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Insurance Commissioner's Appraisal Committee on Blue Cross Conversion Proposal Issues Report

MADISON, WI -- Insurance Commissioner Connie L. O'Connell announced yesterday that the Appraisal Committee for the Conversion of Blue Cross and Blue Shield United of Wisconsin has issued its final report. "I would like to thank the Appraisal Committee for the fine work it has done. The Committee's work on this important transaction is invaluable," said O'Connell.

In August of last year, O'Connell appointed an Appraisal Committee to review the proposed conversion of Blue Cross & Blue Shield United of Wisconsin (BCBSUW) from a non-profit insurer to a for-profit stock insurer. Part of the proposed transaction includes the transfer of 100% of the equity value of BCBSUW to a public health foundation. The charge of the Appraisal Committee was to assist the Commissioner in ensuring that the full, fair and reasonable value of BCBSUW would be realized by the public health foundation. The Committee did not develop an actual value or range of values of BCBSUW as of a particular date because the application did not include specific information as to when or how the stock would be sold by the public health foundation. "Since market value is a moving target, establishing a value today for an event in the future is not very meaningful", said Mark Femal, chairperson of the Appraisal Committee. The Committee, therefore, concentrated its work on determining whether procedures were or needed to be put in place to ensure that the public health foundation realizes the full, fair and reasonable value of the BCBSUW stock.

O'Connell appointed Mark Femal, executive director of the Wisconsin Insurance Security Fund, Patricia Lipton, executive director of the State of Wisconsin Investment Board and Randy Blumer, Deputy Insurance Commissioner to the Committee. Femal was elected the chairperson. The Appraisal Committee was assisted by staff of the Office of the Commissioner of Insurance (OCI) and the investment banking firm of Deutsche Bank Securities, Inc.

The Appraisal Committee concluded that provisions in the BCBSUW conversion application and a lack of specificity in key areas of the application could negatively impact the value of the stock transferred to the public health foundation. The Committee also determined that the proposed transfer of 100% of the outstanding stock to the public health foundation results in the full value of BCBSUW going to the public. The Appraisal Committee examined the impact on the value of BCBSUW of prior transactions among affiliated BCBSUW companies. The Committee determined that these transactions, as a whole, enhanced the value of BCBSUW.

Finally, the Committee concluded that the value of the Blue Cross service mark (brand) was an important part to the future wellbeing of the company and, therefore, justified some of the ownership restrictions contained in the application in order to maintain the Blues license.

In general, the Committee concluded that, with the implementation of the recommendations contained in the report, the public health foundation could be reasonably assured that it would realize the full, fair and reasonable value of BCBSUW when it sells the stock. The recommendations of the Committee include:

- Regulatory Oversight -- The Committee recommended that the Office of the Commissioner of Insurance (OCI), with the assistance of its investment banking firm, have regulatory oversight over the sale of the public health foundation stock holdings and any capital raising transactions of BCBSUW until such time as the stock transferred to the public foundation has achieved a proper market value.
- Public Health Foundation and Corporate Governance -- The Committee recommended that, for purposes of divestiture or sale of the stock, the public health foundation board be independent of BCBSUW. It also recommended that the board of directors of United Heartland Group, Inc. (UHG), the holding company proposed in the application has adequate stockholder representation.
- Sale of Stock -- The Committee recommended that the conversion of BCBSUW occur contemporaneously with the raising of capital by BCBSUW, and the sale of at least a portion of the stock transferred to the public health foundation. This is to ensure that the public health foundation ownership of BCBSUW meets the national Blue Cross Association guidelines in the time required. And, that the interests of realizing the full, fair and reasonable value of the stock owned by the public health foundation are aligned with BCBSUW.
- Management Compensation -- The Committee recommended that no new stock options be issued or current stock option terms be changed for one year after the conversion. This is to ensure that BCBSUW management does not have the incentive to take action that may be contrary to the interests of the public health foundation.

The report has been served on Blue Cross, which has ten days to comment to the Commissioner. "The Committee's report, along with Blue Cross' response becomes part of the hearing record of the application. I will use this information as I make my final decision concerning the transaction," said Commissioner O'Connell.

The Appraisal Committee report along with all Committee minutes, agenda and open meeting notices for Committee meetings can be found on the OCI website at http://badger.state.wi.us/agencies/oci/oci_home.htm.