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August 5, 2003

## **Via Facsimile and First Class Mail**

The Honorable Donna Lee H. Williams  
Commissioner  
Delaware Department of Insurance  
841 Silver Lake Boulevard  
Dover, DE 19904

***RE: Maryland SB 772 /HB 1179***

Dear Commissioner Williams:

Please allow this letter to serve as the request of CareFirst, Inc. ("CareFirst"), joined by Blue Cross Blue Shield of Delaware ("BCBSD") (together, "the Companies"), that the hearing on the Rule to Show Cause issued on May 22, 2003, which is presently set for August 12, 2003, be continued. BCBSD's Delaware counsel will confirm by letter today BCBSD's joinder in all aspects of this letter.

The Companies are making this request because each believes that additional time will allow the Companies to develop and refine a series of corrective measures that will properly address the concerns they collectively have with Maryland HB 1179/SB 772 (the "Maryland Legislation"), and will give the Companies an opportunity to attempt to implement certain of these corrective measures. The Companies are mindful of the passage of time since the Maryland Legislation became law, and are fully aware of the Commissioner's desire to reach a resolution quickly. In order to demonstrate the Companies' commitment in this regard, we again set forth the issues that *both Companies* agree are raised by the Maryland Legislation, and we also set forth a plan of action and milestones therein for arriving at a resolution of these issues.

### **Issues:**

The following sets forth the issues which BCBSD and CareFirst agree are raised by the above referenced legislation, and which require remedial action.

#### *The Fundamental Four:*

Four separate elements of the Maryland Legislation are of paramount concern to both companies:

- Non Profit Mission: Section 14-102 adds additional language to the Insurance Article emphasizing the “non-profit mission” of CareFirst. Subsection (F)(2) thereof could be interpreted to make the new mission statement applicable to BCBSD, as a controlled affiliate of CareFirst. This section has significant implications for both Companies.
- Reconstitution of the CareFirst Board: Uncodified Section 4 removes and replaces the twelve Class II (i.e. Maryland) members of the current CareFirst board, in less than a year. Five of the twelve will be replaced by new directors selected by the State of Maryland. Various provisions of 14-115 of the Insurance Article otherwise directly impact the CareFirst board, including substantially reducing board compensation and adding two non-voting members. The Companies have significant concerns about these changes.
- Section 14-115(d)(11): This new amendment to the Insurance Article requires that a number of routine management decisions, both by CareFirst and BCBSD, be pushed up to the CareFirst board level for approval. This raises concerns about whether either BCBSD or CareFirst can operate effectively if routine management decisions must await the approval of the CareFirst board.
- Uncodified Section 7: This provision imposes a five-year moratorium on any acquisition of CareFirst. This is of concern because it effectively precludes an otherwise meritorious transaction by CareFirst or any of its affiliates, so long as they remain affiliated.

*Other Issues Raised by the Maryland Legislation:*

Although the “Fundamental Four” are those issues raised by the Maryland Legislation that must be resolved by the State of Maryland, there are other issues agreed to by the Companies, secondary to the “fundamental four,” that the Companies will also address in due course:

- Section 14-107: Pursuant to this section of the Insurance Article, the Maryland Commissioner is now empowered to determine whether CareFirst should lose its premium tax exemption, whereas section 14-107 formerly required General Assembly action.
- 14-116(f): Under this section of the insurance article, the Maryland Attorney General is empowered to investigate unsound/unsafe practices and to question the judgment of Maryland Commissioner with respect thereto. What constitutes an “unsound or unsafe practice” has also been significantly expanded under the Maryland Legislation.
- Uncodified Section 2: This provision Creates the Joint Oversight Committee charged with examining the affairs of CareFirst and reporting thereon to the Maryland General

Assembly annually through 2005. Among other concerns, disclosure of information to this Committee may result in the inappropriate release of confidential information.

**Appointment of a Joint Working Group:**

BCBSD has authorized the following officers and counsel to work on its behalf in connection with the Maryland Legislation:

- Timothy J. Constantine, President, BCBSD, Inc.
- William E. Kirk, III, Esquire, Vice President and General Counsel, BCBSD, Inc.
- David S. Swayze, Esquire, Parkowski, Guerke & Swayze, P.A., outside counsel for BCBSD.
- Michael W. Teichman, Esquire, Parkowski, Guerke & Swayze, P.A., outside counsel for BCBSD.
- Grover C. Brown, Esquire, Gordon, Fournaris & Mammarella, P.A., counsel to the BCBSD Board of Directors.

CareFirst has authorized the following officers and counsel to work on its behalf in connection with the Maryland Legislation:

- John A. Picciotto, Esquire, Executive Vice President and General Counsel, CareFirst, Inc.
- Livio R. Broccolino, Esquire, Deputy General Counsel, CareFirst, Inc.
- Leon Kaplan, Executive Vice President, Operations, CareFirst, Inc.
- George A. Nilson, Esquire, Piper Rudnick, LLP, outside counsel to CareFirst.
- W. Harding Drane, Jr., Esquire, Potter Anderson & Corroon LLP, outside counsel for CareFirst.

