



WILCOX & FETZER LTD.

In The Matter Of:

**Before the Insurance Commissioner of the
State of Delaware**

Proposed Affiliation of BCBSD, Inc with Highmark Inc

Docket No. 1509-10

May 16, 2011

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BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF DELAWARE

In Re:)

)
THE PROPOSED AFFILIATION OF) Docket No. 1509-10
BCBSD, INC., DOING BUSINESS)
AS BLUE CROSS BLUE SHIELD)
OF DELAWARE, WITH HIGHMARK)
INC.)

TRANSCRIPT OF PUBLIC INFORMATION SESSION

Delaware Technical & Community College
William A. Carter Partnership Center
Room 555 A and B
Georgetown, Delaware
May 16, 2011
6:30 p.m.

HEARD BEFORE: GENE REED, Deputy Insurance
Commissioner

APPEARANCES:

- MICHAEL HOUGHTON, ESQ. - Counsel to the
Department of Insurance
- LINDA SIZEMORE - Department of Insurance
- JOHN TINSLEY - Department of Insurance
- MARTIN ALDERSON SMITH - The Blackstone Group
- LINDA NEMES - Department of Insurance
- TIMOTHY J. CONSTANTINE - BCBS Delaware
- MICHAEL G. WARFEL - Highmark Inc.

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1 DEPUTY COMMISSIONER REED: Good
2 evening. I'd like to get started. It is 6:30.
3 Welcome to the May 16th Delaware Insurance
4 Department public information session on the
5 proposed affiliation between Blue Cross Blue
6 Shield of Delaware and Highmark.

7 My name is Gene Reed. I am the
8 Deputy Insurance Commissioner of the State of
9 Delaware Insurance Department. The final
10 adjudicator in the matter is the Commissioner,
11 Karen Weldin Stewart, who will make the ultimate
12 decision to approve or disapprove the proposed
13 affiliation.

14 To my immediate right is John
15 Tinsley, Special Deputy of Examinations for the
16 Department. And Linda Sizemore, to his right,
17 Director of Company Regulation.

18 To my left is Mike Houghton, counsel
19 to the Delaware Department of Insurance, and
20 Martin Alderson Smith, financial advisor to the
21 Delaware Department of Insurance.

22 Blue Cross Blue Shield of Delaware,
23 which we will call BCBSD, and Highmark, submitted
24 a filing pursuant to the requirements of Chapter

1 50 of Title 18, the Delaware Insurance Holding
2 Company Registration Act, and the Department's
3 administrative regulation pertaining to the
4 registration of insurance holding companies.

5 The Department has been examining
6 and reviewing the filing, and will continue to do
7 so in the coming weeks and months.

8 The purpose of today's session is
9 not to reach a decision on the proposed
10 affiliation. The purpose of today's session is
11 for the Department of insurance to receive
12 comments from the public to aid the Department in
13 ultimately reaching a decision on the proposed
14 affiliation.

15 In reaching its decision, the
16 Department will pay particular attention to the
17 public's comments about the proposed affiliation,
18 including the comments presented here tonight.

19 The entire record concerning the
20 proposed affiliation, including the transcript of
21 tonight's session, will be reviewed by the
22 Department before the Department reaches any
23 final conclusions.

24 The publicly available portion of

1 the record has been and will continue to be
2 available on the Department's internet website
3 and at the Department's offices in Dover and
4 Wilmington.

5 If you do not have internet access,
6 you may inspect the files at the Department's
7 offices and request copies. You may also submit
8 a request for copies of a particular document or
9 documents by fax or by e-mail.

10 In addition, there is an index of
11 all the documents which are contained in the
12 public files. Copies of the public file index
13 are available for inspection in the back of the
14 room. The public file index is also available
15 many the Department's website, at
16 www.delawareinsurance.gov.

17 Given the significance of this
18 proposed affiliation to the Delaware public, and
19 as is common for such significant transactions,
20 the Department has hired outside legal advisors,
21 the law firm of Morris, Nichols, Arsht & Tunnell,
22 LLP, and outside financial advisors, the advisory
23 firm the Blackstone Group.

24 Mike Houghton of Morris Nichols will

1 now introduce himself, and then Martin Alderson
2 Smith of Blackstone will introduce himself.

3 MR. HOUGHTON: Thank you, Gene. My
4 name is Mike Houghton. I'm special counsel to
5 the Delaware Department of Insurance in this
6 matter, and a partner with the Wilmington law
7 firm of Morris, Nichols, Arsht & Tunnell, LLP. I
8 would also like to welcome you all here tonight.

9 Morris Nichols is, as I've noted, a
10 Delaware law firm located in Wilmington. We have
11 previously represented the Department of
12 Insurance on applications of the same type as the
13 proposed affiliation between BCBSD and Highmark.

14 Morris Nichols' job is to assist the
15 Department with its review, including providing
16 legal advice to the Department about the
17 substantive, as well as the procedural aspects of
18 the review. We will also be involved in the
19 public hearing before the hearing officer, the
20 Honorable Battle Robinson.

21 I would like to discuss the public
22 hearing in a moment. First I want to put this
23 public information session in perspective
24 relative to the other aspects of review of the

1 proposed affiliation.

2 As Deputy Commissioner Reed has
3 stated, the purpose of today's session is not to
4 reach a final decision on the proposed
5 affiliation.

6 The Department is in the midst of
7 its review and analysis of the proposed
8 affiliation, which includes thousands of pages of
9 documents which have been produced by the
10 parties, and will continue its review and
11 analysis until it is finished, and we are
12 satisfied that we can reach a decision regarding
13 the proposed affiliation, including whether
14 additional conditions or requirements should be
15 applied and imposed on the applicants.

16 There are certain criteria which was
17 set forth in the Delaware Insurance Code that are
18 the basis for the Department's review of the
19 proposed affiliation.

