

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

Carvel State Building  
820 N. French Street - 2nd Floor  
Wilmington, Delaware  
May 19, 2011  
6:00 p.m.

HEARD BEFORE: GENE REED, Deputy Insurance  
Commissioner

APPEARANCES:

MICHAEL HOUGHTON, ESQ. - Counsel to the  
Department of Insurance  
LINDA SIZEMORE - Department of Insurance  
MARTIN ALDERSON SMITH - The Blackstone Group  
- Department of Insurance  
TIMOTHY J. CONSTANTINE - BCBS Delaware  
DR. KENNETH MELANI - Highmark Inc.

WILCOX & FETZER  
1330 King Street, Wilmington, Delaware 19801  
(302) 655-0477  
www.wilfet.com

1                   DEPUTY COMMISSIONER REED:    Good  
2           evening, and welcome to the May 19th Delaware  
3           Insurance Department's public information session  
4           on the proposed affiliation between Blue Cross  
5           Blue Shield of Delaware and Highmark.  My name is  
6           Gene Reed.  I'm the Deputy Insurance Commissioner  
7           of the State of Delaware.

8                   The final adjudicator in the matter  
9           is the Commissioner, Karen Weldin Stewart, who  
10          will make the ultimate decision to approve or  
11          disapprove the proposed affiliation.

12                   To my immediate right is Linda  
13          Sizemore, director of company regulation.  To my  
14          left is Mike Houghton, counsel to the Delaware  
15          Department of Insurance, and Martin Alderson  
16          Smith, financial advisor to the Delaware  
17          Department of Insurance.

18                   Blue Cross Blue Shield of Delaware,  
19          which we will call BCBSD, and Highmark, submitted  
20          a filing pursuant to the requirements of Chapter  
21          50 of Title 18, the Delaware Insurance Holding  
22          Company Registration Act and the Department's  
23          administrative regulation pertaining to the  
24          registration of insurance holding companies.

1           The Department has been examining  
2           and reviewing the filing, and will continue to do  
3           so in the coming weeks and months.

4           The purpose of today's session is  
5           not to reach a decision on the proposed  
6           affiliation. The purpose of today's session is  
7           for the Department of Insurance to receive  
8           comments from the public to aid in the Department  
9           ultimately reaching a decision on the proposed  
10          affiliation.

11          In reaching its decision, the  
12          Department will pay particular attention to the  
13          public's comments about the proposed affiliation,  
14          including the comments presented here tonight.

15          The entire record concerning the  
16          proposed affiliation, including the transcript of  
17          tonight's session, will be reviewed by the  
18          Department before the Department reaches any  
19          final conclusion.

20          The publicly-available portion of  
21          the record has been and will continue to be  
22          available on the Department's internet website  
23          and at the Department's offices in Dover and  
24          Wilmington.

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

6           In addition, there is an index of  
7           all the documents which are contained in the  
8           public files. Copies of the public file index  
9           are available for inspection in the back of the  
10          room. The public file index is also available on  
11          the Department's website at  
12          www.delawareinsurance.gov.

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

20          Mike Houghton of Morris Nichols will  
21          now introduce himself, and then Martin Alderson  
22          Smith of Blackstone will introduce himself.

23          MR. HOUGHTON: Thank you, Deputy  
24          Commissioner. My name is Mike Houghton. I am

1 counsel to the Delaware Department of Insurance  
2 in this matter, a partner at the Wilmington law  
3 firm of Morris, Nichols, Arsht & Tunnell, LLP.  
4 I'd like to welcome everyone here tonight, as  
5 well.

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

11 Our job is to assist the Department  
12 with its review, including by providing legal  
13 advice to the Department about the substantive  
14 and procedural aspects of the review. We will  
15 also be involved in the public hearing before  
16 hearing officer, the Honorable Battle Robinson.

17 I will discuss the public hearing in  
18 a moment, but I'd like to first put this public  
19 information session in perspective relative to  
20 the other aspects of review of the proposed  
21 affiliation.

22 As Deputy Commissioner Reed has  
23 stated, the purpose of today's session is not, I  
24 repeat not, to reach a final decision on the

1 proposed affiliation.

2           The Department is in the midst of  
3 its review and analysis of the proposed  
4 affiliation, will continue its review and  
5 analysis until it is satisfied that it can reach  
6 a decision regarding the proposed affiliation,  
7 including whether any additional conditions or  
8 requirements will be required of the applicants.

9           There are certain criteria set forth  
10 in the Delaware Insurance Code that are the basis  
11 for the Department's review of the proposed  
12 affiliation. They are:

13           1. Whether BCBSD will be able to  
14 satisfy the requirements for the issuance of a  
15 license to write the lines of insurance for which  
16 it is presently licensed.

17           2. Whether the effect of the  
18 proposed affiliation would be substantially to  
19 lessen competition in insurance in Delaware and  
20 tend to create a monopoly therein.

21           3. Whether Highmark's financial  
22 condition is such as might jeopardize the  
23 financial stability of the insurer, or prejudice  
24 the interests of its policyholders.

1                   4. Whether the plans and proposals  
2 which Highmark has for BCBSD to make any material  
3 changes in its business or corporate structure or  
4 management are unfair and unreasonable to  
5 policyholders of BCBSD, and not in the interest  
6 of the public.

7                   5. The competence, experience, and  
8 integrity of those persons who would control the  
9 operation of the affiliated entity are such that  
10 it would not be in the interest of the  
11 policyholders of the insurer and of the public to  
12 permit the proposed affiliation.

13                   Or 6. Whether the proposed  
14 affiliation is likely to be hazardous or  
15 prejudicial to the insurance-buying public.

