

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402, and
: 1403 of the Insurance Holding
Application of Capital Blue Cross in : Companies Act, Article XIV of the
Support of the Request for Approval to : Insurance Company Law of 1921,
Acquire Control of all the Issued and : Act of May 17, 1921, P.L. 682,
Outstanding Capital Stock of Keystone : as amended, 40 P.S. §§991.1401,
Health Plan Central, Inc. : 991.1402, and 991.1403
: :
: Order No. ID-RC-03-28

DECISION AND ORDER

AND NOW, on this ___17th___ day of July, 2003, M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner"), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Law and the Insurance Holding Company 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. Keystone Health Plan Central, Inc. ("KHP-Central") is a stock health maintenance organization ("HMO") organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Camp Hill, Pennsylvania.

2. Capital Blue Cross (“CBC”) is a hospital plan corporation organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Harrisburg, Pennsylvania. CBC currently holds 50% of the issued and outstanding voting stock of KHP-Central.
3. Highmark, Inc. (“Highmark”) is a health plan corporation organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Pittsburgh, Pennsylvania. Highmark currently holds 50% of the issued and outstanding voting stock of KHP-Central.

Acquisition Filing

4. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1992, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that any transaction involving control of a domestic HMO must be filed with the Commissioner for approval or disapproval.
5. On May 13, 2003, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an initial application (which together with all material received subsequently is collectively referenced as “Application”) from CBC for approval to acquire sole control of KHP-Central.
6. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

7. On May 24, 2003, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by CBC and such notice invited interested persons to submit comments to the Department regarding the Application for a thirty day period, ending June 23, 2003.
8. The Department received no comments regarding the Application during the thirty day comment period.

Description of the Proposed Acquisition

9. As described in the Application, on March 26, 2003, CBC and Highmark signed a Stock Purchase Agreement relating to the capital stock of KHP-Central (“Agreement”).

10. As described in the Application and pursuant to the Agreement, CBC will pay Highmark twenty nine million dollars in cash for Highmark's current holdings of KHP-Central's voting stock.
11. As described in the Application, CBC will also purchase from Highmark certain KHP-Central Surplus Debentures.
12. As described in the Application, CBC anticipates deriving the consideration to be used in the transaction from its internal corporate funds.

Standards for Review

13. 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 HMO.
14. The application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

Licensing Requirements

15. 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 HMO being acquired.
16. Upon completion of the transaction, KHP-Central will have net worth in an amount that will satisfy the minimum required of a HMO.

Competitive Impact

17. The acquisition of control of the KHP-Central 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.
18. The acquisition of control of the KHP-Central will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of CBC, as stated in the Application, does not exceed the market

share levels established in Section 1403.

Financial Condition of CBC

19. 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 persons.

20. CBC reported December 31, 2002, SAP account balances of:

Assets:	\$ 1,018,348,000
Liabilities:	\$ 449,569,000
Unassigned Funds:	\$ 518,779,000

21. The financial condition of CBC would not pose any impediments to the change in control nor jeopardize the financial condition of the KHP-Central.

Plans for the Acquired HMO

22. 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 HMO.

23. As provided in the Application, CBC has disclosed that it intends to make no significant changes to the business plan of KHP-Central.

Management

24. 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 HMO.

25. Biographical affidavits for all directors and executive officers of CBC were provided as part of the Application and the Department reviewed all affidavits that were submitted.

26. The Department is satisfied that the persons who would control the operations of KHP-Central have such competence, experience and integrity that the interests of policyholders and the public would not be

jeopardized.

27. 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 Commissioner has jurisdiction to review and approve the change in control of KHP-Central.
2. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner must approve an application for a change in control unless the Department has found that:
 - a) The HMO will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which it is 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 HMO or prejudice the interests of its policyholders;
 - d) Any plans to liquidate the HMO, 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 HMO and not in the public interest;
 - e) The competence, experience and integrity of those persons who would control the operation of the HMO are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control;
 - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public; or,

- 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 KHP-Central.
- 4. The Department has concluded that CBC's acquisitions of KHP-Central Surplus Debentures issued to Highmark are not subject to the Department's approval.
- 5. 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 hereby makes the following Order:

The acquisition of control by Capital Blue Cross ("CBC") of all the issued and outstanding shares of common stock of Keystone Health Plan Central, Inc. is hereby approved, subject to this Order and the following condition:

1. CBC shall make copies of the closing documents available to the Insurance Department within five (5) days of consummation of the subject transaction.

This Order is effective immediately and valid for one year, provided no material changes are made to the transaction prior to consummation.

M. DIANE KOKEN
Insurance Commissioner
Commonwealth of Pennsylvania