20 They are: A, whether BCBSD will be
21 able to satisfy the requirements for the issuance
22 of a license to write the lines of insurance for
23 which it is presently licensed.

24 B, whether the effect of the

1 proposed affiliation would be substantially to
2 lessen competition in insurance in Delaware, or
3 tend to create a monopoly therein.

4 C, whether Highmark's financial
5 condition is such as might jeopardize the
6 financial stability of the insurer or prejudice
7 the interest of its policyholders.

8 D, whether the plans or proposals
9 which Highmark has for BCBSD to make any material
10 changes in its business or corporate structure or
11 management are unfair or unreasonable to policy
12 holders of BCBSD, and not in the public interest.

13 E, the competence, experience, and
14 integrity of those persons who would control the
15 operation of the affiliated entity are such that
16 it would not be in the interests of the
17 policyholders of the insurer and of the public to
18 permit the proposed affiliation.

19 Or F, whether the proposed
20 affiliation is likely to be hazardous or
21 prejudicial to the insurance-buying public.

22 After the Department has finished
23 its review and analysis, there will be a public
24 hearing held before the Honorable Battle

1 Robinson, who is the Department of Insurance's
2 hearing officer for the proposed transaction.

3 The public hearing will be held at a
4 time to be determined. The parties presenting
5 testimony and evidence at the public hearing
6 before Hearing Officer Robinson will include the
7 Department of Insurance and the applicants, Blue
8 Cross Blue Shield of Delaware and Highmark, as
9 well as the Department of Justice, which is a
10 party to this proceeding.

11 At the public hearing, which will be
12 held at a time, as noted, to be determined, Judge
13 Robinson will listen to testimony and review the
14 documentary evidence, and then will issue a
15 decision on the proposed affiliation.

16 The Commissioner will review Judge
17 Robinson's decision, and then give the ultimate
18 approval or disapproval of the proposed
19 affiliation.

20 That is a description of Morris
21 Nichols' role, and where the Department is in the
22 process of its review. And with that, I'll turn
23 it over to Martin.

24 MR. ALDERSON: Thank you very much

1 indeed. Good evening, ladies and gentlemen. My
2 name is Martin Alderson Smith. I'm employed by
3 the Blackstone Group, which is a leading
4 investment banking firm, primarily engaged in
5 financial advisory services and principal
6 investments. I work in Blackstone's corporate
7 advisory services group, and my title is senior
8 managing director.

9 Blackstone has been retained by the
10 Delaware Insurance Department to conduct an
11 independent review of specific financial aspects
12 of the proposed affiliation between Blue Cross
13 Blue Shield of Delaware and Highmark.

14 Blackstone's work will be based upon
15 all the information provided to the Department,
16 and will include reviewing financial and other
17 information submitted by the applicants, talking
18 with various market participants, including
19 providers, competitors, clients, and brokers;
20 assessing the potential impact on competition in
21 the state of Delaware, and reviewing any public
22 comments received by the Department.

23 This information includes all
24 information provided by both BCBSD and Highmark,

1 as well as any public comments submitted to the
2 Department. Blackstone will ultimately provide a
3 report for use by the Department in connection
4 with the Department's review and analysis.

5 Blackstone has significant
6 experience advising State insurance regulators on
7 various life insurance and health insurance
8 transactions. In some of those instances,
9 Blackstone has recommended approving the proposed
10 transaction. In other instances, Blackstone has
11 recommended denying the proposed transaction.

12 Thank you very much indeed for your
13 attendance today. We look forward to your
14 comments, and I will now turn it over back to the
15 Deputy Commissioner.

16 DEPUTY COMMISSIONER REED: Thank
17 you, Mike and Martin. Today's session, as you
18 can see, is being transcribed by a court
19 reporter. The Department will make a copy of the
20 transcript available on its internet website.
21 Again, www.delawareinsurance.gov. You may
22 download a copy of the transcript from the
23 Department's website.

24 If you do not have internet access,

1 you may view the transcript, again, at the
2 Department offices in Dover and Wilmington.
3 Please call to schedule an appointment before
4 visiting the Department offices. You may also
5 request a copy of the transcript by fax or by
6 e-mail.

7 As explained earlier, the purpose of
8 this evening's session is to provide a public
9 forum for anyone to give information and
10 comments, and ask questions about the proposed
11 affiliation between Blue Cross Blue Shield of
12 Delaware and Highmark. Please address your
13 comments to this topic only, and we ask that you
14 please be as concise as possible.

15 If you are speaking, we ask that you
16 include your name on the list of speakers that is
17 available at the registration table within the
18 first 30 minutes of this session. I hope you all
19 have signed in already, and also indicated that
20 you wish to speak.

21 If you have not yet signed in or
22 indicated that you wish to speak, I ask that you
23 please go to the registration table and sign in
24 at this time.

1 I ask that you also indicate if you
2 are speaking on your own behalf, if you are
3 speaking in any type of representative capacity,
4 and what your relationship, if any, to Blue Cross
5 Blue Shield of Delaware or Highmark is.

6 For example, if you are a
7 policyholder or a subscriber of Blue Cross Blue
8 Shield Delaware or Highmark.

9 Because of the informal nature of
10 today's session, there will be no sworn
11 testimony. Cross-examination or other
12 questioning of speakers or other representatives
13 of the parties will not be permitted. However,
14 you may pose questions to the applicant during
15 your oral comments or in writing on the 5 by 7
16 cards available at the registration table.

17 Please pass the cards to the end of
18 the row, and they will be collected during breaks
19 and at the conclusion of this evening's session.

20 Following today's session, the
21 Department will require Blue Cross Blue Shield of
22 Delaware and Highmark to respond in writing to
23 all questions raised by the Department and the
24 public during the session, and will make the

1 responses available on its website, at
2 www.delawareinsurance.gov.