16                   After the Department has finished  
17 its review and analysis, there will be a public  
18 hearing held before the Honorable Battle  
19 Robinson, who is the Department's hearing officer  
20 for this proposed affiliation.

21                   The public hearing will be held at a  
22 time to be determined. The parties presenting  
23 testimony and evidence at the public hearing  
24 before Hearing Officer Robinson will include the

1 Department of Insurance and the applicants, BCBSD  
2 and Highmark, as well as the Department of  
3 Justice, which is in attendance here this  
4 evening.

5 At the public hearing, which will be  
6 held, as noted, at a time to be determined, Judge  
7 Robinson will listen to testimony and review the  
8 documentary evidence, and will then subsequently  
9 issue a decision on the proposed affiliation.

10 The Commissioner will review Judge  
11 Robinson's decision, and then give the ultimate  
12 approval or disapproval of the proposed  
13 affiliation.

14 That's a description of Morris  
15 Nichols' role in this transaction, and where the  
16 Department is in the process of its review. So  
17 with that, I'll turn it over to Martin.

18 MR. ALDERSON: Thank you very much  
19 indeed, Mike. Good evening, ladies and  
20 gentlemen. My name is Martin Alderson Smith.  
21 I'm employed by The Blackstone Group, which is a  
22 leading investment banking firm primarily engaged  
23 in financial advisory services and principal  
24 investments. I work in Blackstone's corporate

1 advisory services group, and my title is senior  
2 managing director.

3 Blackstone has been retained by the  
4 Department of Insurance here in Delaware to  
5 conduct an independent review of specific  
6 financial aspects of the proposed affiliation  
7 between Blue Cross Blue Shield of Delaware and  
8 Highmark.

9 Blackstone's work will be based on  
10 all the information provided to the Department,  
11 and will include reviewing financial and other  
12 information submitted by the applicants, talking  
13 with various market participants, including  
14 providers, competitors, clients, and brokers,  
15 assessing the potential impact on competition in  
16 the State of Delaware, and reviewing any public  
17 comments received by the Department. This  
18 information includes all information provided by  
19 both BCBSD and Highmark, as well as any public  
20 comments submitted to the Department.

21 Blackstone will ultimately provide a  
22 report for use by the Department in connection  
23 with the Department's review and analysis.

24 Blackstone has significant

1 experience advising State insurance regulators on  
2 various life insurance and health insurance  
3 transactions. In some of those instances,  
4 Blackstone has recommended approving the proposed  
5 transaction. In other instances, Blackstone has  
6 recommended denying the proposed transaction.

7 Thank you all for your attendance  
8 this evening. We look forward to your comments,  
9 and now I'll turn it back over to the Deputy  
10 Commissioner.

11 DEPUTY COMMISSIONER REED: Thank  
12 you, Mike and Martin. Today's session, as you  
13 can see, is being transcribed by a court  
14 reporter. The Department will make a copy of the  
15 transcript available on its internet website.  
16 You may download a copy of the transcript from  
17 the Department's website.

18 If you do not have internet access,  
19 you may view the transcript at the Department's  
20 offices, again in Dover and Wilmington. Please  
21 call to schedule an appointment before visiting  
22 the Department's offices. You may also request a  
23 copy of the transcript by fax or by e-mail.

24 As I explained earlier, the purpose

1 of this evening's session is to provide a public  
2 forum for anyone to give information and comments  
3 and ask questions about the proposed affiliation  
4 between Blue Cross Blue Shield of Delaware and  
5 Highmark.

6 Please address your comments to this  
7 topic only, and we ask that you please be as  
8 concise as possible. If you are speaking, we ask  
9 that you include your name on the list of  
10 speakers that is available at the registration  
11 table within the first 30 minutes of this  
12 session. I hope you have all signed in already,  
13 and also indicated that you wish to speak.

14 If you have not yet signed in or  
15 indicated that you wish to speak, I ask that you  
16 please go to the registration table and sign in  
17 at this time.

18 We ask that you also indicate if you  
19 are speaking on your own behalf, if you are  
20 speaking in any type of representative capacity,  
21 and what your relationship, if any, to Blue Cross  
22 Blue Shield Delaware or Highmark is. For  
23 example, if you are a policyholder or subscriber  
24 of Blue Cross Blue Shield of Delaware or

1 Highmark.

2                   Because of the informal nature of  
3 today's session, there will be no sworn  
4 testimony. Cross-examination or other  
5 questioning of speakers or other representatives  
6 of the parties will not be permitted.

7                   However, you may pose questions to  
8 the applicants during your oral comments, or in  
9 writing on the 5 by 7 cards available at the  
10 registration table. Please pass the cards to the  
11 end of the row, and they will be collected during  
12 breaks and at the conclusion of this evening's  
13 session.

14                   Following today's session, the  
15 Department will require Blue Cross Blue Shield of  
16 Delaware and Highmark to respond in writing to  
17 all questions raised by the Department and the  
18 public during the session, and will make those  
19 responses available on its internet website.

20                   Please limit your remarks to five  
21 minutes. Once all speakers have given their  
22 comments, the Department will allow speakers to  
23 present additional comments. If your remarks  
24 cannot be fully presented in your initial

1 five-minute time slot, if we have time, you may  
2 be able to present further remarks at the end of  
3 this evening's session.

4 Before the public comment session  
5 begins, both Blue Cross Blue Shield of Delaware  
6 and Highmark have sent representatives to  
7 contribute to this evening's public information  
8 session.

9 Tim Constantine, Blue Cross Blue  
10 Shield of Delaware's chief executive officer, is  
11 here representing Blue Cross Blue Shield of  
12 Delaware. And Dr. Kenneth Melani, Highmark's  
13 president and chief executive officer, is here  
14 representing Highmark.

