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STATE OF ARIZONA

DEPARTMENT OF INSURANCE

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In the Matter of the Acquisition of Control of:)
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 MHN REINSURANCE COMPANY OF)
 ARIZONA (NAIC No. 89429) and)
 INTERGROUP PREPAID HEALTH)
 SERVICES OF ARIZONA, INC.)
 (NAIC No. 95206),)
)
 Insurers,)
)
 by)
)
 HEALTH SYSTEMS INTERNATIONAL, INC.,)
)
 Petitioner.)
)

Docket No. 96A-236-INS

ORDER

On February 11, 1997, the Office of Administrative Hearings, through Administrative Law Judge Lewis D. Kowal, submitted "Recommended Decision of Administrative Law Judge" ("Recommended Decision"), a copy of which is attached and incorporated by this reference. The Director of the Arizona Department of Insurance has reviewed the Recommended Decision and enters the following order:

1. The recommended findings of fact and conclusions of law are adopted.
2. The acquisition of control of the Insurers by the Petitioner is approved subject to

the express conditions as follows:

1 a. If the completed fingerprint cards furnished to the Department reveal that any of
2 Petitioner's officers or directors have been charged with or convicted of a felony or misdemeanor other
3 than minor traffic violations, the individual(s) will be removed as an officer and/or director of the
4 Petitioner within 30 days after notice to Petitioner by the Department and will be replaced with an officer
5 or director acceptable to the Director. If Petitioner fails to take the prescribed action within 30 days, this
6 failure will constitute an immediate danger to the public and the Director immediately may suspend or
7 revoke the Certificate of Authority of MHN or Intergroup without further proceedings.

8 b. The failure to adhere to one or more of the above terms and conditions will result
9 without further proceedings in the suspension or the revocation of each of the Insurer's certificate of
10 authority.

11 3. Except as provided below, all information, documents, and copies relating to the
12 Insurers and Petitioner obtained by or disclosed to the Director, or any other person in the course of a
13 filing, an examination or investigation made pursuant to A.R.S. §§ 20-481.03 and 20-481.20, will not be
14 given confidential treatment, will be subject to subpoena and will be made public documents, subject to
15 inspection, examination or copying by any persons.

16 4. The Petitioner will advise the Director in writing of the effective date of the change
17 of control.

18 5. Until further notice from the Department, the Insurers will file quarterly financial
19 statements following the effective date of the acquisition.

20 6. The fingerprint cards and biographical affidavits that Petitioner submitted to the
21 Department will remain confidential pursuant to A.R.S. § 20-481.21.

1 A copy of the foregoing mailed
this 11th day of February, 1997

2 Charles R. Cohen, Deputy Director
3 Mary Butterfield, Assistant Director
4 Catherine O'Neil, Assistant Director
5 Gary Torticill, Assistant Director
6 Deloris Williamson, Assistant Director
7 Scott Greenberg, Business Administrator
8 Arizona Department of Insurance
9 2910 N. 44th Street, Suite 210
10 Phoenix, AZ 85018

11 Office of Administrative Hearings
12 1700 W. Washington, Suite 602
13 Phoenix, AZ 85007

14 Kenneth B. Schnoll
15 LeBoeuf, Lamb, Greene & MacRae
16 One Embarcadero Center
17 San Francisco, CA 94111

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IN THE OFFICE OF ADMINISTRATIVE HEARINGS

In the Matter of the Acquisition
of Control of

No. 96A-236-INS

MHN REINSURANCE COMPANY OF
ARIZONA (NAIC No. 89429) and
INTERGROUP PREPAID HEALTH
SERVICES OF ARIZONA, INC.
(NAIC No. 95206),

RECOMMENDED DECISION
OF ADMINISTRATIVE
LAW JUDGE

Insurers,

by

HEALTH SYSTEMS
INTERNATIONAL, INC.,

Petitioner.

HEARING: February 6, 1997

APPEARANCES: Philip T. Paris, Esq. appeared on behalf of the Petitioner and
Kurt Regner appeared on behalf of the Arizona Department of Insurance

ADMINISTRATIVE LAW JUDGE: Lewis D. Kowal

On February 6, 1997, a hearing took place to consider the application for the acquisition of control of MHN Reinsurance Company of Arizona ("MHN") and Intergroup Prepaid Health Services of Arizona, Inc. ("Intergroup") (collectively referred to herein as the "Insurers"), filed by Health Systems International, Inc. (the "Petitioner"), with the Arizona Department of Insurance (the "Department"), and for approval of Petitioner as the controlling person of the Insurers pursuant to the provisions of A.R.S. §§20-481 through 20-481.23, and A.A.C. R20-6-1402.

Office of Administrative Hearings
1700 West Washington, Suite 602
Phoenix, Arizona 85007
(602) 542-9826

1 Based upon the entire record in this matter, the following Recommended
2 Findings of Fact, Conclusions of Law and Recommended Order are made:

3 **FINDINGS OF FACT AND CONCLUSIONS OF LAW**

4 1. MHN is a domestic insurer as referred to in A.R.S. §20-481.02 and
5 Intergroup is a domestic health care services organization as referred to in A.R.S. §20-
6 1051 et seq.

7 2. The Petitioner has filed a statement as referred to in A.R.S. §§20-481.02
8 and 20-481.03, in the form required by A.A.C. R20-6-1402.

9 3. The Insurers and their security holders waived the ten (10) day advance
10 notice to be given as required by A.R.S. §20-481.07.