3 Please limit your remarks to five
4 minutes. We do have a timer up here at the
5 table. Once all speakers have given their
6 comments, the Department will allow speakers to
7 present additional comments.

8 If your remarks cannot be fully
9 presented in your initial five minute time slot,
10 if we have time, you may be able to present
11 further remarks the end of this evening's
12 session.

13 Before the public comment session
14 begins, both Blue Cross Blue Shield of Delaware
15 and Highmark have sent representatives to
16 contribute to this evening's public information
17 session.

18 Timothy Constantine of Blue Cross
19 Blue Shield of Delaware, chief executive officer,
20 is here representing Blue Cross Blue Shield of
21 Delaware. Tim, do you want to just raise your
22 hand.

23 MR. CONSTANTINE: Sure.

24 DEPUTY COMMISSIONER REED: And

1 Michael Warfel, vice president of government
2 affairs, is here representing Highmark.

3 Both Mr. Constantine and Mr. Warfel
4 will be making statements this evening. Their
5 statements are intended to give an overview of
6 the transaction, as well as to provide rationale
7 from their respective organizations and
8 stockholders, and to preface the public comment
9 session.

10 Mr. Constantine and Mr. Warfel will
11 speak for approximately 15 minutes each. Their
12 statements will be recorded by the court
13 reporter, and will be posted on the Department's
14 website. Neither Mr. Constantine or Mr. Warfel
15 will make statements beyond these initial
16 remarks, and they will not give verbal responses
17 to individuals during the public comment session.

18 Responses to individual statements
19 and questions from the public will be given in
20 written form, and posted on the Department's
21 website.

22 Mr. Constantine will be speaking
23 first, followed by Mr. Warfel. After both
24 Mr. Constantine and Mr. Warfel speak, we'll get

1 back to the public comment.

2 MR. CONSTANTINE: Good evening, and
3 welcome everyone. Thank you, Deputy Commissioner
4 Reed. My name is Tim Constantine, and I'm
5 president, chief executive officer of Blue Cross
6 Blue Shield of Delaware. With me today is Mike
7 Warfel, the vice president of government affairs
8 at Highmark. We welcome the opportunity to
9 discuss why this partnership between Blue Cross
10 Blue Shield of Delaware and Highmark is good for
11 Delaware, how it will benefit our subscribers,
12 the communities in which we operate, and the
13 people of Delaware.

14 For the sake of simplicity, Mike and
15 I will use the name Blue Cross during our
16 presentation to mean Blue Cross Blue Shield of
17 Delaware.

18 We recognize that these public
19 information sessions are one stage of a
20 comprehensive review process by the Delaware
21 Insurance Department, and we believe that our
22 presentation today, combined with the large
23 volume of information we have already submitted
24 to the Department, will clearly demonstrate that

1 this transaction is in Delaware's best interest.

2 Tonight we will cover a number of
3 topics focusing on how the proposed transaction
4 will benefit the people of Delaware. We will
5 discuss our companies, their missions, and the
6 forces in the healthcare industry that are
7 driving change.

8 We will explain why Blue Cross at
9 this moment needs a strong partner to maintain
10 its strong Delaware presence. And I will also
11 talk about why Highmark is the right partner for
12 us.

13 As this review process moves
14 forward, we look forward to hearing from many
15 Delawareans, including those from local
16 businesses, civic and community organizations,
17 consumers, and healthcare providers.

18 To set the stage for my comments, I
19 would like to turn the discussion over to Mike.

20 MR. WARFEL: Thanks, Tim. Good
21 evening, everyone. As already stated, I'm Mike
22 Warfel, Highmark's vice president for government
23 affairs.

24 One reason we are here tonight is to

1 discuss the sea of changes taking place in our
2 healthcare system nationally and locally, and how
3 these changes create a need for this alliance.
4 Before doing that, I'd like to tell you about
5 Highmark.

6 We have a very proud tradition. For
7 nearly 75 years, we've operated as a nonprofit
8 corporation with a long-standing commitment to
9 the communities in Pennsylvania, and more
10 recently, West Virginia.

11 As part of our long-standing
12 mission, we have provided insurance programs to
13 every segment of the population. We've also
14 subsidized many of these insurance programs to
15 hold down the cost of health insurance for those
16 most in need, including seniors, children, and
17 those with limited economic means who don't
18 qualify for government programs and don't have
19 health insurance through an employer.

20 In addition to developing and
21 supporting these insurance programs, we have
22 provided a tremendous amount of support to the
23 community grants and other forms of giving.
24 These monies are primarily used by community

1 health and human services organizations to help
2 address pressing human needs, including free
3 health, dental, and vision screenings for those
4 in need, childhood obesity, and immunization
5 clinics. In 2010, we contributed \$175 million to
6 programs in support of our corporate mission.

7 Here are some examples that we take
8 great pride in: Highmark has created and
9 continues to carry out many programs to make a
10 difference in the lives of children and their
11 families. Improving the health and wellness of
12 people in our community is one important part of
13 our heritage. We also have a tradition of
14 supporting the economy of local communities and
15 states that we serve, and where our employees
16 live and work.

17 Our presence generates billions of
18 dollars for the economies of Pennsylvania and
19 West Virginia. For example, we buy most of our
20 goods and services from local companies. By
21 doing so, we support and help create additional
22 jobs in the community, and help local and State
23 tax revenue.

24 Our role as an economic engine has

1 helped spur job growth. Since 1996, as our
2 business has grown, we have added nearly 10,000
3 new jobs. We now have nearly 20,000 employees.

4 And although we are a not for profit
5 company, we also pay taxes. From 2005 through
6 the end of last year, Highmark paid more than \$1
7 billion in Federal, State, and local taxes,
8 including property taxes.