15 Both Mr. Constantine and Mr. Melani,  
16 Dr. Melani, will be making statements this  
17 evening. Their statements are intended to give  
18 an overall view of the transaction, as well as to  
19 provide rationale from their respective  
20 organizations and stakeholders, and to preface  
21 the public comment session.

22 Mr. Constantine and Dr. Melani will  
23 speak for approximately 15 minutes each. Their  
24 statements will be recorded by the court

1 reporter, and will be posted on the Department's  
2 website.

3 Neither Mr. Constantine or  
4 Dr. Melani will make statements beyond these  
5 initial remarks, and they will not give verbal  
6 responses to individuals during the public  
7 comment session.

8 Responses to individual statements  
9 and questions from the public will be given in  
10 written form and posted on the Department's  
11 website.

12 Mr. Constantine will be speaking  
13 first, followed by Dr. Melani. Thank you.

14 MR. CONSTANTINE: Good evening, and  
15 welcome, everyone. Thank you, Deputy  
16 Commissioner Reed. My name is Tim Constantine,  
17 and I am the president and chief executive  
18 officer of Blue Cross Blue Shield of Delaware.  
19 With me tonight is Dr. Ken Melani, the president  
20 and chief executive officer of Highmark.

21 We welcome the opportunity to  
22 discuss why this partnership between Blue Cross  
23 Blue Shield of Delaware and Highmark is good for  
24 Delaware, how it will benefit our subscribers,

1 the communities in which we operate, and the  
2 people of Delaware. For the sake of simplicity,  
3 Ken and I will use the name Blue Cross during our  
4 presentation to mean Blue Cross Blue Shield of  
5 Delaware.

6 We recognize that these public  
7 information sessions are one stage of a  
8 comprehensive review process by the Delaware  
9 Insurance Department, and we believe that our  
10 presentation today, combined with the large  
11 volume of information we have already submitted  
12 to the Department, will clearly demonstrate that  
13 this transaction is in Delaware's best interest.

14 Tonight we will cover a number of  
15 topics, focusing on how the proposed transaction  
16 will benefit the people of Delaware. We will  
17 discuss our companies, their missions, and the  
18 forces in the healthcare industry that are  
19 driving change.

20 We will explain why Blue Cross, at  
21 this moment, needs a strong partner to maintain  
22 its strong Delaware presence, and I will also  
23 talk about why Highmark is the right partner for  
24 us.

1           As this review process moves  
2 forward, we look forward to hearing from many  
3 Delawareans, including those from local  
4 businesses, civic and community organizations,  
5 consumers, and healthcare providers.

6           To set the stage for my comments, I  
7 would like to turn the discussion over to  
8 Dr. Melani.

9           DR. MELANI: Thanks, Tim. Good  
10 evening, everyone. I'm Ken Melani, Highmark's  
11 president and CEO. One reason we're here tonight  
12 is to discuss the sea of changes taking place in  
13 our healthcare system, nationally and locally,  
14 and how these changes create a need for this  
15 alliance.

16           Before doing that, I'd like to tell  
17 you about Highmark. We have a very proud  
18 tradition. For nearly 75 years, we've operated  
19 as a not-for-profit corporation, with a  
20 long-standing commitment to the communities in  
21 Pennsylvania, and more recently, West Virginia.

22           As part of our long-standing  
23 mission, we have provide insurance programs to  
24 every segment of the population. We've also

1       subsidized many of these insurance programs to  
2       hold down the cost of health insurance for those  
3       most in need, including seniors, children, and  
4       those with limited economic means who don't  
5       qualify for government programs and don't have  
6       health insurance through an employer.

7                   In addition to developing and  
8       supporting these insurance programs, we've  
9       provided a tremendous amount of support to the  
10      community through grants and other forms of  
11      giving. These monies are primarily used by  
12      community health and human services organizations  
13      to help address pressing human needs, including  
14      free health, dental, and vision screenings for  
15      those in need, childhood obesity and immunization  
16      clinics.

17                   In 2010, we contributed \$175 million  
18      for programs in support of our corporate mission.  
19      Here are some examples that we take great pride  
20      in: Highmark has created and continues to carry  
21      out many programs to make a difference in the  
22      lives of children and their families. In 1985,  
23      Highmark's predecessor companies, Blue Cross of  
24      Western Pennsylvania and Pennsylvania Blue

1       Shield, launched the Caring Program for Children,  
2       to provide primary healthcare benefits to  
3       children of unemployed and working poor families.  
4       The government-sponsored Children's Health  
5       Insurance Program, widely known as CHIP, was  
6       modeled after the Caring Program that was  
7       developed in Pennsylvania.

8                 In addition, during the past five  
9       years, we contributed \$100 million to hundreds of  
10      schools and community organizations to address  
11      five critical needs in children's healthcare  
12      issues: Nutrition, physical activity, grieving,  
13      self-esteem, and bullying. Called the Highmark  
14      Healthy High Five program, this program's helped  
15      to promote life-long healthy habits in children  
16      ages 6 to 18.

17                To fully quantify Highmark's  
18      community commitment, we have contributed nearly  
19      \$900 million for community-related activities  
20      from 2005 through the end of last year.

21                Improving the health and wellness of  
22      people in our community is one important part of  
23      our heritage. We also have a tradition of  
24      supporting the economy of local communities and

1 states that we serve, and where our employees  
2 live and work.

3 Our presence generates billions of  
4 dollars for the economies of Pennsylvania and  
5 West Virginia. For example, we buy most of our  
6 goods and services from local companies. By  
7 doing so, we support and help create additional  
8 jobs in the community, and help boost local and  
9 State tax revenue.

10 Our role as an economic engine has  
11 helped spur job growth. Since 1996, as our  
12 business has grown, we've added nearly 10,000 new  
13 jobs. We now have nearly 20,000 employees.

