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BEFORE THE STATE OF WASHINGTON  
OFFICE OF INSURANCE COMMISSIONER

In the Matter of the Form A Application )  
for the Proposed Acquisition of Control )  
of: )  
 )  
**COLUMBIA UNITED PROVIDERS,** )  
**INC.,** a Washington domestic insurer, )  
 )  
by )  
 )  
**PEACEHEALTH NETWORKS,** a )  
Washington nonprofit corporation. )  
\_\_\_\_\_ )

Docket No. 14-0106  
FINAL ORDER ON  
APPLICATION FOR PROPOSED  
ACQUISITION OF CONTROL

**TO:** Stuart P. Hennessey, Esq.  
Attorney for PeaceHealth Networks and PeaceHealth  
1115 SE 164<sup>th</sup> Avenue  
Vancouver, WA 98683

**AND TO:** Mike Kreidler, Insurance Commissioner  
James T. Odiorne, J.D., CPA, Chief Deputy Insurance Commissioner  
AnnaLisa Gellermann, Esq., Deputy Commissioner, Legal Affairs Division  
Marcia Stickler, Staff Attorney, Legal Affairs Division  
William R. Michels, Deputy Commissioner, Company Supervision  
Ronald J. Pastuch, Holding Company Manager, Company Supervision  
Office of the Insurance Commissioner  
PO Box 40255  
Olympia, WA 98504-0255

## NATURE OF PROCEEDING

On February 18, 2014, the Office of the Washington State Insurance Commissioner ("OIC") received a Form A Application from PeaceHealth Networks ("PHN"), requesting a determination that PHN, not a related entity, PeaceHealth ("PH"), controls Columbia United Providers, Inc. ("CUP").

On May 15, 2014, the OIC determined that the Form A Application contained all required documents and information and transmitted the Form A Statement to the OIC Hearings Unit.

The hearing of this matter was held on August 7, 2014 before Judge George Finkle (Ret.), who has been delegated the responsibility to act as Presiding Officer in this matter.

All documents filed with PHN's Form A Application and all supplemental documents and information referenced herein can be found at <http://www.insurance.wa.gov/laws-rules/administrative-hearings/judicial-proceedings/c-d/> or can be obtained by contacting Kelly Cairns, Hearings Unit Paralegal, at (360) 725-7002 or KellyC@oic.wa.gov. Such documents and materials include: 1) PHN's Form A Statement Regarding the Acquisition of Control of a Domestic Insurer; 2) Articles of Incorporation and Bylaws of PHN and PH; 3) organizational chart of the entities after the restructuring; 4) financial statements for PHN, PH and CUP; and 5) biographical affidavits of officers and directors.

Documents 1) - 5), above, and all other documents included in PHN's filing, as well as all written communications between PHN and the OIC filed in this matter, are published at the referenced OIC website and were entered into evidence.

## FINDINGS OF FACT

1. Columbia United Providers, Inc. CUP was originally formed in 1994 under a different name as a Washington-domiciled health care service contractor. CUP changed to its present name in 2001. CUP provided health coverage to Clark County subscribers through State-based health programs such as Basic Health and Healthy Options. On January 3, 2013, after its contract with the State expired, CUP converted from a health care service contractor to a disability insurer, providing third-party administrator services for State-based health care programs as well as receiving capitation payments from, and providing reinsurance coverage to, an unrelated health care service contractor.

2. PeaceHealth Networks. PHN, formerly Southwest Washington Health System ("SWHS"), is a Washington nonprofit corporation that qualifies as an organization described in Sec. 501(c)(3) of the Internal Revenue Code, exempt from federal income tax under Sec. 509(a). PHN owns 91.7% of CUP's stock and is the member corporation of PH.

3. PeaceHealth. PH (known until 1994 as the Sisters of St. Joseph of Peace, Health and Hospital Services) is a Washington nonprofit corporation that qualifies as a organization described

in Sec. 501(c)(3) of the Internal Revenue Code, exempt from federal income tax under Sec. 509(a). PH is the member corporation of a group of non-profit corporations that provide healthcare services in Alaska, Oregon, and Washington.