9 So as you can see, we have a long
10 history centered on making our communities
11 better, and we are committed to maintaining that
12 focus.

13 We also want to work closely with
14 other Blue Cross and Blue Shield companies, like
15 Blue Cross here in Delaware, that share certain
16 core values: Remaining a not for profit
17 corporation, with a commitment to meeting the
18 healthcare needs and supporting the economy of
19 local communities. This is one reason why we
20 believe this affiliation is a good fit for both
21 Blue Cross and Highmark, as well as the state of
22 Delaware.

23 But this partnership is not about
24 yesterday or today. It's really about the

1 future. It's about how Highmark and Blue Cross
2 can operate effectively in the future, while
3 benefitting Blue Cross employees, members,
4 healthcare providers, and the people of Delaware.

5 To sustain our proud past well into
6 the future, Highmark and Blue Cross must confront
7 and adapt to a rapidly changing and very
8 challenging environment. The healthcare system
9 today appears to be at a crossroads. We all know
10 that the most important issue in healthcare is
11 the increase of the medical costs, which is the
12 primary driver of health insurance premiums.

13 Our customers expect health
14 insurance companies to act decisively on their
15 behalf to hold down medical cost increases, but
16 because of the ever-rising cost of medical care,
17 fewer businesses today, especially smaller
18 businesses, can afford to provide employee
19 healthcare benefits.

20 Access to health insurance is
21 another major issue. The rising cost of
22 healthcare, combined with the ripple effects of
23 the recession, has increased the number of people
24 without health insurance.

1 While the Federal healthcare reform
2 law over time will help expand coverage to more
3 Americans, reform only marginally addressed the
4 cost dilemma.

5 We are also seeing rising concerns
6 about the quality of healthcare, including
7 differences in the way healthcare is delivered
8 from community to community, and patient safety
9 in healthcare institutions.

10 Despite the highest per capita
11 health spending in the world, there is a
12 widespread belief that Americans do not receive
13 the value we should for our healthcare dollars.

14 At the same time, consumers are
15 taking a more active role in all aspects of
16 healthcare, because they are more responsible for
17 their costs. Consumers are seeking more
18 information about the cost and quality of care
19 across providers, and are taking a more active
20 role in their own personal health.

21 These market dynamics are driving
22 changes in the way healthcare is delivered and
23 paid for, and health insurers must move quickly
24 to stay a step ahead of the shifting marketplace.

1 Highmark views change as a
2 springboard for innovation, developing new ways
3 to personalize products and services. In the
4 future, one size fits all health insurance
5 products won't meet the demands of -- won't meet
6 the needs of demanding consumers.

7 In the past two years, Highmark has
8 opened a number of health insurance retail
9 stores, where people can walk in, talk to a
10 representative, and get answers to questions
11 about health insurance options.

12 This retail marketing approach will
13 prepare Highmark for the introduction in 2014 of
14 purchasing exchanges, which will allow
15 individuals and small business to compare and buy
16 health insurance products based on price and
17 other important factors.

18 I mention the retail stores, because
19 they are one of the many new capabilities that
20 health insurance companies must have in place to
21 meet consumer demand and compete in the
22 healthcare marketplace of tomorrow.

23 Health insurers must also invest in
24 employer health and wellness programs, programs

1 to help people with chronic medical conditions,
2 and new information technologies to simplify
3 business transactions with their customers,
4 physicians, and hospitals, just to name a few.

5 In addition, Highmark offers a
6 variety of online tools to help our members be
7 more actively engaged in their healthcare, manage
8 it smartly, and achieve lifelong good health.
9 These services allow consumers to compare health
10 plan options, and choose the one that meets their
11 own needs, and to compare the cost of medical
12 services so they can make informed healthcare
13 decisions.

14 Although there are many
15 uncertainties about healthcare delivery and
16 financing, one thing is certain: To compete
17 vigorously in a changing healthcare landscape,
18 organizations must have the financial resources
19 to fund expensive infrastructure improvements,
20 develop an array of new products and services,
21 and provide extensive web-based member services.

22 Small and large health insurers
23 alike must not only invest their capital wisely,
24 but also must avoid duplicate spending. Every

1 dollar spent on duplicate investments adds to the
2 cost of health insurance, and brings little
3 additional value to subscribers.

4 Our business alliance will give Blue
5 Cross access to a wide range of Highmark
6 resources and services, to help upgrade
7 technology and information systems, add new
8 products, better serve the people of Delaware,
9 and avoid some of the duplicate spending on
10 infrastructure improvements that would only add
11 more cost to Delaware's healthcare system.

12 In addition to the need for
13 significant capital to meet growing customer
14 demands, health insurers are being challenged to
15 operate more efficiently. Scale has become
16 increasingly important to achieve greater
17 efficiency and lower administrative costs.

18 Healthcare suppliers and service
19 companies in radiology, laboratory services, and
20 durable medical equipment are operating more as
21 multi market companies, to help ensure a steady
22 flow of capital, and to gain greater operating
23 efficiencies. As a result, the scale of
24 competition in healthcare is moving from a local

1 to a regional and national basis.

2 The health insurance industry has
3 also evolved. Over the past 25 years, many
4 for-profit insurance companies have joined
5 together to create larger companies. This gives
6 them the scale to operate more efficiently by
7 spreading fixed operating costs over a larger
8 membership base, and accumulating capital to make
9 the necessary investments in health information
10 technology and new products and services.

11 The national Blue Cross and Blue
12 Shield system has also undergone similar change.
13 In 1980, there were 115 Blue Cross and Blue
14 Shield companies, each doing their own thing,
15 each investing in new technologies, each
16 investing in new products and services. It was a
17 very inefficient model.

18 Today, there are 39 independent Blue
19 Cross and Blue Shield companies, and our system
20 operates more efficiently. In fact, more than
21 100 million Americans now carry a Blue Cross and
22 Blue Shield card, compared to approximately 60
23 million subscribers in the 1980s.