14 And although we are a not-for-profit  
15 company, we also pay taxes. From 2005 through  
16 the end of last year, Highmark has paid more than  
17 \$1 billion in Federal, State, and local taxes,  
18 including property taxes.

19 So, as you can see, we have a long  
20 history centered on make our communities better,  
21 and we are committed to maintaining that focus.

22 We also want to work closely with  
23 other Blue Cross Blue Shield companies, like Blue  
24 Cross here in Delaware, that share certain core

1 values: Remaining a not-for-profit corporation  
2 with a commitment to meeting the healthcare needs  
3 and supporting the economy of local communities.

4 This is one reason why we believe  
5 this affiliation is a good fit for both Blue  
6 Cross and Highmark, as well as the State of  
7 Delaware.

8 But this partnership is not about  
9 yesterday or today. It's really about the  
10 future. It's about how Highmark and Blue Cross  
11 can operate effectively in the future, while  
12 benefitting Blue Cross employees, members,  
13 healthcare providers, and the people of Delaware.

14 To sustain our proud past well into  
15 the future, Highmark and Blue Cross must confront  
16 and adapt to a rapidly changing and very  
17 challenging environment.

18 The healthcare system today appears  
19 to be at a crossroads. We all know the most  
20 important issue in healthcare is the growth of  
21 medical costs, which is the primary driver of  
22 higher health insurance premiums.

23 Our customers expect health  
24 insurance companies to act decisively on their

1       behalf to hold down medical cost increases. But  
2       because of the ever-rising cost of medical care,  
3       fewer businesses today, especially smaller  
4       businesses, can afford to provide employee  
5       healthcare benefits.

6               Access to health insurance is  
7       another major issue. The rising cost of  
8       healthcare, combined with the ripple effects of  
9       the recession, has increased the number of people  
10      without health insurance.

11             And while the Federal healthcare  
12      reform law over time will help expand coverage to  
13      more Americans, reform only marginally addressed  
14      the cost dilemma.

15             We are also seeing rising concerns  
16      about the quality of healthcare, including  
17      differences in the way healthcare is delivered  
18      from community to community and patient safety in  
19      healthcare institutions.

20             Despite the highest per capita  
21      health spending in the world, there is a  
22      widespread belief that Americans do not receive  
23      the value we should for our healthcare dollars.

24             At the same time, consumers are

1 taking a more active role in all aspects of  
2 healthcare. Because they're more responsible for  
3 their costs, consumers are seeking more  
4 information about the cost and the quality of  
5 care across the providers, and are taking a more  
6 active role in their personal health.

7 These market dynamics are driving  
8 changes in the way healthcare is delivered and  
9 paid for, and health insurers must move quickly  
10 to stay a step ahead of the shifting marketplace.

11 Highmark views change as a  
12 springboard for innovation, developing new ways  
13 to personalize products and services. In the  
14 future, one size fits all health insurance  
15 products won't meet the needs of demanding  
16 consumers.

17 The past two years, Highmark has  
18 opened a number of health insurance retail  
19 stores, where people can walk in, talk to a  
20 representative, and get answers to questions  
21 about health insurance options. This retail  
22 marketing approach will prepare Highmark for the  
23 introduction, in 2014, of purchasing exchanges,  
24 which will allow individuals in small businesses

1 to compare and buy health insurance products  
2 based on price and other important factors.

3 I mention the retail stores because  
4 they are one of the many new capabilities that  
5 health insurance companies must have in place to  
6 meet consumer demand and compete in the  
7 healthcare marketplace of tomorrow.

8 Health insurers must also invest in  
9 employer health and wellness programs, programs  
10 to help people with chronic medical conditions,  
11 and new information technologies, to simplify  
12 business transactions with their customers,  
13 physicians, and hospitals, just to name a few.

14 In addition, Highmark offers a  
15 variety of online tools to help our members be  
16 more actively engaged in their healthcare, manage  
17 it smartly, and achieve life-long good health.

18 These services allow members to  
19 compare health plan options and choose the one  
20 that meets their own needs and to compare the  
21 cost of medical services, so they can make  
22 informed healthcare decisions.

23 And although there are many  
24 uncertainties about healthcare delivery and

1 financing, one thing is certain: To compete  
2 vigorously in the changing healthcare landscape,  
3 organizations must have the financial resources  
4 to fund expensive infrastructure improvements,  
5 develop an array of new products and services,  
6 and provide extensive web-based member services.

7           Small and large health insurers  
8 alike must not only invest their capital wisely,  
9 but also must avoid duplicative spending. Every  
10 dollar spent on duplicate investments adds to the  
11 cost of health insurance, and brings little  
12 additional value to subscribers.

13           Our business alliance will give Blue  
14 Cross access to a wide range of Highmark  
15 resources and services to help upgrade technology  
16 and information systems, add new products, better  
17 serve the people of Delaware, and avoid some of  
18 the duplicate spending on infrastructure  
19 improvements that would only add more cost to  
20 Delaware's healthcare system.

21           In addition to the need for  
22 significant capital to meet growing customer  
23 demands, health insurers are being challenged to  
24 operate more efficiently. Scale has become

1 increasingly important to achieve greater  
2 efficiency and to lower administrative costs.

3 Healthcare suppliers and service  
4 companies in radiology, laboratory services, and  
5 durable medical equipment are operating more as  
6 multi market companies to help insure a steady  
7 flow of capital and to gain greater operating  
8 efficiencies. As a result, the scale of  
9 competition in healthcare is moving from a local  
10 to a regional and a national basis.

