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OFFICE OF  
INSURANCE COMMISSIONER  
HEARINGS UNIT

2013 SEP -5 A 11: 53

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Patricia D. Petersen  
Chief Presiding Officer  
(360) 725-7105

Hearings Unit, OIC  
Patricia D. Petersen  
Chief Presiding Officer  
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Paralegal  
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BEFORE THE STATE OF WASHINGTON  
OFFICE OF INSURANCE COMMISSIONER

In the Matter of Disclaimer of Control of	)	<b>Docket No. 13-0114</b>
	)	
<b>Qliance Medical Management, Inc. by</b>	)	<b>ORDER TERMINATING</b>
	)	<b>PROCEEDINGS</b>
<b>Regence BlueShield, a Washington</b>	)	
<b>Insurer</b>	)	
_____		

**TO:** M. Jonathan Hensley, President  
Regence BlueShield  
P.O. Box 21267  
Seattle, WA 98111-3267

**COPY TO:** Mike Kreidler, Insurance Commissioner  
James T. Odiorne, Chief Deputy Insurance Commissioner  
Ronald J. Pastuch, Holding Company Manager, Company Supervision Division  
Robin Aronson, Staff Attorney, Legal Affairs Division  
Anna Lisa Gellermann, Deputy Commissioner, Legal Affairs Division  
Office of the Insurance Commissioner  
PO Box 40255  
Olympia, WA 98504-0255

On or about December 21, 2012 Regence BlueShield ("Regence"), a Washington Insurer, closed on its purchase of a \$4.5 million cash investment in preferred equity shares of Qliance Medical Management, Inc. ("Qliance"), which amounted to approximately 26% ownership of Qliance. Regence did not file a Notice of Disclaimer of Control or gain the prior approval of the Insurance Commissioner ("OIC") for this purchase, and thereby violated RCW 48.31C.010(3)(a).

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Some time after Regence's December 21, 2012 purchase when the matter came to the attention of the OIC, by letter dated January 18, 2013 James T. Odiorne, CPA, JD, then Deputy Commissioner for Company Supervision, contacted Regence to inquire about this situation.

On January 25, 2013 Regence responded to the OIC's inquiry, and stated that it *had intended to file a Notice of Disclaimer of Control* as required by RCW 48.31C.010(3)(a) but did not. Regence provided no reason why it had failed to comply with RCW 48.31C.010(3)(a), but instead stated that now its January 25 letter *constitutes Regence's notice of disclaimer of control because the OIC's questions address the issues Regence would have covered in such a disclaimer*. In its January 25 letter responding to the OIC's specific questions, Regence stated to the OIC that it had, in fact, closed on its \$4.5 million cash purchase of preferred equity shares of Qliance on December 21, 2012; that as of January 25, 2013 Regence's current actual ownership is 25.95%; that it now has the right to nominate one director to fill one of seven seats on the Qliance board of directors; that this director has the ability to prevent Qliance from changing or exiting its current line of business; and that prior to Regence's December 21, 2012 investment Regence had no management/ownership rights in Qliance. Regence further responded that along with its investment in Qliance, Regence is entitled to earn the opportunity to purchase additional equity in Qliance at a significant discount upon achieving specific milestones related to Regence (or its affiliated companies') commercial line-of-business members that become customers of Qliance; that Regence has other venture industry investment provisions including the Right of First Offer and the Right of First Refusal; and that Regence will report the investment as preferred stock on Schedule D Part 2 Section 1. A copy of Regence's January 25, 2013 letter written in response to questions from the OIC is attached hereto and is by this reference made a part hereof.

As above, Regence asked that its letter constitute its disclaimer of control and requested approval of its Qliance investment retroactively.

On April 2, 2013, the OIC transmitted the January 25, 2013 letter from Regence, which was intended to constitute a disclaimer of control, to the undersigned requesting that the undersigned conduct an adjudicative proceeding in accordance with RCW 48.31C.010(3) and 48.31C.040(10). Accordingly, a Notice of Receipt of Request for Hearing was entered and mailed to Regence on April 5, 2013.

By letter dated April 8, 2013, Lisa T. Murphy, Regence's Director of Corporate Legal Services & Sr. Associate General Counsel, advised the undersigned that Regence was withdrawing its "disclaimer of control" in Qliance. A copy of Regence's April 8 letter withdrawing its disclaimer of control is attached hereto and is by this reference made a part hereof.