24 The operating efficiencies achieved

1 over the last 30 years have contributed to this
2 growth. But the growing scale and capital
3 accumulation of much larger national for-profit
4 companies is again making it more difficult for
5 not-for-profit Blue Cross and Blue Shield plans
6 to remain competitive. This is especially true
7 for smaller unaffiliated companies, such as Blue
8 Cross here in Delaware.

9 Highmark has a reliable track record
10 of establishing strong working relationships with
11 other Blue Cross and Blue Shield companies, to
12 help them maintain a local presence, streamline
13 operations, and provide better service to
14 customers.

15 In some cases, we process claims,
16 provide an information technology platform, or
17 provide other administrative services for other
18 Blue Cross and Blue Shield companies, such as in
19 Louisiana, Tennessee, Florida, and northeastern
20 Pennsylvania.

21 The proposed alliance with Delaware
22 Blue Cross most closely resembles our current
23 relationship with Highmark West Virginia, which
24 dates back to 1999. Highmark has built a legacy

1 of investing to support the economy of West
2 Virginia, and the local communities we serve
3 there.

4 For example, over the past five
5 years, Highmark has generated more than \$106
6 million in economic impact for the Parkersburg,
7 West Virginia, region, by creating 300 jobs,
8 paying annual employee wages of more than 9
9 million, and paying more than 1 million in
10 business and occupational taxes.

11 In addition, the development of a
12 \$26 million Highmark West Virginia headquarters
13 building in downtown Parkersburg has spurred
14 development in that area.

15 Our experience in West Virginia and
16 elsewhere demonstrates that we have the
17 commitment, the resources, and experience to
18 partner successfully with other not for profit
19 companies, to achieve greater operating
20 efficiencies, such as lowering the unit price to
21 process a single healthcare plan, and expanding
22 business opportunities to local Blue Cross
23 companies.

24 It also shows we are serious and

1 steadfast about our philosophy and values of
2 supporting local communities.

3 In summary, we believe the
4 affiliation will be a win/win for Highmark and
5 Blue Cross, and most importantly, for the people
6 of Delaware. Through this alliance, Highmark
7 will support Blue Cross' mission of helping to
8 make sure that healthcare services are accessible
9 for Delaware citizens, and strengthening the
10 Delaware economy.

11 In short, these two companies are a
12 good match. By harnessing the resources and
13 strength of both companies, we can jointly build
14 upon the Blue Cross strong customer and provider
15 relationships and better serve Delaware
16 customers, healthcare providers, and the
17 community at large.

18 And with that, I'll turn it back to
19 Tim for additional comments.

20 MR. CONSTANTINE: Thanks, Mike. As
21 Mike noted, our industry is experiencing a period
22 of rapid change. I'm convinced that through this
23 relationship with Highmark, we can build upon our
24 75 years of success, and ensure that we continue

1 as the state's premier health benefits company.

2 What do we consider to be the
3 important attributes that make Blue Cross
4 different from our competitors? First and
5 foremost, we are and will continue to be a
6 not-for-profit company headquartered in Delaware.

7 We also want to preserve the health
8 and vitality of our communities. That means
9 continuing to provide grants for community
10 organizations to help increase access to
11 healthcare for Delaware's uninsured and
12 underserved, reduce health disparities in
13 minority communities, and support programs to
14 recruit and train new healthcare professionals.

15 Since 2007, Blue Cross had provided
16 nearly \$8 million in direct support to our
17 community through grants, sponsorships, and
18 donations.

19 And of course, we want to continue
20 to be an important economic engine for Delaware,
21 by maintaining substantial employment levels in
22 this state.

23 These attributes represent the core
24 of Blue Cross. But the overriding question for

1 us is, how can we maintain our focus in these
2 areas and remain a financially sound company,
3 when the healthcare environment poses a real
4 threat to the future of small, independent
5 companies like ours?

6 Our board of directors and
7 management team studied this question extensively
8 for several years. We hired outside experts to
9 help us evaluate our business capabilities in
10 light of the changes taking place in healthcare.

11 We looked at every aspect of our
12 business, and asked the tough questions: Do we
13 have the resources to acquire leading-edge
14 technologies? Will we have the resources to
15 acquire or develop new products and services that
16 the marketplace is asking for?

17 Will we have the large sums of
18 capital needed to meet new and expensive Federal
19 requirements? Can we grow membership on our own,
20 to create the scale to lower our administrative
21 costs?

22 Similar to most companies over the
23 last few years, we have had to make some very
24 difficult decisions. For example, our workforce

1 has 100 fewer employees today than we had at the
2 end of 2007.

3 We also looked at the competition we
4 faced in Delaware. Our competitors here are all
5 large, national companies that are grown through
6 acquisitions and consolidations. Even the
7 smallest of our competitors is still more than 12
8 times larger than Blue Cross.

9 Adding to these challenges are
10 substantial infrastructure investments to comply
11 with new government mandates. For example,
12 effective in October, 2013, all health plans will
13 be required to implement a new set of
14 standardized codes to ensure more efficient
15 processing of healthcare claims and transactions
16 throughout the United States.

17 This conversion process alone will
18 require significant amount of time and effort,
19 and will require a massive capital expenditure if
20 we remain independent. To give you an idea of
21 the magnitude, this change will increase the
22 number of procedure codes needed from 3000 to
23 87,000.

24 Compounding these challenges is the

1 healthcare reform law. Its impact on health
2 insurance is only beginning to be felt, and we
3 won't know the full scope of changes for health
4 insurers and the associated capital costs until
5 the Federal government issues more details about
6 the provisions of the law.

