

**BEFORE THE INSURANCE DEPARTMENT
OF THE
COMMONWEALTH OF PENNSYLVANIA**

**Statement Regarding the Acquisition of Control of or Merger with
Domestic Insurers:**

**Hospital Service Association of Northeastern Pennsylvania
d/b/a Blue Cross of Northeastern Pennsylvania;
First Priority Life Insurance Company, Inc.;;
HMO of Northeastern Pennsylvania, Inc.,
d/b/a First Priority Health**

By Highmark Inc.

**BCNEPA RESPONSE TO SUPPLEMENTAL INFORMATION REQUEST
2.3.4 FROM
THE PENNSYLVANIA INSURANCE DEPARTMENT**

SUPPLEMENTAL REQUEST 2.3.4 (via letter from PID dated August 27, 2014)

Required Action: Please provide a complete analysis of 40 P.S Section 991.1405(c)(3) and 40 Pa.C.S. Chapter 61 as it relates to the Advisory Board and the Class A Members.

RESPONSE:

BCNEPA hereby supplements its prior response to this Request as follows:

BCNEPA certifies to the best of its knowledge, information and belief as follows:

(1) 40 P.S Section 991.1405(c)(3)

The referenced provisions of the Insurance Holding Companies Act, 40 P.S. § 991.1405(c)(3), read as follows:

(3)(i) Not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of such insurer or of any entity controlling, controlled by or under common control with such insurer and who are not beneficial owners of a controlling interest in the voting stock of such insurer or any such entity. At least one such person must be included in any quorum for the transaction of business at any meeting of the board of directors.

(ii) Not less than one-third of the members of each committee of the board of directors of any domestic insurer shall be persons who are not officers or employees of such insurer or of any entity controlling, controlled by or under common control with such insurer. At least one such person must be included in any quorum for the transaction of business at any meeting of each committee.

Analysis:

The independence or non-independence of the Class A Members under the standard set forth in 40 P.S. § 991.1405(c)(3) will be a factor in determining compliance by Highmark’s Board of Directors and any committees thereof with 40 P.S. § 991.1405(c)(3). BCNEPA is not aware of any intention or expectation that any of the Class A Members will become officers or employees of Highmark or any affiliate of Highmark or that any of the Class A Members will become beneficial owners of a controlling interest in the voting stock of Highmark or any affiliate of Highmark, and therefore believes that the Class A Members will be considered independent under 40 P.S. § 991.1405(c)(3).

As outlined in its supplemental answer to 2.3.3, because the Advisory Board is not a “committee of the board” and will have no authority to direct activities of Highmark or to bind Highmark in any respect and will at all times be subject to the powers and prerogatives of the Highmark Board of Directors, BCNEPA does not believe that 40 P.S. § 991.1405(c)(3) is applicable to the Advisory Board. Solely for purposes of this analysis and without conceding to any applicability of this provision to the Advisory Board, BCNEPA is not aware of any intention or expectation that any of the NEPA Advisory Board Members (as defined in the proposed Fourth Amended and Restated Bylaws of Highmark) will become officers or employees of Highmark or any affiliate of Highmark or that any of the NEPA Advisory Board Members will become beneficial owners of a controlling interest in the voting stock of Highmark or any affiliate of Highmark, and therefore believes that the NEPA Advisory Board Members would be considered independent under 40 P.S. § 991.1405(c)(3) if the Advisory Board was considered a “committee of the board” under 40 P.S. § 991.1405(c)(3).

(2) **40 Pa.C.S. Chapter 61**

We have thoroughly reviewed the provisions of 40 Pa.C.S. Chapter 61, relating to nonprofit hospital plan corporations, and it is our understanding that it does not contain provisions relating to the composition of the Board of Directors of a nonprofit hospital plan corporation.

Analysis:

Because 40 Pa.C.S. Chapter 61 does not contain provisions relating to the composition of the Board of Directors of a nonprofit hospital plan corporation, BCNEPA can see no impact on Highmark’s compliance with this provision resulting from the BCNEPA Class A Directors and/or Advisory Board. We note that 40 Pa.C.S. Chapter 63 includes requirements with respect to the Board of Directors of a health service corporation, such as Highmark, and we direct you to

Highmark's response to Request 2.3.4 for an analysis of that Chapter as it may relate to the Advisory Board and the Class A Members.

**Hospital Service Association of
Northeastern Pennsylvania
d/b/a Blue Cross of Northeastern
Pennsylvania (“BCNEPA”)
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