



Department of Insurance

Commissioner Donna Lee H. Williams

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P R E S S R E L E A S E

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DELAWARE INSURANCE COMMISSIONER DONNA LEE WILLIAMS ORDERS SOLE MEMBERSHIP OF BLUE CROSS BLUE SHIELD OF DELAWARE BE RESTORED TO THE DELAWARE COMPANY - IMMEDIATE TIMETABLE SET FOR RETURN OF PRIMARY BLUE CROSS BLUE SHIELD MARKS TO DELAWARE COMPANY

DOVER, DE – Insurance Commissioner Donna Lee H. Williams issued an Order today which requires Carefirst, the Maryland parent of Blue Cross Blue Shield of Delaware (BCBSD), to transfer the sole membership interest it holds in BCBSD back to the board of directors of BCBSD. The decision effectively ends the structural Affiliation that has existed since March 20, 2000, when Delaware’s BCBSD, Maryland’s Carefirst, and Washington DC’s GHMSI were permitted to affiliate under the Carefirst banner. The relief avoids the negative impact to BCBSD and its Delaware subscribers caused by Legislation in Maryland which materially changed the terms the parties agreed to when the affiliation was commenced. Commissioner Williams convened several days of hearings to examine the potential impact of the Maryland Legislation on Delaware

subscribers. Today's decision follows the urging of BCBSD's board of directors, and imposes protections supported by the Delaware Insurance Department. "The Parties are free to continue their relationship on a contractual, rather than structural basis, but there will be no question that Delaware's Insurance Department will continue its mission to regulate Delaware entities, and protect Delaware citizens" said Williams.

In announcing her decision Commissioner Williams stated that protection of Delaware subscribers was the paramount concern - - now and in the future. "Subscribers will continue to enjoy full and uninterrupted access to the Blue Cross Blue Shield marks and benefits" said Williams. "Delaware's stakeholders have the right to expect that their Commissioner will protect their interests against all, even well meaning, efforts to impose short sighted solutions on complex health insurance problems. After careful review of all the complex facts I have determined that this action is necessary to preserve the independence and future stability of Delaware Blue Cross Blue Shield. "

The Maryland Legislation, first enacted in April 2003 and subsequently amended in May 2004, had several unacceptable consequences to BCBSD. In assuming control of the Carefirst Board, the Maryland Legislature changed the governing structure that made decisions at Carefirst, and replaced it with appointees unfamiliar to BCBSD's management. The Legislation also interfered with the local decision making that was a hallmark of the prior arrangement. A new "not for profit mission" imposed by the Legislation has uncertain consequences to BCBSD in the future, and a 5 year moratorium on acquisitions may leave BCBSD unable to properly react to changes in the health insurance marketplace.

Williams' comprehensive decision highlights the fact that the prior Affiliation Plan was not a merger - - and no change of control of the BCBSD had ever been sought or approved. Carefirst did not pay anything to affiliate with BCBSD and the parties had

agreed that Delaware Department of Insurance continued to have full authority to regulate the entities in Delaware. “The implementation of the Maryland Legislation is clearly a change in circumstances that warrants reexamination and changes to the prior Affiliation Order” said Williams, “it was necessary to acknowledge the new reality since the Legislation and to make changes to the prior Order to assure continued regulatory protection.”

The changes required by today’s decision, including the return of Carefirst’ membership interest in BCBSD and reestablishment of a primary Blue Cross Blue Shield service mark to the Delaware company, had been agreed to by all parties following hearings last November, however Maryland’s Insurance Department, which regulates Carefirst in Maryland, has not ruled on that proposed arrangement. Today’s ruling effectively imposes similar relief for the protection of BCBSD and all the insurance buying public in Delaware.

The full text of the Decision and Order can be found on the Department's website at <http://www.state.de.us/inscom/bcbs.htm>.

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