7 At a minimum, we know all health
8 insurers will have to redesign products to comply
9 with the law, completely overhaul the way
10 products are distributed as the new purchasing
11 exchanges are introduced, develop new methods of
12 setting prices for products, and change the
13 methods of paying doctors and hospitals to
14 encourage more effective and lower cost care.

15 We all know that there will be a
16 host of new reporting and other administrative
17 requirements that small health insurers will find
18 inordinately difficult to meet on their own. All
19 of these changes will require huge capital
20 investments.

21 After weighing all of these factors,
22 we concluded that it was in Blue Cross's best
23 long term interests to form a partnership with a
24 larger company, so we can continue our successful

1 75-year track record of serving our customers.

2 On our own, it would be difficult to
3 achieve the operating efficiencies of our much
4 larger competitors. On our own, we would lack
5 the capital and resources to comply with costly
6 government mandates and the new reform law's
7 requirements.

8 On our own, we could not continue to
9 thrive as a company and develop new products and
10 services needed to meet shifting consumer
11 demands. And perhaps most significantly,
12 remaining a stand-alone company will cost the
13 customers more money.

14 Customer premiums are estimated to
15 be 3 percent higher if we do not affiliate with
16 Highmark, because of the projected capital
17 spending necessary to remain competitive.

18 On the other hand, with Highmark as
19 a partner, we will save an estimated \$70 million
20 in capital costs over five years. Our customers
21 will benefit because of lower projected premium
22 increases than would have occurred if we remained
23 on our own.

24 Our past experience has also taught

1 us the advantages of a partnership compared to
2 being on our own. During our past affiliation
3 with Care First Blue Cross Blue Shield that ended
4 in 2006, we increased our membership, grew
5 employment, controlled our administrative costs
6 better than we could as a stand-alone company,
7 improved our customer service, and strengthened
8 our financial position.

9 Since then, our ability to grow our
10 business, control administrative costs, and
11 compete against better financed and much larger
12 insurers in Delaware has been impacted.

13 And although we are a financially
14 sound company today, as Mike noted earlier, this
15 alliance is about the future, and ensuring that
16 we continue as the State's premier health
17 benefits company.

18 For all of these reasons, we now
19 decided -- we decided that now is the right time
20 to form a strategic partnership. After careful
21 deliberation, we selected Highmark, a
22 not-for-profit Blue Cross and Blue Shield
23 company, as our proposed affiliation partner.

24 Why Highmark? Because an

1 affiliation with Highmark offers the best
2 opportunity for Blue Cross to remain a strong,
3 not-for-profit Delaware company, with a community
4 focus across the state, and able to compete
5 effectively in the Delaware health insurance
6 market over the long term. Highmark will also
7 help us expand access to healthcare services for
8 Delaware citizens, and bolster the Delaware
9 economy.

10 There are other reasons we selected
11 Highmark. It has a good track record of
12 successful working relationships and affiliations
13 with other Blue Cross and Blue Shield companies.

14 As an example, we have researched
15 and visited Highmark's West Virginia affiliate.
16 As a result of the affiliation with Highmark, the
17 West Virginia plan operates more efficiently,
18 maximizes the use of information technology, is
19 financially more stable, offers more products and
20 services to meet the needs of West Virginians,
21 and has increased its employee workforce.

22 This experience, and the
23 testimonials shared, offer reassurance that
24 Highmark will bring similar benefits to Delaware.

1 Highmark also brings advanced
2 technology and support tools and resources that
3 will vastly improve our ability to serve Delaware
4 subscribers, employers, brokers, and agents,
5 physicians and hospitals.

6 For example, there's a real push in
7 healthcare today to make information readily
8 available to healthcare providers and subscribers
9 on a real-time basis. Highmark has developed
10 real-time transaction tools that let patients
11 know their actual out-of-pocket healthcare costs
12 tied to their benefits when they schedule or
13 receive healthcare services. This takes away the
14 guess work from patients about the cost of the
15 medical treatment.

16 In addition, the real-time's claim
17 processing tool simplifies administration and
18 eliminate much of the paperwork for physicians
19 and other healthcare providers. More medical
20 claims are able to be processed without annual
21 intervention.

22 Delaware physicians and hospitals
23 will be able to determine a patient's financial
24 obligation when a service is rendered, and

1 providers submitting real-time claims will also
2 be reimbursed much faster than in the past.

3 With the help of Highmark's
4 technology, Delaware providers will also obtain
5 information real-time about the status of claims
6 and policies, and can conduct many business
7 transactions with us much faster.

8 These improvements will help control
9 administrative expenses for Blue Cross and
10 physician offices, while allowing physicians to
11 focus more of their time on patient care.

12 As Mike mentioned earlier, the major
13 issue in healthcare today is the rising cost of
14 medical services. Delaware employers are
15 choosing employee health benefits today based on
16 whether a health insurer can help control their
17 employee healthcare costs.

18 When I meet with Delaware employers
19 on healthcare issues, one of the first things
20 they want to know is how can we help control the
21 growth of their employee healthcare costs and
22 foster a healthier, more productive workforce.

23 Through this affiliation, we will be
24 in a much better position to offer more solutions

1 for local employers.

2 For example, Highmark offers
3 information reporting and analytical tools, plus
4 medical management programs and services to
5 support individual employers.

6 Armed with these tools, we will be
7 able to better identify the underlying drivers of
8 higher employee medical costs on an
9 employer-by-employer basis, and then tailor
10 solutions, such as health promotion, wellness, or
11 chronic disease management programs, to help
12 improve employee health and reduce employee
13 absenteeism.

14 In addition, we anticipate that
15 Highmark's broad mix of health insurance and
16 other employee benefit programs will create
17 additional growth opportunities for us in
18 Delaware.

19 For example, Highmark offers dental
20 insurance, vision programs, reinsurance programs,
21 as well as broad health insurance programs geared
22 for seniors, individuals, and other segments of
23 the community.