4. Between September 8, 2010, and the present date, PH and PHN's predecessor, SWHS, engaged in merger transactions and affiliation agreements, submitting several matters for OIC approval. As of January 1, 2013, PH was the sole member of SWHS, and SWHS controlled 91% of CUP common stock shares.

During 2013, PH and SWHS developed a reorganization plan, pursuant to which the roles of PH and SWHS would be swapped and SWHS would become the sole member of PH, while CUP would remain a majority-owned subsidiary of SWHS. On January 1, 2014, PH and SWHS executed the reorganization plan, and SWHS changed its name to PHN.

The OIC, through Mr. Pastuch, reviewed and analyzed all submittals and considered the application under the applicable criteria set forth in RCW 48.31B.015(4).

5. Application of RCW 48.31B.015(4) to approval of proposed structure.

(i) I do not find that under PHN's control CUP would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed. CUP is presently licensed to write disability insurance. CUP minimum capital and surplus as of July 29, 2014 was \$4 million. As of its latest financial statement filed with the OIC on March 31, 2014, CUP had \$35 million in admitted assets and \$23.8 million in capital and surplus, exceeding the minimum capital and surplus requirements for a Washington disability insurer. [Live and Written Testimony of Alan Yordy, President and Chief Executive Officer of PeaceHealth Networks; Live and Written Testimony of Ronald J. Pastuch; Application.]

(ii) I do not find that the effect of the control of CUP by PHN, is substantially to lessen competition in insurance in Washington or to tend to create a monopoly therein. Under RCW 48.31B.020(2)(b)(iv), this matter is exempt from OIC review. [Live and Written Testimony of Alan Yordy; Live and Written Testimony of Ronald J. Pastuch; Application.]

(iii) I do not find that the financial condition of PHN and/or CUP is such as might jeopardize the financial stability of CUP, or prejudice the interest of its policyholders. PHN is the sole member of PH. As of March 31, 2014, PH's unaudited financial reports show \$3.4 billion in assets and \$1.7 billion in net assets. PH has an A+ credit rating from Fitch and an A rating from Standard and Poor's. [Live and Written Testimony of Alan Yordy; Ex. 1; Live and Written Testimony of Ronald J. Pastuch; Application.]

(iv) PHN currently has no plans to liquidate CUP, to sell its assets, to consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management that would be unfair or unreasonable to its policyholders and not in the public interest.

CUP is expected to remain under the control of PHN, and its operations to remain in Vancouver, WA, without substantial change in existing staff. PHN represents that if changes in CUP control were planned, as is possible in the present fluid Affordable Care Act-influenced marketplace, it would first seek OIC approval. [Live and Written Testimony of Alan Yordy; Live and Written Testimony of Ronald J. Pastuch; Application.]

(v) The competence, experience, and integrity of the persons who would control the operation of CUP are not such that it would not be in the interest of its policyholders and of the public to permit the acquisition of control. The OIC has verified the biographical affidavits of the persons listed in the Form A filing who are currently directors and/or officers of CUP and PHN and did not detect any representation or information that would call into question the integrity of the current directors and officers of CUP, PHN, or PH. [Live and Written Testimony of Alan Yordy; Live and Written Testimony of Ronald J. Pastuch; Application.]

(vi) PHN's control of CUP is not likely to be hazardous or prejudicial to the insurance-buying public, financially or otherwise. The OIC considered this issue in light of WAC 284-16-300 to 320. [Live and Written Testimony of Alan Yordy; Live and Written Testimony of Pastuch; Application.]

6. On July 7, 2014, the undersigned entered the Notice of Hearing summarizing the proposed action, informing the parties and the public that the hearing would be held at 10:30 a.m. on August 7, 2014, and advising that any interested party could participate. The OIC published this Notice of Hearing on the Insurance Commissioner's website on July 8, 2014, where it remained until the time of the hearing. Reasonable notice was given to the public. [Live and Written Testimony of Pastuch; Ex. A.]

7. No objections to the proposed action were received by OIC, PHN, CUP or the Hearings Unit. [Live and Written Testimony of Alan Yordy; Live and Written Testimony of Ronald J. Pastuch]

8. Alan Yordy, President and Chief Executive Officer of PHN, testified on behalf of the Applicant. Mr. Yordy was competent to testify and presented his testimony in a clear, detailed and credible manner, exhibiting no apparent biases.