11 The health insurance industry has  
12 also evolved. Over the past 25 years, many  
13 not-for-profit companies -- I'm sorry. Many  
14 for-profit insurance companies have joined  
15 together to create larger companies. This gives  
16 them the scale to operate more efficiently, by  
17 spreading fixed operating costs over a larger  
18 membership base and accumulating capital to make  
19 the necessary investments in health information  
20 technology and new products and services.

21 The national Blue Cross and Blue  
22 Shield system has also undergone similar change.  
23 In 1980, there were 115 Blue Cross Blue Shield  
24 companies, each doing their own thing. Each

1       invested in new technologies. Each invested in  
2       new products and services. It was a very  
3       inefficient model.

4                   Today there are 39 independent Blue  
5       Cross and Blue Shield companies, and our system  
6       operates more efficiently. In fact, more than  
7       100 million Americans now carry a Blue Cross and  
8       Blue Shield card, compared to approximately 60  
9       million subscribers in the 1980s.

10                   The operating efficiencies achieved  
11       over these last 30 years have contributed to this  
12       growth. But the growing scale and capital  
13       accumulation of the much larger national  
14       for-profit companies is again making it more  
15       difficult for not-for-profit Blue Cross and Blue  
16       Shield plans to remain competitive. This is  
17       especially true for smaller unaffiliated  
18       companies, such as Blue Cross here in Delaware.

19                   Highmark has a reliable track record  
20       of establishing strong working relationships with  
21       other Blue Cross and Blue Shield companies to  
22       help them maintain a local presence, streamline  
23       operations, and provide better service to  
24       customers.

1           In some cases, we process claims,  
2           provide an information technology platform, or  
3           provide other administrative services for other  
4           Blue Cross and Blue Shield companies, such as in  
5           Louisiana, Tennessee, Florida, and northeastern  
6           Pennsylvania.

7           The proposed alliance with Delaware  
8           Blue Cross most closely resembles our current  
9           relationship with Highmark West Virginia, which  
10          dates back to 1999. Highmark has built a legacy  
11          of investing to support the economy in West  
12          Virginia and the local communities we serve  
13          there.

14          For example, over the past five  
15          years, Highmark has generated more than \$106  
16          million in economic impact for the Parkersburg,  
17          West Virginia, region, by creating 300 jobs,  
18          paying annual employee wages of more than \$9  
19          million, and paying more than \$1 million in  
20          business and occupational taxes.

21          In addition, the development of a  
22          \$26 million Highmark West Virginia headquarters  
23          building in downtown Parkersburg has spurred  
24          development in the area.

1                   Our experience in West Virginia and  
2 elsewhere demonstrates that we have the  
3 commitment, the resources, and the experience to  
4 partner successfully with other not-for-profit  
5 companies to achieve greater operating  
6 efficiencies, such as lowering the unit price to  
7 process a single healthcare claim, and expand new  
8 business opportunities for local Blue Cross  
9 companies.

10                   It also shows we're serious and  
11 steadfast about our philosophy and values of  
12 supporting local communities.

13                   In summary, we believe the  
14 affiliation will be a win/win for Highmark and  
15 Blue Cross, and most importantly, for the people  
16 of Delaware. Through this alliance, Highmark  
17 will support Blue Cross's mission of helping make  
18 sure that healthcare services are accessible for  
19 Delaware citizens, and strengthening the Delaware  
20 economy.

21                   In short, these two companies are a  
22 good match. By harnessing the resources and  
23 strengths of both companies, we can jointly build  
24 upon Blue Cross's strong customer and provider

1 relationships and better serve Delaware  
2 customers, healthcare providers, and the  
3 community at large.

4 Now I'd like to turn it back over to  
5 Tim.

6 MR. CONSTANTINE: Thanks, Ken. As  
7 Dr. Melani noted, our industry is experiencing a  
8 period of rapid change. I am convinced that  
9 through this relationship with Highmark, we can  
10 build upon our 75 years of success and ensure  
11 that we continue as the State's premier health  
12 benefits company.

13 What do we consider to be the  
14 important attributes that make Blue Cross  
15 different from our competitors? First and  
16 foremost, we are and will continue to be a  
17 not-for-profit company headquartered in Delaware.

18 We also want to preserve the health  
19 and vitality of our communities. That means  
20 continuing to provide grants to community  
21 organizations to help increase access to  
22 healthcare for Delaware's uninsured and  
23 underserved, reduce health disparities in  
24 minority communities, and support programs to

1 recruit and train new healthcare professionals.

2 Since 2007, Blue Cross has provided  
3 nearly \$8 million in direct support to our  
4 community, through grants, sponsorships, and  
5 donations. And of course, we want to continue to  
6 be an important economic engine for Delaware by  
7 maintaining substantial employment levels in this  
8 state.

9 These attributes represent the core  
10 of Blue Cross, but the overriding question for us  
11 is how can we maintain our focus in these areas  
12 and remain a financially sound company, when the  
13 healthcare environment poses a real threat to the  
14 future of small, independent companies like ours.

15 Our board of directors and  
16 management team studied this question extensively  
17 for several years. We hired outside experts to  
18 help us evaluate our business capabilities in  
19 light of the changes taking place in healthcare.

20 We looked at every aspect of our  
21 business, and asked the tough questions: Do we  
22 have the resources to acquire leading edge  
23 technologies? Will we have the resources to  
24 acquire or develop new products and services that

1 the marketplace is asking for?

2 Will we have the large sums of  
3 capital needed to meet new and expensive Federal  
4 requirements? Can we grow membership on our own  
5 to create the scale to lower our administrative  
6 costs?

7 Similar to most companies over the  
8 last few years, we have had to make some very  
9 difficult decisions. For example, our workforce  
10 today has 100 fewer employees than we had at the  
11 end of 2007.

12 We also looked at the competition we  
13 face in Delaware. Our competitors here are all  
14 large, national companies that have grown through  
15 acquisitions and consolidations. Even the  
16 smallest of our major competitors is still more  
17 than 12 times larger than Blue Cross.