The OIC staff reviewed Regence's above referenced April 8, 2013 withdrawal of its above January 25 letter. The OIC concluded that Regence's above described investment in Qliance was an eligible investment that did not exceed the per issuer limits of RCW 48.13.071(2) but did exceed the aggregate investment limits of RCW 48.13.072(1)(c). However, OIC staff advised, the "excess" was found to be an allowable investment under RCW 48.12.061(12), whose limits were

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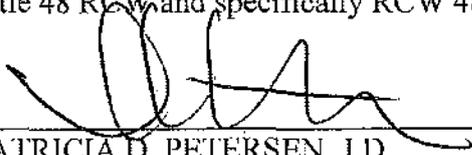
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*not exceeded. Finally, OIC staff advised that the limits of RCW 48.13.071(1)(c)(i) dealing with limitations of voting securities of a single issuer were determined to be not applicable. The OIC advised that is not aware of any additional investment in Qliance by Regence during 2013. The OIC staff's July 11 email letter setting forth these conclusions is attached hereto and is by this reference made a part hereof.*

Based upon the above activity,

**IT IS HEREBY ORDERED** that this proceeding, Docket No. 13-0114, is hereby dismissed with prejudice.

ENTERED AT TUMWATER, WASHINGTON, this 5<sup>th</sup> day of September 2013, pursuant to Title 48 RCW and specifically RCW 48.04 and Title 34 RCW and regulations applicable thereto.



PATRICIA D. PETERSEN, J.D.  
Chief Presiding Officer

Declaration of Mailing

I declare under penalty of perjury under the laws of the State of Washington that on the date listed below, I mailed or caused delivery through normal office mailing custom, a true copy of this document to the following people at their addresses listed above: M. Jonathan Hensley, Mike Kreidler, James T. Odierno, Ronald J. Pastuch, Robin Aronson, Esq., and Annalisa Gellermann, Esq.,

DATED this 5<sup>th</sup> day of September, 2013.

  
KELLY A. CAIRNS



January 25, 2013

Mr. Jim Odiorne  
Deputy Insurance Commissioner  
Office of the Insurance Commissioner  
P.O. Box 40255  
Olympia, WA 98504-0255

RECEIVED  
JAN 29 2013  
INSURANCE COMMISSIONER  
COMPANY SUPERVISION

Dear Mr. Odiorne:

Thank you for your letter dated January 18, 2013, following up on the voicemail I left with the Washington Office of Insurance Commissioner on January 2, 2013. Regence BlueShield (Regence) appreciates the opportunity to provide you this additional information about its equity investment in Qliance Medical Management, Inc. (Qliance). Note that Regence's position is that it does not control Qliance and thus had intended to file a disclaimer of control as set forth in RCW 48.31C.010(3)(a), as it has done with other investments in the past. Given that your questions address the issues we would have covered in such a disclaimer, this letter constitutes Regence's notice of disclaimer of control.

Overview of transaction: On December 21, 2012, Regence closed a \$4.5 million investment in preferred equity shares of Qliance. This round of financing was structured to include two closes. The first close occurred December 21, 2012, and the second close will occur before the end of the first quarter of 2013. Regence will not be contributing any additional capital to Qliance during the second close. The exact amount of new capital being invested in Qliance from other investors during the second close is not yet finalized; however, Regence expects its actual ownership position to decrease from 25.95% as of December 21, 2012 to a position closer to 20%.

Response to your particular inquiries. The numbered items below are from the bulleted list in your letter; our response to each inquiry is provided.

1. *Date, amount, and form of investment in Qliance.*  
December 21, 2012; \$4.5 million; cash.
2. *Description of liquidity assessment made in advance of investment in Qliance.*

As part of its due diligence, Regence reviewed this transaction with respect to its impact to liquidity and other prudent investment standards. Review was done to consider the impact this investment on key metrics including Total Invested Assets, Surplus, RBC levels, and ability to pay claims and other operating expenses. This analysis found no material impact on any of these measures.