9. Ronald J. Pastuch, Holding Company Manager in the Company Supervision Division, testified on behalf of the OIC. Mr. Pastuch was competent to testify and presented his testimony in a clear, detailed and credible manner, exhibiting no apparent biases.

10. Based upon the above Findings of Facts, no basis for denial of PeaceHealth Networks' request exists, and this application should be approved.

## CONCLUSIONS OF LAW

1. The hearing herein was properly convened and all substantive and procedural requirements under the laws of the state of Washington have been satisfied. Pursuant to Title 48 RCW, specifically RCW 48.31.010 and RCW 48.31B, the Washington State Insurance Commissioner has jurisdiction to approve control of Columbia United Providers, Inc. by PeaceHealth Networks. Further, authority to conduct the adjudicative proceeding in this matter was properly delegated to the undersigned to review and consider all documents and evidence presented at hearing, and to make the final determination herein.
2. Pursuant to RCW 48.3B.015, PeaceHealth Networks timely filed the application requesting approval of control. As contemplated therein, the OIC staff properly determined that the application was complete and transferred the file to the Presiding Officer with the request that an adjudicative proceeding be held to hear evidence and make the final decision in this matter.
3. Under the control of PHN, CUP will be able to continue to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed.
4. Control by PHN of CUP will not substantially lessen competition or tend to create a monopoly in insurance in this state.
5. The financial condition of PHN is not such as might jeopardize the financial stability of CUP, or prejudice the interest of its policyholders.
6. PHN has no plans to liquidate the insurer, sell its assets, consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management that would be unfair or unreasonable to the policyholders of the insurer or not in the public interest.
7. The competence, experience, and integrity of those persons who would control the operation of the CUP are such that it would not be against the interest of policyholders of the insurer and of the public to permit PHN's control.
8. PHN's control of CUP is not likely to be hazardous or prejudicial to the insurance-buying public.
9. Reasonable notice of PHN's request was given to the public, and no objections were presented.
10. The provisions of the Insurance Code of the State of Washington, Chapter 48.31B RCW, and specifically RCW 48.31B.015, have been met, and it is therefore hereby concluded that the Applicant's Form A Application should be approved.

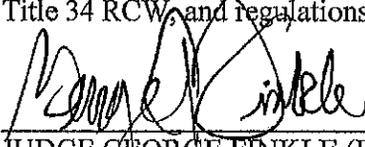
**ORDER**

Based upon the above Findings of Fact and Conclusions of Law:

PeaceHealth Networks controls Columbia United Providers, Inc.

PeaceHealth Networks' request to clarify and confirm that PeaceHealth no longer has control over PeaceHealth Networks and that PeaceHealth Networks retains ownership of 91.7% of Columbia United Providers, Inc.'s stock is hereby approved.

Dated this 8th day of August, 2014, pursuant to Title 48 RCW and specifically RCW 48.31B.015, Title 34 RCW, and regulations applicable thereto.

  
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JUDGE GEORGE FINKLE (Ret.)  
Presiding Officer

Pursuant to RCW 34.05.461(3), the parties are advised that they may seek reconsideration of this order by filing a request for reconsideration under RCW 34.05.470 with the undersigned within 10 days of the date of service (date of mailing) of this order. Further, the parties are advised that, pursuant to RCW 34.05.514 and 34.05.542, this order may be appealed to Superior Court by, within 30 days after date of service (date of mailing) of this order, 1) filing a petition in the Superior Court, at the petitioner's option, for (a) Thurston County or (b) the county of the petitioner's residence or principal place of business; and 2) delivery of a copy of the petition to the Office of the Insurance Commissioner; and 3) depositing copies of the petition upon all other parties of record and the Office of the Attorney General.

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: Stuart Hennessey, Esq., Mike Kreidler, James T. Odiorne, William R. Michels, Ronald J. Pastuch, AnnaLisa Gellermann, Esq. and Marcia G. Stickler, Esq.

DATED this 11<sup>th</sup> day of August, 2014.

  
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KELLY A. CAIRNS