18 Adding to these challenges are  
19 substantial infrastructure investments to comply  
20 with new government mandates. For example,  
21 effective in October, 2013, all health plans will  
22 be required to implement a new set of  
23 standardized codes to ensure more efficient  
24 processing of healthcare claims and transactions

1 throughout the U.S.

2           This conversion process alone will  
3 require a significant amount of time and effort,  
4 and will require a massive capital expenditure if  
5 we remain independent. To give you an idea of  
6 the magnitude, this change will increase the  
7 number of procedure codes needed from 3000 to  
8 87,000.

9           Compounding these challenges is the  
10 healthcare reform law. Its impact on health  
11 insurers is only beginning to be felt, and we  
12 won't know the full scope of changes for health  
13 insurers, and the associated capital costs, until  
14 the Federal government issues more details about  
15 the provision of the law.

16           At a minimum, we know all health  
17 insurers will have to redesign products to comply  
18 with the law, completely overhaul the way  
19 products are distributed as the new purchasing  
20 exchanges are introduced, develop new methods of  
21 setting prices for products, and change the  
22 methods of paying doctors and hospitals to  
23 encourage more effective and lower-cost care.

24           We all know that there will be a

1 host of new reporting and other administrative  
2 requirements that small health insurers will find  
3 inordinately difficult to meet on their own. All  
4 of these changes will require huge capital  
5 investments.

6 After weighing all of these factors,  
7 we concluded that it was in Blue Cross's best  
8 long-term interest to form a partnership with a  
9 larger company so we can continue our 75-year --  
10 successful 75-year track record of serving our  
11 customers.

12 On our own, it would be difficult to  
13 achieve the operating efficiencies of our much  
14 larger competitors. On our own, we would lack  
15 capital and resources to comply with costly  
16 government mandates and the new reform law's  
17 requirements.

18 On our own, we could not continue to  
19 survive as a company and develop new products and  
20 services needed to meet shifting customer  
21 demands. And perhaps most significantly,  
22 remaining a stand-alone company will cost our  
23 customers more money.

24 Customer premiums are estimated to

1 be 3 percent higher if we do not affiliate with  
2 Highmark, because of the projected capital  
3 spending necessary to remain competitive.

4 On the other hand, with Highmark as  
5 a partner, we will save an estimated \$79 million  
6 in capital costs over five years. Our customers  
7 will benefit because of lower projected premium  
8 increases than would have occurred if we remained  
9 on our own.

10 Our past experience has also taught  
11 us the advantages of a partnership, compared to  
12 being on our own. During our past affiliation  
13 with Care First Blue Cross Blue Shield that ended  
14 in 2006, we increased our membership, grew  
15 employment, controlled our administrative costs  
16 better than we could as a stand-alone company,  
17 improved our customer service, and strengthened  
18 our financial position.

19 Since then, our ability to grow our  
20 business, control administrative costs, and  
21 compete against better-financed and much larger  
22 insurers in Delaware has been impacted.

23 And though we are a financially  
24 sound company today, as Ken noted earlier, this

1 alliance is about the future, and ensuring that  
2 we continue as the state's premier health  
3 benefits company.

4 For all these reasons, we decided  
5 that now was the right time for a strategic  
6 partnership. After careful deliberation, we  
7 selected Highmark, a not-for-profit Blue Cross  
8 and Blue Shield company, as our proposed  
9 affiliation partner.

10 Why Highmark? Because an  
11 affiliation with Highmark offers the best  
12 opportunity for Blue Cross to remain a strong,  
13 not-for-profit Delaware company with a community  
14 focus across the state, and able to compete  
15 effectively in the Delaware health insurance  
16 market over the long term. Highmark will help us  
17 expand access to health care services for  
18 Delaware citizens and bolster the Delaware  
19 economy.

20 There are other reasons we selected  
21 Highmark. It has a good track record of  
22 successful working relationships and affiliations  
23 with other Blue Cross and Blue Shield companies.

24 As an example, we have researched

1 and visited Highmark's West Virginia affiliate.  
2 As a result of the affiliation with Highmark, the  
3 West Virginia plan operates more efficiently,  
4 maximizes the use of information technology, is  
5 financially more stable, offers more products and  
6 services to meet the needs of West Virginians,  
7 and has increased its employee workforce.

8 This experience, and the  
9 testimonials shared, offer reassurance that  
10 Highmark will bring similar benefits to Delaware.

11 Highmark also brings advanced  
12 technology and support tools Resources d that  
13 will vastly improve our ability to serve Delaware  
14 subscribers, employers, brokers, and agents, and  
15 physicians and hospitals.

16 For example, there is a real push in  
17 healthcare today to make information readily  
18 available to healthcare providers and subscribers  
19 on a real-time basis. Highmark has developed  
20 real-time transaction tools that let patients  
21 know their actual out-of-pocket healthcare costs  
22 tied to the benefits when they schedule or  
23 receive healthcare services. This takes away the  
24 guesswork from patients about the cost of the

1 medical treatment.

2 In addition, the real-time's claim  
3 processing tool simplifies administration and  
4 eliminates much of the paperwork for physicians  
5 and other healthcare providers. More medical  
6 claims are able to be processed without manual  
7 intervention.

8 Delaware physicians and hospitals  
9 will be able to determine a patient's financial  
10 obligation when a service is rendered, and  
11 providers submitting real-time claims will also  
12 be reimbursed much faster than in the past.

13 With the help of Highmark's  
14 technology, Delaware providers will also obtain  
15 information real-time about the status of claims  
16 and our medical policies, and conduct many  
17 business transactions with us much faster.

