of Pennsylvania.

“Department of State” means the Commonwealth of Pennsylvania, Department of State.

“Division” shall have the meaning as set forth in Paragraph 16 of this Decision and Order.

“Donation” means any contribution, grant, donation or other transfer or payment of funds, property or services (or a commitment to make a Donation), whether made directly or indirectly, in cash or in kind; provided, however, that “Donation” shall not include (i) any contribution made from any PA Domestic Insurer to another PA Domestic Insurer or by any subsidiary of any PA Domestic Insurer to any other PA Domestic Insurer; (ii) any transfer or payment made from any PA Domestic Insurer to any Person in exchange for and only to the extent of the fair value of (A) goods or services received by the transferring or paying Person or (B) any assets or property (tangible or intangible) received by the transferring or paying Person but only to the extent recognized by the transferring or paying Person as assets or property under GAAP; and (iii) any Donation made to the Independence Blue Cross Foundation but only to the extent that Donations in any calendar year do not exceed the average of all Donations made by all HoldCo #1 Entities to the Independence Blue Cross Foundation during the prior 5 calendar years.

“Donation Approval” shall have the meaning set forth in Condition D of the Order.

“Donation Approval Threshold” shall have the meaning as set forth in Condition D of the Order.

“Effective Time” shall have the meaning as set forth in Paragraph 15 of this Decision and Order.

“Entity” means a Person other than an individual.

“Financial Commitment” means any direct or indirect payment or transfer of any cash or other property, any Donation, provision of services, encumbrance upon or granting of any security interest in or to any assets or properties, or the direct or indirect guaranty or incurrence of any

contractual obligation or liability. The term “Financial Commitment” includes, but is not limited to, the acquisition of any assets or properties of or interests in, the merger, consolidation or affiliation with, or the entering into of any financial or contractual relationship with, any Person, except for any Financial Commitment made in the ordinary and usual course of business of a PA Domestic Insurer. As used in this definition, “ordinary and usual course of business” shall not include the acquisition of any assets or property of or interest in; the merger, consolidation or affiliation with; or any Donation to or investment in any Person. This definition of “Financial Commitment” is not intended to include reimbursements to Health Care Providers for the provision of Health Care Services to the Subscribers of a Health Care Insurer.

“Financial Commitment Approval” shall have the meaning set forth in Condition E of the Order.

“Financial Commitment Notice” shall have the meaning set forth in Condition E of the Order.

“GAAP” means generally accepted accounting principles, consistently applied.

“Health Care Entity” means individually (i) any Health Care Provider; (ii) any Person who Controls a Health Care Provider through the provision of any management, consulting or administrative services to or for the Health Care Provider; or (iii) any Person who Controls or is Controlled by a Health Care Provider, and the term “Health Care Entities” means one or more of the foregoing.

“Health Care Insurer” means the PA Domestic Insurers or any other related or unrelated insurance company, health plan corporation, professional health services plan corporation, health maintenance organization, preferred provider organization or other Person engaged in the business of insurance that finances or pays for health care goods and/or services in Pennsylvania.

“Health Care Provider” means a hospital; hospital system; acute care center; surgical center; skilled nursing facility or other nursing home; urgent care center; convenient care center; health care clinic irrespective of the name given to such Entity; diagnostic service provider; outpatient rehabilitation facility; other outpatient physical therapy or occupational therapy provider; hospice provider; medical mall (i.e. a facility providing retail Health Care Services to individuals irrespective of the name given to such Entity); physician; physician practice; dentist; dental practice; psychologist; psychological or psychiatric service provider; social worker; social work service provider; assisted living provider; home health care service provider; or independent living facility.

“Health Care Service” means any medical or health care service including but not limited to the treatment or care of an individual or administration of any medical service or medical goods or supplies or dispensing of any medical goods or supplies.

“HoldCo #1” means a Pennsylvania nonprofit corporation to be formed upon the Effective Time and which will be the ultimate controlling person of IBC.

“HoldCo #1 Articles” shall have the meaning as set forth in Paragraph No. 18 of this Decision and Order.