3. *Description of management/ownership rights in Qliance received as a result of the investment.*

As noted above, Regence's current actual ownership is 25.95%; following the second close, its actual ownership likely will be closer to 20%. It has the right to nominate one director to fill one of seven seats on the Qliance board of directors. Regence does not have any blocking or veto rights related to the ongoing management and operations of the company. The Regence-nominated director does, however, have the ability to prevent Qliance from changing or exiting its current line of business, if it feels that is in the best interest of shareholders.

4. *Description of management/ownership rights in Qliance prior to the investment that was the subject of your voicemail.*

None.

5. *Description of any currently negotiated or other anticipated future rights in Qliance.*

Regence's investment agreement with Qliance includes certain performance warrants. These performance warrants enable Regence to earn the opportunity to purchase additional equity in Qliance at a significant discount upon achieving specific milestones related to Regence (or its affiliated companies') commercial line-of-business members that become customers of Qliance. At this time Regence has not achieved any milestones. In addition, Regence negotiated certain other customary venture industry investment provisions, including the Right of First Offer and the Right of First Refusal.

6. *Date, amount, and form of investment in Qliance by any affiliate within the Cambia holding company system.*

None.

7. *Summary of how all the Cambia affiliates have, or will, report investments (if any) in Qliance.*

Regence BlueShield will report the investment as preferred stock on Schedule D Part 2 Section 1.

8. *Description of any and all "off book" or "side" agreements or letters (however denominated) between Qliance and any affiliate within the Cambia holding company system.*

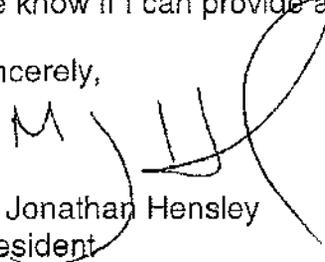
None. Regence is discussing with Qliance ways in which the two companies can collaborate to bring innovative health care products to the Washington market. We believe there is a unique opportunity to use Regence's health insurance experience along with the expertise of Qliance as a means to slow rising health care costs and optimize quality for groups and individuals, goals long supported

by the Commissioner. While this process is still in its infancy, once concrete ideas have been developed we would welcome the opportunity to discuss with the Commissioner and the appropriate OIC staff the best manner to achieve these goals and to seek your expert counsel on how to do so within the constraints of state and federal laws and regulations.

\* \* \* \*

Thank you for the opportunity to describe Regence's investment in Qliance. Please let me know if I can provide additional information.

Sincerely,

  
M. Jonathan Hensley  
President



Regence  
FILED

**Legal Division**

**Lisa T. Murphy**

Director, Corporate Legal Services  
& Senior Associate General Counsel

(503) 225-4879 Voice

(503) 225-5431 Facsimile

[lisa.murphy@cambiahealth.com](mailto:lisa.murphy@cambiahealth.com)

**Reply to:**

P.O. Box 1271 (M/S E12B)  
Portland, OR 97207-1271

2013 APR 10 P 12:18

Hearings Unit, DIC  
Patricia E. Petersen  
Chief Hearing Officer

April 8, 2013

***Via Overnight Courier***

Patricia D. Petersen, JD, Chief Hearing Officer  
Office of the Insurance Commissioner, Hearings Unit  
5000 Capitol Boulevard  
Tumwater, WA 98501

**Re: Withdrawal of Disclaimer of Control  
Docket No. 13-0114**

Dear Chief Hearing Officer Petersen:

Regence BlueShield has notified the Washington Office of Insurance Commissioner that it is withdrawing its disclaimer of control in Qliance Medical Management, Inc., reserving the ability to re-file the disclaimer at some point in the future.

Given that Regence is withdrawing its disclaimer, a hearing on this issue is not necessary.

Please let me know if you have any questions.

Best regards,

**LISA T. MURPHY**

Director, Corporate Legal Services  
& Senior Associate General Counsel

LTM:jlc

Enclosures

cc: M. Jonathan Hensley, President, Regence BlueShield  
Kelly Cairns, Paralegal, OIC Hearings Unit (via email only)

100 SW Market Street, P.O. Box 1271, Portland, OR 97207-1271

## Cairns, Kelly (OIC)

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**From:** Pastuch, Ron (OIC)  
**Sent:** Thursday, July 11, 2013 2:57 PM  
**To:** OIC Hearings Unit  
**Cc:** Aronson, Robin (OIC)  
**Subject:** FW: Regence - Investment in Qliance

Good afternoon.

