

CLIENT ALERT

DC Insurance Commissioner Clarifies Charitable Obligations of Blue Cross/Blue Shield Plan

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On May 15, 2005, Commissioner Mirel of the District of Columbia Department of Insurance, Securities and Banking (“DISB” or the “Department”) issued a report addressing controversy about alleged charitable obligations of Group Hospitalization and Medical Services, Inc. (“GHMSI”), the Blue Cross Blue Shield plan for the Washington, D.C. area. The report followed a DISB hearing in March into whether, and to what extent, GHMSI was obligated by its federal charter to engage in charitable activities. The DISB inquiry was initiated after a community advocacy organization alleged that GHMSI had a legal obligation to fund community health projects and other charitable causes and to extend such benefits to the public beyond its policyholders.

DISB's report concluded that GHMSI's Congressional charter, issued in 1939, declared it a charitable organization with a primary legal obligation and mission of providing health insurance to its policyholders. The Department also found that GHMSI's charter provides it with the *authority* to engage in additional activities, beyond the provision of health insurance, to support the health of the communities in the greater Washington area. Commissioner Mirel found that GHMSI has a “social responsibility that goes beyond its legal obligations” and that the Company is in appropriate financial condition to take additional steps to support public health.

The Commissioner's report does not state how much charitable activity GHMSI should conduct. It does emphasize, however, that consistent with GHMSI's obligations to its policyholders, the Company must maintain a significant surplus. DISB declined to make a finding as to what should be the maximum level of surplus for GHMSI, noting that it is the responsibility of GHMSI's Board to determine an appropriate amount.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

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