“HoldCo #1 Entity” or “HoldCo #1 Entities” means individually and/or collectively IBC, HoldCo #1 and Affiliates of HoldCo #1, including, but not limited to, the Pa Domestic Insurers, any Entity Controlled by any of the foregoing, and their respective successors and assigns to the extent that their successors and assigns are HoldCo #1 Entities.

“IBC” means Independence Blue Cross, a nonprofit hospital plan corporation organized pursuant to the laws of the Commonwealth of Pennsylvania.

“IBC Articles” shall have the meaning as set forth in Paragraph 17 of this Decision and Order.

“IBC MH” shall have the meaning as set forth in Paragraph 24C of this Decision and Order.

“IC Health” shall have the meaning as set forth in Paragraph 11 of this Decision and Order.

“IC Hospital” shall have the meaning as set forth in Paragraph 10 of this Decision and Order.

“IPT” shall have the meaning as set forth in Paragraph 24C of this Decision and Order.

“Insurance Holding Companies Act” means 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.

“Keystone” shall have the meaning as set forth in Paragraph 8 of this Decision and Order.

“Nonprofit Law” means the Pennsylvania Non Profit Corporation Law of 1988, 15 Pa. C.S. §§ 5101 et seq., as amended.

“Order” means the Order issued by the Commissioner pursuant to and made a part of this Decision and Order.

“PA Domestic Insurers” means the following Pennsylvania domestic insurers to which the Application applies: IBC; QCC; Keystone; AmeriHealth; Vista; Region 6; CBHNP; IC Health; IC Hospital. For the purposes of the Conditions to the Order (i) the term “PA Domestic Insurers” also includes but is not limited to any Health Care Insurer hereafter formed, acquired or organized and Controlled, directly or indirectly, by or for any of the foregoing or by any other HoldCo #1 Entity; and (ii) the term “PA Domestic Insurer” shall not include CBHNP, IC Health or IC Hospital to the extent that those entities are not used, directly or indirectly, to circumvent, affect or impair the purpose or intent of any Condition of the Order.

“Person” means any individual, corporation, partnership, limited liability company, trust, association, employee pension plan or stock trust or other entity or organization, including but not limited to any governmental or political subdivision or any agency or instrumentality thereof.

“Plan of Division” means the plan of division to be filed by IBC with the Department of State pursuant to which IBC proposes to divide into (a) itself and (b) HoldCo #1, with HoldCo #1 being the ultimate parent of IBC, the other PA Domestic Insurers and IBC’s other subsidiary companies, a copy of the form of which has been filed with the Application.

“Policyholder” is used interchangeably with “subscriber.”

“QCC” shall have the meaning as set forth in Paragraph 4 of this Decision and Order.

“RBC Rating” means the risk-based capital level of a Health Care Insurer determined in accordance with the insurance laws and requirements of the Commonwealth of Pennsylvania as amended from time to time and in a manner acceptable to the Department.

“Region 6” shall have the meaning as set forth in Paragraph 5 of this Decision and Order.

“Restructuring” means the restructuring of the IBC holding company system being proposed in connection with Plan of Division and resulting in a change control of IBC and the other PA Domestic Insurers as described in the Application.

“Restructuring Steps” shall have the meaning as set forth in Paragraph 24 of this Decision and Order.

“Section 1402” shall have the meaning as set forth in Paragraph 38 of this Decision and Order.

“Section 1403” shall have the meaning as set forth in Paragraph 52 of this Decision and Order.

“Subscriber” is used interchangeably with the word “policyholder.”

“SubHoldCo #1” means a for-profit corporation identified in the Application as SubHoldCo #1,” which after the Restructuring will become a wholly owned subsidiary of HoldCo #2.

“SubHoldCo #2” means a for-profit corporation identified in the Application as “SubHoldCo #2,” which after the Restructuring will become a wholly owned subsidiary of HoldCo #2.

“SubHoldCo #3” means a for-profit corporation identified in the Application as “SubHoldCo #3,” which after the Restructuring will become a wholly owned subsidiary of HoldCo #2.

“SubHoldCo #4” means a for-profit corporation identified in the Application as “SubHoldCo #4,” which after the Restructuring will become a wholly owned subsidiary of HoldCo #2.

“Vista” shall have the meaning as set forth in Paragraph 7 of this Decision and Order.