## **Public Informational Hearings**

## OPENING REMARKS BY COMMISSIONER ARIO (morning session):

Good morning, and welcome to the Pennsylvania Insurance Department's public informational hearing on the proposed consolidation of Highmark and IBC. I am Joel Ario, Insurance Commissioner of the Commonwealth of Pennsylvania. As Commissioner, I am ultimately responsible for determining whether this transaction should be approved or disapproved under statutory standards. Those standards are broad ranging and reflect the fact that insurance regulation is fundamentally about consumer protection and the public good. Among the questions we must answer are how this transaction would impact competition, whether the transaction would bring changes that are unfair or unreasonable to policyholders, and whether the transaction would be hazardous or prejudicial to the insurance buying public.

In April 2007, Highmark and IBC (Applicants) submitted the two Form A filings to the Department which are the subject of today's hearing. In these filings, the Applicants ask the Insurance Department to approve the transfer of their insurance company subsidiaries to a new company to be formed through the consolidation of Highmark and IBC. The decision will be based on a statute called the Insurance Holding Companies Act. The Act requires the Department to look at a variety of different factors, including the impact of the transaction on the health insurance marketplace and whether the transaction is likely to be hazardous or prejudicial to the insurance buying public.

Department staff responsible for review of the filings are seated here with me today. To my immediate right is Deputy Insurance Commissioner Steve Johnson from the Office Corporate and Financial Regulation. To my left is Art McNulty, Chief Counsel for the Insurance Department. I would also like to introduce several other individuals from the Insurance Department. Will Smith is the Director of the Bureau of Company Licensing and Financial Analysis. Amy Daubert is from our Legal Office. Cindy Fillman is the Director of the Office of Consumer Liaison. In the audience in the back is Bob Brackbill. Chief of our Company Licensing Division and Cris Bybee, our Licensing Specialist. Also in attendance are Jim Langenfeld, Rob Kneuper and Bob Cameron from the Department's independent economics consultant, LECG, Inc., and Martin Alderson Smith, Paul Schlaack, Justin Sunshine and Holly Bui from the Department's independent financial Advisor, Blackstone Advisory Services, L.P. The Department's outside counsel are in attendance as well. Brian Flaherty is from Wolf Block Schorr and Solis-Cohen and Alan Promer is from Hangley Aronchick Segal and Pudlin.

Before we proceed I want to make a few remarks about the Department's review process. After receiving the filing in April 2007, the Department's initial review generated 71 questions in August 2007, which the companies took until

February 2008 to answer, and follow up to those questions is ongoing as discussed below. The Department hired Blackstone as its financial advisor and LECG as its economic advisor in the fall of 2007. As these advisors near completion of their data gathering, the Department is holding these public hearings to seek further public input before we move from the fact-gathering to the decision-making part of the process.

We have been soliciting and receiving a wide range of views on this transaction, as even a cursory review of the Department's website and the hundreds of public comments posted there illustrates. Some commentators support the consolidation, some oppose it, and others suggest that it be approved only if certain conditions are included. I can assure you that neither I nor the rest of the Department's review team have made any decisions yet. What we have done is ask the Applicants hundreds of probing questions and request thousands of documents. Many of our questions and document requests relate to the public comments we have already received. One purpose for today's hearing is to give every member of the public an opportunity to add their comments to the public record, as well as to raise questions that they would like the Applicants to address before a decision is made. The Department welcomes this public input, and we will ensure that every reasonable question posed today and at the other upcoming hearings will be fully addressed by the applicants during the hearings or after the hearings are closed, with answers made available on the Department's website.

The Applicants have answered many of our questions already, but there are cases, including some very important areas of inquiry, where the information we have requested has not been fully provided yet. I would emphasize the word "yet" because I want to assure the public that before a decision is made, the Applicants will be required to provide all the information that the Department and its advisers need to make our decision. The Applicants have been told this already, but I repeat the point here for their benefit as well as for the public's benefit.

As I hope is clear by now, this public hearing is taking place at a point in the process where the public record is still being developed and no decisions have been made. This is by design, since public input to the process is extremely important to me as the adjudicator. I will keep myself open to all of the input I receive here today and throughout the entire process. I won't accept at face value what is said by the Applicants, by their supporters, or by their opposition. Beyond that, I will seek out whatever expertise I believe is necessary to ensure that all of the legal, economic, and public policy issues are appropriately addressed. This could include retaining additional experts or holding additional public hearings. Though neither of those things is contemplated today, the bottom line is that we will do what is necessary to ensure a full and fair decision-making process.

With this context, let me turn to some details about today's hearing and the two others to be held in Harrisburg and Philadelphia. Their purpose is to receive comments from interested persons to aid the Department in ultimately reaching a decision on the filings and to allow Highmark and IBC to discuss the details of the proposed transaction. The entire record of the filings, including the transcript of the hearing, will be reviewed by the Department before any final conclusions are reached. The Department will closely consider any comments about the filings presented here today. To reiterate, the purpose of these hearings is not to reach a final decision on the Form A filings, and no final decision will be rendered at the conclusion of the hearing.

The timing of a final decision will depend on the information developed at all of the public informational hearings, and the answers received as part of the public record outside the hearing process as well. In the end, the decision will be guided by an open and rigorous analysis of the entire record to determine whether the statutory standards have been met. The publicly available record thus far consists of all public documents filed by Highmark and IBC and their respective counsel and consultants, as well as all written comments received from the public or interested persons and responses to those comments from Highmark and IBC. Public portions of the Form A Filing and related documents have been and remain available on the Department's website, at the Department's offices in Harrisburg, and at the Department's regional offices in Philadelphia and Pittsburgh.

This is a public informational hearing, similar to a town meeting or a City Council meeting. All interested persons are invited to provide their comments or raise questions about the Form A Filing. However, there are a lot of people who wish to speak so I must ask you to address your comments to the given subject and to be as concise as possible. Also, please address your comments to me and the panel in the front of the room. The Department's Chief Counsel, Art McNulty, will provide more detailed information about the procedures for today's hearing. Now I will ask Deputy Commissioner Steve Johnson to give some details regarding the filings and the Department's review process. Steve?