

EXHIBIT B

LAWRENCE J. HOGAN, JR.
Governor

BOYD K. RUTHERFORD
Lt. Governor



AL REDMER, JR.
Commissioner

NANCY GRODIN
Deputy Commissioner

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February 10, 2015

Mr. Chet Burrell
President and Chief Executive Officer
CareFirst BlueCross BlueShield
1501 S. Clinton Street, Suite 700
Baltimore, MD 21224-5744

Re: Initiation of Examination of Group Hospitalization and Medical Services, Inc.

Dear Mr. Burrell:

Group Hospitalization and Medical Services, Inc. ("GHMSI") holds a certificate of authority to operate as a nonprofit health service plan in Maryland and is a congressionally chartered entity domiciled in the District of Columbia. GHMSI and CareFirst of Maryland Inc. ("CFMI"), also a nonprofit health service plan in Maryland, are under the common control of CareFirst, Inc. CareFirst, Inc. is chartered and domiciled in Maryland and also holds a certificate of authority to operate as a nonprofit health service plan in Maryland.

As nonprofit health service plans, CareFirst, Inc., CFMI, and GHMSI are all charged with carrying out a three-part statutory mission: (1) to provide affordable and accessible health insurance to the respective plan's insureds and those persons insured or issued health benefit plans by affiliates or subsidiaries of the plan; (2) to assist and support public and private health care initiatives for individuals without health insurance; and (3) to promote the integration of a health care system that meets the health care needs of all of the residents of the jurisdictions in which the nonprofit health service plan operates. Ins. Art. § 14-102 (c), (d).

To qualify for a certificate of authority, an insurer, including a nonprofit health service plan, must maintain assets and surplus that are "reasonable in relation to the insurer's outstanding liabilities and adequate to its financial needs" Ins. Art. § 4-103(c)(1). Numerous factors are considered to determine whether an insurer's assets and surplus are reasonable in relation to the insurer's outstanding liabilities and adequate to its financial needs. *See* Ins. Art. § 4-103(c)(2). Further, an insurer, including a nonprofit health service plan, should maintain an

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amount of capital in excess of certain minimum risk based capital ("RBC") levels as set forth in Title 4, Subtitle 3 of the Insurance Article.

Section 14-117 defines when the Commissioner may consider the surplus (the amount by which certain defined assets exceed liabilities described in § 5-103) of a nonprofit health service plan to be excessive and the procedure by which excessive surplus may be distributed. Notably, if the Commissioner determines that the surplus is excessive, the Commissioner may order the corporation to prepare a plan for distribution of the excess surplus "only to subscribers who are covered by the corporation's nonprofit health service plan at the time the distribution is made." Ins. Art. § 14-117(e)(3).

The Insurance Commissioner engaged in a comprehensive review of the surplus ranges of GHMSI and CFMI in 2009, 2011 and then again in 2012. In 2012, then Commissioner Therese M. Goldsmith initiated a review of the companies' board-approved targeted surplus ranges. To assist with this review the Maryland Insurance Administration ("MIA") engaged a professional services firm to perform an independent analysis of the appropriateness of the board-approved targeted surplus ranges. Commissioner Goldsmith concluded in a Consent Order dated September 14, 2012 that the analysis and conclusions of three independent consultants – two retained by CFMI and GHMSI and one retained by the MIA supported a finding that the targeted surplus ranges adopted by the companies were appropriate to provide a high level of confidence that the surpluses would not fall below levels that would result in corrective regulatory action or jeopardize the use of the Blue Cross Blue Shield trademark. *See* Consent Order, Case No. MIA-2012-09-006 (the "Consent Order.") As the Commissioner noted in the Consent Order, according to the companies and the consultants, there are additional, potentially substantial risks associated with the implementation of the Affordable Care Act, in the short term at least. As a result, the Consent Order concluded that a targeted surplus range for GHMSI of 1,000% to 1,300% ACL-RBC was adequate and neither excessive nor unreasonably large. Consent Order at 7. Accordingly, the Commissioner approved a targeted surplus range for GHMSI of 1,000% to 1,300% of its authorized control level risk based capital and the companies agreed to "strive to maintain an actual surplus position...at the midpoint of the surplus range approved by the Commissioner, and to move surplus to the midpoint in a gradual manner." *Id.* at 8.

On December 30, 2014, the D.C. Department of Insurance, Securities and Banking ("DISB") found that as of December 31, 2011, GHMSI's surplus of 998% ACL-RBC was excessive and that 21% of GHMSI's surplus was attributable to D.C (the "DISB Order"). In so finding, DISB found that the appropriate level for GHMSI's surplus was 721% ACL-RBC, well below the targeted surplus range in the Consent Order. The DISB ordered GHMSI to submit a

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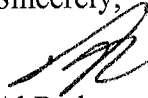
plan to the D.C Commissioner for dedication of its excess of 2011 surplus attributable to D.C. for community health reinvestment in a fair and equitable manner. The plan is due March 16, 2015.

Pursuant to § 14-124 of the Insurance Article, the Commissioner may conduct any investigation he considers necessary to enforce the provisions of the Insurance Article. As such, I have decided to initiate an investigation in accordance with Title 2, Subtitle 2 and § 14-124 of GHMSI's surplus, including a review of whether the DISB order on GHMSI is harmful to the interests of residents of the State of Maryland covered by policies issued or delivered either in Maryland or in any other state.

While this investigation is ongoing and until the MIA makes a determination on the impact to Maryland residents of the DISB order, GHMSI is prohibited from reducing or distributing its surplus as a result of the DISB order and is prohibited from submitting a plan to the D.C. Commissioner for dedication of its excess of 2011 surplus attributable to D.C until submitted, reviewed and approved by the MIA.

Questions about the investigation should be directed to Associate Commissioner Christopher Buchanan at 410.468.2122.

Sincerely,



Al Redmer, Jr.
Insurance Commissioner

cc: Christopher Buchanan, Associate Commissioner, Examination & Auditing

RIGHT TO REQUEST A HEARING

Any person aggrieved by this determination has the right to request a hearing. A request for hearing must be made in writing and received by the Maryland Insurance Administration within thirty (30) days of the date of this Order. The request must be addressed to the Maryland Insurance Administration, 200 St. Paul Place, Suite 2700, Baltimore, Maryland 21202. Attention: Sharon Kraus, Hearings and Appeals Coordinator. Failure to request a hearing in a timely fashion, or to appear at a scheduled hearing, will result in a waiver of your right to contest the Commissioner's action, and the determination will be final on the effective date. If a hearing is requested within ten (10) days of the date of the letter accompanying this determination, the effective date of the determination will be stayed until the matter is adjudicated.