24 By combining these complementary

1 products with our current health insurance
2 products, we could potentially serve a larger
3 portion of the Delaware population, particularly
4 those in the individual and senior segments.

5 I want to be very clear on this
6 point. The partnership is much more than just
7 using Highmark's technology platforms and systems
8 capabilities to help us streamline operations and
9 better control administrative costs. This is
10 about having a trustworthy partner to help us
11 achieve a better future for Delaware, and bring
12 additional value to all industry stockholders in
13 this state.

14 We believe this affiliation will
15 help us achieve many goals. It will bring to
16 Delaware diversified and innovative products and
17 services, and a sophisticated centralized
18 resource team for some of the most critical
19 health insurance functions, such as developing
20 new products, identifying new business and sales
21 opportunities, conducting market research, and
22 managing medical and pharmacy costs for our
23 customers.

24 It will also bring Highmark's

1 experience and expertise with implementing new
2 provider payment methods, such as financial
3 incentives that link reimbursements to documented
4 improvements in clinical care and better patient
5 outcomes.

6 Healthcare reform is encouraging
7 changes in provider reimbursements to encourage
8 the delivery of more cost effective care, rather
9 than simply delivering more services.

10 With Highmark's support, we can work
11 collaboratively with the physician and hospital
12 community to help ensure that changes in the
13 delivery of medical care benefit patients and
14 providers.

15 And I believe we can realize
16 substantial benefits for Delaware, while
17 preserving Blue Cross' local relationships with
18 our customers, doctors, and hospitals.

19 One of the main reasons we selected
20 Highmark as a partner is because they, too, value
21 the importance of collaborative local work
22 relationships. I want to assure you that our
23 local relationships will be maintained. Delaware
24 employers, physicians, and hospitals will

1 continue to interact with Blue Cross associates
2 with whom they have worked for many years.

3 Although we remain Delaware's market
4 leader in health insurance, and are financially
5 healthy now, the environmental forces that Mike
6 and I have discussed, plus the pressures facing
7 health insurers in the near future, dictate
8 decisive action.

9 As a small, stand-alone company, we
10 will lack the capital and resources to make the
11 necessary investments to meet marketplace needs
12 and respond to healthcare reform in the years to
13 come.

14 In conclusion, I want to emphasize
15 that without Insurance Department approval of
16 this partnership at this time, we run a long-term
17 risk of steadily losing our subscribers to large,
18 for-profit health insurance companies based
19 outside of Delaware.

20 This would threaten our ability to
21 maintain substantial employment levels in the
22 state, and support community, health and human
23 services programs, at the levels we have done for
24 many years.

1 Dr. Ken Melani, Highmark's president
2 and chief executive officer, who will be joining
3 me at the session in Wilmington on Thursday,
4 often says we can't have a community mission
5 without financial stability. With that
6 stability, Blue Cross can continue to focus on
7 our mission and community support.

8 But these values cannot be preserved
9 if our company is not competitive, relevant,
10 efficient, and financially viable. And so, I
11 believe this partnership with Highmark must be
12 approved to help us make -- to help make us an
13 even better company that has the human resources
14 and financial means to meet the healthcare needs
15 of Delawareans and our local communities in the
16 years to come.

17 Thank you for the opportunity to
18 make our comments this evening.

19 DEPUTY COMMISSIONER REED: Thank
20 you, Tim. Thank you, Michael. Now we will
21 proceed with public comments on the proposed
22 affiliation by those who signed up to speak at
23 the session.

24 We ask that you limit your comments

1 to five minutes, and we have a time keeper all
2 the way to my left on the end of the table, Linda
3 Nemes, who will indicate when a speaker has one
4 minute remaining, and when the five-minute period
5 has expired.

6 And we will start with Mr. Clay
7 Monroe.

8 MR. MONROE: My name is Clay Monroe.
9 I live in Lewes, Delaware. I am a Blue Cross
10 Blue Shield of Delaware policyholder, and I'm
11 also a licensed broker in the state of Delaware
12 for over 35 years.

13 And I must say, the majority of my
14 income does come from the health insurance
15 industry in both group, individual, and the
16 senior markets, including the Medicare compliment
17 plans.

18 I must also say that I am a licensed
19 broker, and I represent multiple carriers in this
20 market, and I do consider myself knowledgeable in
21 the arena. I do have my charter life
22 underwriters designation, and also charter
23 financial consultant designation.

24 From a consumer standpoint, what the

1 consumers want to know and what they want to see
2 is affordable healthcare with premium stability.
3 The double digit premium increases that are
4 occurring continue to drive more folks to become
5 uninsurable, as both small employers and
6 individuals continue to struggle with escalating
7 costs.

8 This also continues to put a great
9 deal of pressure on the State of Delaware's
10 budget, along with the State-assisted Medicare --
11 Medicaid, excuse me, Medicaid programs.

12 With this increased pool of
13 membership potential by the affiliation, it could
14 help stabilize the rates.

15 We also need additional plan design
16 to meet the consumers needs. And for those that
17 are currently uninsured, perhaps, those that have
18 a small medical history, perhaps a limited
19 benefit type plan could be developed and designed
20 by both Highmark and Blue Cross Blue Shield of
21 Delaware.

22 With our aging senior population,
23 especially here in Sussex County, retirees are
24 moving to our county because of our lower

1 property taxes and lower home values. We do need
2 a far better selection of product design than
3 what we currently have.

4 Currently, Blue Cross Blue Shield of
5 Delaware has a limited senior market. In my
6 opinion, what they have is very good, but
7 certainly not enough.

8 I also consider that if this planned
9 affiliation does help minimize costs, controlling
10 it, and they can develop additional plan
11 benefits, then I think it should be approved as
12 soon as possible.