Together, the aforementioned individuals constitute a “joint working group” (the “Joint Working Group”) charged by the Companies with working toward proposed solutions to the issues raised by the Maryland Legislation according to the plan of action and milestones set forth below. Naturally, other officers of the Companies, as well as members of their respective boards, will also become involved as necessary.

**Plan of Action and Milestones:**

Before describing the proposed process, it is important to note that the CareFirst Board has a fiduciary obligation to address the issues and concerns of all of its affiliated companies. This, of course, includes BCBSD, GHMSI and CareFirst of Maryland, Inc. As such, as the process moves forward, additional issues requiring additional remedies may be raised by GHMSI and CFMI, which the CareFirst Board will need to address. Some of those issues may be unique to GHMSI and/or CFMI; some may also have an impact on BCBSD. The process described below

is intended to be a template that can be used to allow all of the issues to be adequately addressed with the appropriate regulatory bodies.

The Companies propose the following plan of action, with milestones as specified, by which the issues raised by the Maryland Legislation shall be resolved -- to the extent it is possible to do so. The Companies will brief the Delaware Department of their progress on a weekly basis, as needed, throughout the process.

- Meeting with Commissioner Redmer and Relevant Maryland Officials: At the earliest opportunity, the Chairman and one or more additional representatives of BCBSD will meet with Maryland Commissioner Redmer, if possible prior to the next BCBSD Board meeting tentatively scheduled for August 20, 2003, to discuss the likelihood of, and the methodology and possible MIA support for, addressing discrete portions of the Maryland Legislation by corrective legislation, non-enforcement decisions, or otherwise. This meeting (or meetings) is intended to prepare the ground for the steps that follow.
- Completion of a Joint Statement of Concept: The Companies, through the Joint Working Group, shall develop a draft joint statement of concept (the "Joint Statement") setting forth detailed corrective measures in concept. The Joint Statement shall be completed in draft form by **August 22, 2003**.
  - The Joint Statement will contain proposed steps that may require action or approval of state regulators, the Blue Cross Blue Shield Association and even the Maryland General Assembly. Flexibility on the part of all parties will be required as the Joint Statement is transformed from a statement of concept to a series of concrete steps.
- Development of Intercompany Agreement and/or Draft Interpretive Rulings and/or Draft Maryland Legislation: The Joint Statement will identify corrective actions that likely will require the execution of an intercompany agreement between the Companies, and perhaps amendments to the Affiliation Agreement and amendments to the Companies' respective corporate charters. It also may require interpretive rulings by the Maryland Insurance Commissioner or the Maryland Attorney General, or the introduction of legislation into the Maryland General Assembly. The Companies shall, through the Joint Working Group, commence the development of these items by **September 2, 2003** for ultimate submission to the Boards.
- Board Consideration of the Joint Statement: The Joint Statement shall be submitted to the Delaware Department of Insurance for review and comment and thereafter submitted, with amendments as necessary, to the Companies' respective Boards for consideration no later than **October 1, 2003**.

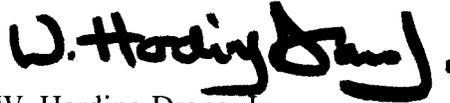
- Complete Drafting of Intercompany Agreement, Interpretive Rulings, and Draft Legislation: The Companies will complete drafting or negotiation on these documents and obtain the approval of their respective boards thereon by close of business **November 21, 2003**.
- Promulgation of Interpretive Rulings: To the extent that interpretive rulings are required by the Maryland Insurance Commissioner or the Maryland Attorney General, such rulings shall be promulgated by **December 1, 2003**.
- Submission of Intercompany Agreements for Regulator Approval: The Companies shall submit any proposed intercompany agreement to the appropriate regulators for review by close of business **December 5, 2003**.
- Execution of Intercompany Agreements: In the form approved by state regulators, any intercompany agreements shall be executed on or before **February 28, 2004**.
- Introduction and Adoption of Corrective Legislation: To the extent that legislation is required, such legislation shall be timely introduced into the Maryland General Assembly and enacted into law, in a form satisfactory to the Companies, during the 2004 legislative session.
- Rescheduling of the Rule to Show Cause Hearing: The Companies understand and agree that Commissioner Williams may reschedule the hearing on the Rule to Show Cause upon non-attainment of any of the foregoing action steps as of the deadline therefor.

The Companies are not unmindful of the significant challenges that await the implementation of the foregoing steps. However, it is worth noting that, to date, the affiliation of BCBSD and CareFirst has been a successful one, with substantial economies of scale and enhanced product offerings.

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The Companies' strong preference is to preserve the affiliation if it can be done without placing BCBSD and its subscribers at risk.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "W. Harding Drane, Jr.", with a stylized flourish at the end.

W. Harding Drane, Jr.

WHD/cml  
594474v5/27135

cc: Michael J. Rich, Esquire (by Facsimile, E-Mail and First Class Mail)  
Marshal Kramarck, Esquire (by Facsimile and First Class Mail)  
Michael Houghton, Esquire (by Facsimile and First Class Mail)  
William E. Kirk, Esquire (by Facsimile and First Class Mail)  
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