18 These improvements will help control  
19 administrative expenses for Blue Cross and  
20 physician offices, while allowing physicians to  
21 focus more of their time on patient care.

22 As Ken mentioned earlier, the major  
23 issue in healthcare today is the rising cost of  
24 medical services. Delaware employers are

1 choosing employee health benefits today based on  
2 whether a health insurer can help control their  
3 employee healthcare costs.

4           When I meet with Delaware employers  
5 on healthcare issues, one of the first things  
6 they want to know is how we can help control the  
7 growth of their employee healthcare costs and  
8 foster a healthier, more productive workforce.  
9 Through this affiliation, we will be in a much  
10 better position to offer more solutions for local  
11 employers.

12           For example, Highmark offers  
13 information reporting and analytical tools, plus  
14 medical management programs and services to  
15 support individual employers.

16           Armed with these tools, we will be  
17 able to identify the underlying drivers of higher  
18 employee medical costs on an employer-by-employer  
19 basis, and then tailor solutions, such as health  
20 promotion, wellness, or chronic disease  
21 management programs, to help improve employee  
22 health and reduce employee absenteeism.

23           In addition, we anticipate that  
24 Highmark's broad mix of health insurance and

1 other employee benefit programs will create  
2 additional growth opportunities for us in  
3 Delaware.

4 For example, Highmark offers dental  
5 insurance, vision programs, reinsurance products,  
6 as well as broad health insurance programs geared  
7 for seniors, individuals, and other segments of  
8 the community.

9 By combining these complementary  
10 products with our current health insurance  
11 products, we can potentially serve a larger  
12 portion of the Delaware population, particularly  
13 those in the individual and senior segments.

14 I want to be very clear on this  
15 point. The partnership is about much more than  
16 using Highmark's technology platform and systems  
17 capabilities to help us streamline operations and  
18 better control administrative costs. This is  
19 about having a trustworthy partner to help us  
20 achieve a better future for Delaware and bring  
21 additional value to all industry stakeholders in  
22 this state.

23 We believe this affiliation will  
24 help us achieve many goals. It will bring to

1 Delaware diversified and innovative products and  
2 services, and a sophisticated centralized  
3 resource team for some of the most critical  
4 health insurance functions, such as developing  
5 new products, identifying new business and sales  
6 opportunities, conducting market research, and  
7 managing medical and pharmacy costs for our  
8 customers.

9           It will also bring Highmark's  
10 experience and expertise with implementing new  
11 provider payment methods, such as financial  
12 incentives that link reimbursements to documented  
13 improvements in clinical care and better patient  
14 outcomes.

15           Healthcare reform is encouraging  
16 changes in provider reimbursements to encourage  
17 the delivery of more cost effective care, rather  
18 than simply delivering more services.

19           With Highmark's support, we can work  
20 collaboratively with the physician and hospital  
21 community to help ensure that changes in the  
22 delivery of medical care benefit patients and  
23 providers.

24           And I believe we can realize

1 substantial benefits for Delaware while  
2 preserving Blue Cross's local relationships with  
3 our customers, doctors, and hospitals.

4 One of the main reasons we selected  
5 Highmark as a partner is because they, too, value  
6 the importance of collaborative local working  
7 relationships. I want to assure you that our  
8 local relationships will be maintained. Delaware  
9 employers, physicians, and hospitals will  
10 continue to interact with the Blue Cross  
11 associates with whom they have worked for many  
12 years.

13 Although we remain Delaware's market  
14 leader in health insurance, and are financially  
15 healthy now, the environmental forces that Ken  
16 and I have discussed, plus the pressures facing  
17 health insurers in the near future, dictate  
18 decisive action.

19 As a small stand-alone company, we  
20 lack the capital and resources to make the  
21 necessary investments to meet marketplace needs  
22 and respond to healthcare reform in the years to  
23 come.

24 Before I close, I would like to

1 respond to three specific questions that the  
2 Department of insurance has asked us to address  
3 tonight regarding the proposed affiliation.

4           The first set of questions relates  
5 to reserves. Specifically, what are BCBSD's  
6 plans for maintaining its current surplus, how  
7 does Blue Cross propose this money be secured and  
8 used to provide benefits for Delaware consumers  
9 and rate payers subsequent to any affiliation  
10 with Highmark?

11           I am very confident we can address  
12 these potential concerns. First, Blue Cross  
13 intends to treat its reserves following the  
14 affiliation in the same manner as it presently  
15 handles these funds. Based on an assessment  
16 performed by a nationally recognized actuarial  
17 consulting firm, BCBSD's current reserves are in  
18 the range recommended for a plan of our size  
19 under normal operating conditions.

20           However, it is important to note  
21 that just three years ago, Blue Cross reserves  
22 fell by 30 percent, as a result of the economic  
23 downturn, and we were below the minimum range  
24 recommended by that same actuarial consulting

1 firm.

2 Under the structure and terms of the  
3 proposed affiliation, Blue Cross will remain a  
4 separate legal entity, distinct from Highmark.  
5 As such, Blue Cross's reserves will, after the  
6 affiliation, remain dedicated to ensuring that  
7 the company has the assets on hand that we need  
8 to pay claims.

9 To the extent that there are  
10 concerns that Blue Cross reserves will be  
11 transferred to Highmark, let me assure you that  
12 this cannot happen. As noted, Blue Cross will  
13 remain a distinct legal entity, a Delaware  
14 corporation, following the affiliation.

15 Moreover, because this is an  
16 affiliation, not a merger, Blue Cross is not  
17 obligated to pay or transfer any assets  
18 whatsoever to Highmark, other than ordinary  
19 reimbursement at cost for services Highmark will  
20 provide to Blue Cross following the affiliation.