13 Thank you.

14 DEPUTY COMMISSIONER REED: Thank
15 you, Clay, for your comments. We do thank you
16 for that, and appreciate them. Certainly we know
17 your qualifications as an agent. You also served
18 on the agent task force for the Delaware
19 Insurance Department. So I just wanted to
20 mention that. Thank you.

21 Just so I am reading back your
22 comments correctly, that you're stating should
23 this proposed affiliation be approved, it is your
24 hope that it would certainly stabilize the rates,

1 increase products in the market to better serve
2 all of Delawareans? Does that kind of summarize?

3 MR. MONROE: That's exactly it,
4 Gene, thank you. Yes.

5 DEPUTY COMMISSIONER REED: Okay.
6 Well, thank you for your comments. What I'd like
7 to do at this point is ask, do we have any other
8 members of the public that have signed up to
9 speak today, or would like to speak today?

10 Okay. Since I do not hear anything,
11 what I'd like to do is try and keep the record
12 open at least for the next 15 minutes, till 7:30.
13 And then, at that time, if we do not have any
14 further public comments to be made, we will close
15 the record. But recognize that we do have two
16 additional public hearings also available, one in
17 Dover tomorrow night, beginning at 6:30, and one
18 in Wilmington on Thursday evening, beginning at 6
19 p.m. And they are posted on the Delaware
20 Insurance Department website.

21 So at this time, we'll leave the
22 record open till 7:30, for anyone walking in that
23 would like to make comments.

24 (Brief recess held)

1 DEPUTY COMMISSIONER REED: Okay.

2 We're going to reconvene. We do have one more
3 member of the public to speak, and I will ask
4 that he speak at this time. Dr. Bill Wood.

5 DR. WOOD: Do you want me to go to
6 the microphone, or just speak up?

7 MR. HOUGHTON: Yeah, if you wouldn't
8 mind, since we put the good people here through
9 the process of actually getting all this.

10 DR. WOOD: I'm a physician in
11 Georgetown, an ENT, otolaryngologist, and I'm
12 speaking just as a citizen, I guess, as much as
13 anything.

14 I guess I get paid somewhat
15 indirectly by Blue Cross provider payments. I'm
16 employed by Bayhealth, I'm on salary, so I don't
17 see any particular checks from insurance
18 companies.

19 My query or suggestion or concern to
20 the Department is whether the affiliation
21 specifically would lead -- it's the specific
22 impact on the uninsured rate in Delaware.

23 And by that I mean will it increase,
24 decrease, or leave with no change the rate of

1 citizens, people without health insurance, as far
2 as we can predict?

3 I also mean specifically by that not
4 outreach programs, for example, to uninsured
5 people, but specifically insurance, being
6 covered, being able to go to the doctor.

7 That's my biggest concern as a
8 citizen with respect to healthcare and health
9 insurance. Every week I have patients who come
10 into my office who are, quote, self-pay, unquote,
11 is what gets written on the paperwork.

12 And I, legitimately or
13 illegitimately, code them as low as I can, so
14 that they have to pay themselves as little as
15 possible.

16 But the United States is the only
17 industrialized democracy in the world without
18 universal coverage. There's many different
19 models for universal coverage. There's Canadian
20 Medicare for all, which is private providers but
21 single payer insurance. There's the British
22 National Health System, which is government run,
23 which is different. There's German, Swiss,
24 Dutch, et cetera. Multi payer, nonprofit

1 insurance companies, which I guess is analogous
2 to Blue Cross.

3 But no other industrialized
4 democracy has uninsured masses of their
5 population as we do, and people who die because
6 of lack of insurance, which has been documented
7 by the Institute of Medicine.

8 So, that's my question to the
9 Department is to consider that. Will it
10 increase, decrease, or have no change in the
11 uninsured rate of the population of the state.

12 Thanks.

13 DEPUTY COMMISSIONER REED: Thank you
14 for your comments. And just so I understand, you
15 did state what your concerns were, and just to
16 kind of summarize those, that your concern is
17 whether or not, through this affiliation, whether
18 or not that they will target the uninsured market
19 to provide insurance coverage?

20 DR. WOOD: My concern is
21 specifically can we predict whether the uninsured
22 rate will increase, decrease, or stay unchanged.
23 And then you can have multiple -- you know,
24 subsets of -- sub questions that go with that.

1 Such as whether they would target the uninsured
2 market.

3 DEPUTY COMMISSIONER REED: Okay. I
4 think that's a fair enough question --

5 DR. WOOD: That's a policy question.

6 DEPUTY COMMISSIONER REED: -- to go
7 ahead and ask the applicants to respond to that
8 here tonight. That you will respond --

9 MR. CONSTANTINE: Sure.

10 MR. HOUGHTON: Correct.

11 DEPUTY COMMISSIONER REED: -- within
12 the time frame.

13 MR. CONSTANTINE: Absolutely.

14 DEPUTY COMMISSIONER REED: Okay.
15 Thank you. Okay. I guess let the record reflect
16 we have no further public comments tonight.

17 Again, I will remind everyone that
18 if someone does have public comments, we do have
19 two more hearings, one in Dover tomorrow night,
20 beginning at 6:30, at the Delaware Insurance
21 Department office at 841 Silver Lake Boulevard.
22 And then on Thursday evening in Wilmington, at
23 the Carvel State Office Building, 810 North
24 French Street.

1 I thank you all for coming and
2 participating tonight, and have a good evening.

3 (Hearing concluded at 7:31 p.m.)
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I, JULIANNE LaBADIA, Registered Diplomat
Reporter and Notary Public, do hereby certify
that the foregoing record, pages 1 through 51
inclusive, is a true and accurate transcript of
my stenographic notes taken on May 16, 2011, in
the above-captioned matter.

IN WITNESS WHEREOF, I have hereunto set my
hand and seal this 17th day of May, 2011, at
Wilmington.

Julianne LaBadia, RDR, CRR

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