According to Mr. Hays' analysis, the Regence investment in Qliance appears to be an eligible asset under the current chapter 48.13 RCW. We are not aware of any additional investment in Qliance by Regence during 2013.

Please let us know if you have any further questions.

Thank you,

### **Ron Pastuch**

Holding Company Manager  
WA Office of the Insurance Commissioner  
Phone: 360/725-7211  
FAX: 360/586-2022

**From:** Hays, Tim (OIC)  
**Sent:** Thursday, July 11, 2013 2:42 PM  
**To:** Murphy, Rodica (OIC)  
**Cc:** Pastuch, Ron (OIC)  
**Subject:** RE: Regence - Investment in Qliance

Rodica(Ron):

1. **Per entity limitations:** Regence Blue Shield's investment in Qliance's was \$4,464,500 (book/adjusted carrying value) at 12/31/2012. This amounts to .2 % of Regence Blue Shield' admitted assets. This is much less than the per issuer limitation of 5% under RCW 48.13.071(2).
2. **Voting securities limitation:** Since preferred stock is normally not considered a voting security, the limitations of RCW 48.13.071(1)(c)(i), no more than 10% of voting securities, was not applicable to this transaction.
3. **Aggregate investment limitations (if not considered as subsidiary):** For the purposes of RCW 48.13.101, the aggregate limitation for investments eligible under RCW 48.13.61(4), other than subsidiaries, is 25% of admitted assets under RCW 48.13.071(1)(c). At 12/31/2013 total investment in preferred stocks and common stocks equaled \$525,735,204 (\$21,125,185 nonadmitted and \$504,610,019 admitted). Total admitted assets at 12/31/2012 was \$1,583,486,002. Total investment in common and preferred stock [under 48.13.071(1)(c)] was limited to \$395,871,500 at 12/31/2013. The difference equaled \$108,738,519 (\$504,610,019 - \$395,871,500). This overage equals 6.86 % RBS's admitted assets at 12/31/2013. Per RCW 48.13.071(4), this overage is an admitted asset under RCW 48.13.061(12). Did not investigate non-admitted common stock of \$21,125,185.
4. **Aggregate investment limitations (if considered a subsidiary):** Analysis not applicable (from a review of 12/31/2012 F/S note 10.I, Regence does not hold any investments in subsidiary, controlled, or affiliated companies that exceed 10% of admitted assets). Analytically reviewed Supplemental Investment Risk Interrogatories of the year ended December 31, 2012 and appears to support Regence's assertion. See Supplemental Investment Risk Interrogatories For The Year Ended December 31, 2012, pp. 285, 2.01-2.10.

**In summary,** it is an eligible investment that did not exceed the per issuer limits of RCW 48.13.071(2), but did exceed the aggregate investment limits of RCW 48.13.071(1)(c). However, the "excess" was found to be an allowable investment

under RCW 48.12.061(12), whose limits were not exceeded. Finally the limits of RCW 48.13.071(1)(c)(i), dealing with limitations of voting securities of a single issuer were determined to be not applicable.

If you have any additional questions, please do not hesitate to ask.

Tim

**From:** Murphy, Rodica (OIC)  
**Sent:** Friday, July 05, 2013 6:56 AM  
**To:** Hays, Tim (OIC)  
**Subject:** FW: Regence - Investment in Qliance

Tim,  
Could you help me, please to find an answer to Ron's question?

Thank you,  
Rodica

**From:** Pastuch, Ron (OIC)  
**Sent:** Tuesday, June 18, 2013 10:58 AM  
**To:** Murphy, Rodica (OIC)  
**Subject:** Regence - Investment in Qliance

Rodica,

Regence requested the withdrawal of its disclaimer of control of its investment in Qliance which means that Regence should report that investment in its financial statements and holding company registration statements. The judge wants to know if that investment needs OIC approval because of Regence's investment of 26 percent of Qliance preferred stock at the 2012 year-end.

Can you please verify if there are any investment compliance issues with that recent acquisition?

Thanks,

**Ron Pastuch**  
Holding Company Manager  
WA Office of the Insurance Commissioner  
Phone: 360/725-7211  
FAX: 360/586-2022