21 While the concern over preservation  
22 of Blue Cross reserves is understandable, it is  
23 important to recognize that because the  
24 affiliation will give Blue Cross access to

1 Highmark's systems, capabilities, and enhanced  
2 products and services at a much lower cost than  
3 Blue Cross could do on its own, the affiliation  
4 will, in fact, give a strong measure of stability  
5 to Blue Cross's reserves.

6 Finally, the Delaware Insurance Code  
7 gives the Delaware Insurance Commissioner a great  
8 deal of oversight and authority regarding the  
9 transactions between affiliated companies, which  
10 will help ensure that the reserves continue to be  
11 used for the benefit of Delaware subscribers. We  
12 welcome that oversight.

13 Another question that has been posed  
14 is whether there are any special incentives or  
15 payouts, either currently in place or under  
16 consideration, to Blue Cross's senior executives  
17 or board members as a result of the affiliation.

18 There are no arrangements currently  
19 in place or contemplated that would result in an  
20 incentive or bonus payment to Blue Cross senior  
21 executives or board members as a consequence of  
22 the proposed affiliation being approved and  
23 implemented.

24 Seven Blue Cross executives do have

1 employment agreements with severance benefits,  
2 predating the affiliation agreement with  
3 Highmark, which address involuntary termination  
4 of the executive's employment, whether or not an  
5 affiliation has taken place. These types of  
6 agreements are common in the industry.

7           And the final question was what is  
8 the projected impact on employment levels in  
9 Delaware following the affiliation, if it is  
10 approved.

11           Blue Cross and Highmark are  
12 currently engaging in a detailed affiliation  
13 planning process. At this point, it is premature  
14 to make firm representations regarding employment  
15 levels. What we do know is this: Both companies  
16 are committed to keeping substantial employment  
17 levels in Delaware, and are hopeful that Delaware  
18 employment levels will actually increase over the  
19 long term.

20           This is what Blue Cross experienced  
21 in its prior affiliation with Care First, and is  
22 what Highmark -- Blue Cross Blue Shield West  
23 Virginia has experienced in its affiliation with  
24 Highmark.

1           Blue Cross's market conditions and  
2 enrollment levels in the future will remain key  
3 factors in determining staffing levels here in  
4 Delaware.

5           At this time, I'm also pleased to  
6 note that in the spirit of transparency and open  
7 communication with our customers, the community,  
8 and the media, we have created a link on our  
9 website, BCBSDE.com, that houses additional  
10 information about the proposed affiliation,  
11 including media statements, Q & A's, and  
12 tonight's remarks. I encourage you to visit the  
13 site if you have any additional questions.

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

24           Ken often says we can't have a

1 community mission without financial stability.  
2 With that stability, Blue Cross can continue to  
3 focus on our mission and community support.

4 But these values cannot be preserved  
5 if our company is not competitive, relevant, and  
6 financially viable. And so, I believe this  
7 partnership with Highmark must be approved to  
8 make us an even better company, that has the  
9 human resource and financial means to meet the  
10 healthcare needs of Delawareans and our local  
11 communities in the years to come.

12 Thank you for the opportunity to  
13 make our remarks this evening.

14 DEPUTY COMMISSIONER REED: Thank  
15 you, Tim and Dr. Melani, for your comments  
16 tonight. Now we will proceed with public  
17 comments on the proposed affiliation by those who  
18 signed up to speak at this session. We ask that  
19 you limit your comments to five minutes.

20 And we will start with Mark  
21 Sharnoff. There's a table and a mike up front  
22 here, if you'd like to come up here and speak.  
23 And I also beg your forgiveness if I  
24 mispronounced your last name.

1                   MR. SHARNOFF: I'm Mark Sharnoff,  
2                   S-h-a-r-n-o-f-f. I live in Newark. I've been a  
3                   Blue Cross Blue Shield subscriber for perhaps 40  
4                   years. Perhaps even longer than that.

5                   I'm a retired person and represent  
6                   only myself. And I have to say that there has  
7                   been considerable information presented at this  
8                   meeting that was not available to persons  
9                   beforehand.

10                  And I came to this meeting under the  
11                  presupposition that Blue Cross's major need was  
12                  to enhance its informational technological  
13                  capacities, specifically by the purchase of  
14                  additional computing -- computing equipment.

15                  And the question which I had in  
16                  connection with that concern was that the  
17                  projected cost of that equipment and software  
18                  associated with it would be about \$80 million.

19                  Expressed on a per subscriber basis,  
20                  that would amount, perhaps, to \$250 per  
21                  subscriber, and if that cost were to be amortized  
22                  over a ten-year period, it would amount to about  
23                  \$25 per subscriber.

24                  The cost of that order of magnitude

1 is small in comparison to a typical premium per  
2 subscriber, and I wondered in particular why the  
3 Delaware Blue Cross Blue Shield is not -- or has  
4 not pursued that alternative. Or whether it has,  
5 and for reasons not presently exposed, decided  
6 that that was not a prudent thing to do.

7 DEPUTY COMMISSIONER REED: Mr. Sharn  
8 off, if I could sort of summarize what you're  
9 asking. That you've been a subscriber of Blue  
10 Cross Blue Shield for 40 years, plus or minus.  
11 And that you've received considerable information  
12 tonight, but your main question is their  
13 computing equipment, the cost of their computing  
14 equipment, and you feel that the cost is small to  
15 a typical premium for a subscriber in terms of  
16 purchasing this, and why they haven't pursued  
17 that. And if they have, what was that  
18 alternative, and what did they come out with?

19 MR. SHARNOFF: And in addition, of  
20 course, there is the question of what Delaware  
21 Blue Cross Blue Shield might have to be giving up  
22 by having three members of its board of trustees  
23 come from outside its own organization. Would  
24 that not in some way reduce its own flexibility,



