11 4. No evidence has been produced at the hearing that would indicate or form
12 the basis for a finding that the Petitioner's acquisition of control of the Insurers:

13 a. Is contrary to law;

14 b. Is inequitable to the shareholders of any domestic insurer involved;

15 c. Would substantially reduce the security of and service to be rendered to
16 the policyholders of the domestic insurers in this State or elsewhere;

17 d. After the change of control the domestic insurers would not be able to
18 satisfy the requirements for the reissuance of a Certificate of Authority to write the line
19 or lines of insurance for which it is presently licensed;

20 e. The effect of the acquisition of control would be to substantially lessen
21 competition in insurance in this state or tend to create a monopoly;

22 f. The financial condition of any acquiring party might jeopardize the
23 financial stability of the Insurers or prejudice the interest of their policyholders;

24 g. The plans or proposals that the acquiring party has to liquidate the
25 Insurers, sell their assets or consolidate or merge them with any person, or to make any
26 other material change in their business or corporate structure or management, are
27 unfair and unreasonable to policyholders of the Insurers and are not in the public
28 interest;

1 h. The competence, experience and integrity of those persons who would
 2 control the operation of the Insurers are such that it would not be in the public interest
 3 of policyholders of the Insurers and of the public to permit the merger or other
 4 acquisition of control; or

5 i. The acquisition is likely to be hazardous or prejudicial to the insurance-
 6 buying public.

7 5. The Petitioner has furnished completed fingerprint cards to the
 8 Department to enable the Department to determine if any of Petitioner's officers or
 9 directors have been charged with or convicted of a felony or misdemeanor other than
 10 minor traffic violations.

11 6. The Petitioner requested that the biographical affidavits Petitioner
 12 submitted to the Department remain confidential. The Department had no objection to
 13 Petitioner's request for confidentiality of those records.

14 7. Except as provided above, the shareholders or the public will be served
 15 by the publication of all information, documents and copies, relating to the Insurers and
 16 Petitioner, and obtained by or disclosed to the Director, or any other person in the
 17 course of a filing, an examination, or investigation made pursuant to A.R.S. §§20-
 18 481.03, 20-481.10 and 20-481.20.

19 8. Based upon its review of the Petitioner's Form A filing, the Department
 20 represented its belief that the Petitioner's Form A filing is complete and in compliance
 21 with Arizona law and recommended approval of this acquisition.

22 **RECOMMENDED ORDER**

23 The undersigned Administrative Law Judge recommends that:

24 1. The acquisition of control of the Insurers by the Petitioner be approved
 25 subject to the express conditions as follows:

26 a. If the completed fingerprint cards furnished to the Department reveal that
 27 any of Petitioner's officers or directors have been charged with or convicted of a felony
 28 or misdemeanor other than minor traffic violations, the individual(s) shall be removed as
 29 an officer and/or director of the Petitioner within 30 days after notice to Petitioner by the
 30

1 Department and shall be replaced with an officer or director acceptable to the Director.
 2 If Petitioner fails to take the prescribed action within 30 days, this failure will constitute
 3 an immediate danger to the public and the Director immediately may suspend or revoke
 4 the Certificate of Authority of MHN or Intergroup without further proceedings.

5 b. The failure to adhere to one or more of the above terms and conditions
 6 shall result without further proceedings in the suspension or the revocation of each of
 7 the Insurers' certificate of authority.

8 2. Except as provided below, all information, documents, and copies relating
 9 to the Insurers and Petitioner obtained by or disclosed to the Director, or any other
 10 person in the course of a filing, an examination or investigation made pursuant to
 11 A.R.S. §§20-481.03 and 20-481.20, not be given confidential treatment, be subject to
 12 subpoena and shall be made public documents, subject to inspection, examination or
 13 copying by any person.

14 3. The Petitioner shall advise the Director in writing of the effective date of
 15 the change of control.

16 4. Until further notice from the Department, the Insurers shall file quarterly
 17 financial statements following the effective date of the acquisition.

18 5. The fingerprint cards and biographical affidavits that Petitioner submitted
 19 to the Department shall remain confidential pursuant to A.R.S. §20-481.21.

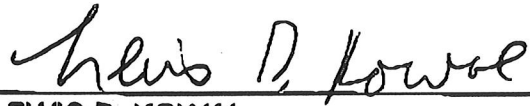
20 6. The Petitioner and/or Insurers shall promptly remit payment of all
 21 expenses incurred as a result of the proposed acquisition to the Insurance Examiners'
 22 Revolving Fund ("IERF").

23 7. Upon consummation of this acquisition, the MHN shall file its registration
 24 statement in the form prescribed by A.R.S. §20-481.10 and within the time period
 25 prescribed by A.R.S. §20-481.09 or §20-481.13. If the registration statement would
 26 duplicate the information previously submitted by the Petitioner in the statement filed
 27 with the Department pursuant to A.R.S. §20-481.03 and there have been no material
 28 changes since the filing of that statement, then the MHN shall submit a statement to
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that effect incorporating by reference the statement previously filed with the Department in lieu of the registration statement.

Done this day, February 11, 1997.



LEWIS D. KOWAL
Administrative Law Judge

Original transmitted by fax/mail this 11 day of February, 1997, to:

John A. Greene, Director
ATTN: Curvey Burton
Department of Insurance
2910 North 44th Street, #210
Phoenix, AZ 85018-7256

By 