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INSURANCE ADMINISTRATION

RALPH S. TYLER
Commissioner

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August 21, 2009

The Honorable Thomas E. Hampton, Commissioner
Department of Insurance, Securities & Banking
District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Re: Financial Solvency Review – Group Hospitalization and Medical Services, Inc.

Dear Commissioner Hampton:

This letter is respectfully submitted in connection with your review of the financial solvency, including surplus, of Group Hospitalization and Medical Services, Inc. ("GHMSI"). Please include this letter in the record of the hearing which you are holding on this subject on September 10-11, 2009.

GHMSI is domiciled in the District of Columbia and the company's subscribers (policyholders) include District residents. As you understand, however, the District is not the only jurisdiction interested in the solvency of GHMSI. GHMSI's service area includes Maryland (as well as portions of Virginia). Accordingly, Maryland shares the District's interest in the protection of the company's policyholders and in the company's well-being. I am confident that Virginia also shares this same interest.

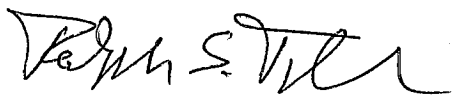
Consistent with Maryland's interest in GHMSI, the Maryland Insurance Administration ("MIA") has retained the Invotex firm to review the surplus of CareFirst of Maryland, Inc. ("CFMI") and GHMSI on an individual company and consolidated basis. Among the reasons for the MIA's having Invotex conduct this review are (1) to get advice on the question of when is surplus excessive, including the indicia of excessive surplus; (2) to get advice on whether the surplus should be viewed on an individual company or consolidated basis; and (3) to get advice on how to approach the question of allocating the surplus if it is determined to be excessive. The issue of whether surplus should be viewed on an individual or consolidated basis arises because of the business combination of CFMI and GHMSI through CareFirst, Inc. ("CFI"), the parent

company. The issue of allocation arises because GHMSI operates in the three jurisdictions of the District of Columbia, Maryland, and Virginia.

These questions are novel and difficult, involving both issues of fact and judgment. Indeed, the notion of "excessive surplus" is somewhat counterintuitive to an insurance regulator. Because surplus is equated with financial protection, the insurance regulatory view tends to be that more surplus is always better. There is, however, an upper limit, a point beyond which a carrier's surplus is "too much"; that is, the surplus exceeds any amount reasonably appropriate for solvency protection and, instead, indicates that, overtime and in the aggregate, the carrier's rates were excessive. If and when that point of "too much" is reached, the proper regulatory response would be to work with the carrier to develop an appropriate remedial plan.

The MIA will be better informed on all these matters after receiving Invotex's report. That report is expected to be completed within about the next 60 days. The MIA will determine then what further steps or actions, if any, including holding a hearing, to take. I will, of course, be happy to provide you with the results of the MIA's inquiry. I would ask you to provide me with a copy of any report or order which you might issue. I look forward to continuing to work with you on this issue as it is of substantial importance to consumers in both Maryland and the District of Columbia. Thank you for your consideration.

Very truly yours,



Ralph S. Tyler
Commissioner

RST:tlw