

**BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF KANSAS**

In the Matter of the Conversion and	}	
Acquisition of Blue Cross and Blue	}	Docket No. 3014-DM
Cross and Blue Shield of Kansas, Inc.	}	

EXECUTIVE SUMMARY OF PRE-FILED TESTIMONY

Blue Cross and Blue Shield of Kansas, Inc. (“BCBSKS”) and Anthem Insurance Companies, Inc. (“Anthem Blue Cross and Blue Shield” or “Anthem”) propose to affiliate in a transaction described in more detail below. This Executive Summary of Pre-Filed Testimony summarizes the testimony submitted by Anthem Blue Cross and Blue Shield in connection with hearings to be held by the Commissioner of Insurance of the State of Kansas in connection with such transaction.

Policyholders

As described in more detail below, eligible policyholders of BCBSKS will be eligible to share in the distribution of an estimated \$273 million upon completion of the proposed affiliation, and up to an additional \$48 million from an escrow to be established upon satisfaction of certain contingent liabilities and expenses.

Following the closing of the transaction, the policy and contract holders of BCBSKS, Premier Health, Inc., HMO Kansas, Inc. and Advance Insurance Company will remain policy or contract holders of such entities without a break in continuity of benefits and services.

Anthem Blue Cross and Blue Shield expects to offer the same range of products in Kansas after the acquisition as those currently offered by BCBSKS. No significant changes to BCBSKS’s product families—HMO, POS and Indemnity—are planned in the near term beyond those previously identified by BCBSKS management.

Throughout Anthem companies, about 9 out of 10 customers annually renew their policies. In addition, in states where Blue Cross and Blue Shield Plans have affiliated with Anthem Blue Cross and Blue Shield, enrollment has increased. Since Anthem Blue Cross and Blue Shield's 1997 merger with Blue Cross and Blue Shield of Connecticut, 284,000 new customers have joined; in New Hampshire and Maine, nearly 250,000 new customers; and in Colorado and Nevada, 269,000 new customers—more than three-quarters of a million new customers in just these five states.

Employment Levels in Kansas

Anthem Blue Cross and Blue Shield recognizes and respects the significant value of the present employees of BCBSKS, given their experience and expertise in the health benefits business as well as their understanding of the health benefits needs of Kansans. Their assistance is essential in ensuring continuing and superior service to customers and providers.

Following the closing of the transaction, Anthem Blue Cross and Blue Shield will offer employment to all individuals employed prior to the closing by BCBSKS. Anthem has also agreed to maintain a significant employment presence within Kansas on an ongoing basis.

Medical Matters

Several principles drive medical policy development at Anthem Blue Cross and Blue Shield. First, Anthem Blue Cross and Blue Shield is committed to evidence-based decision making. Its medical policies place a heavy emphasis on incorporating the very best of what clinical researchers and the current state of medicine prove to be the most effective way to provide care to customers. Second, consistent with Anthem Blue Cross and Blue Shield's operating model, medical policy development seeks input from the most knowledgeable network physicians from the states which Anthem serves. Physicians in Anthem's Kansas network with the required clinical expertise will, in

conjunction with their colleagues across other Anthem states, provide input into the development of Anthem Blue Cross and Blue Shield's medical policy.

While medical policy creates guidance, Anthem's locally based medical directors are involved in complex clinical decisions. Anthem Blue Cross and Blue Shield's policy is that individual medical care decisions are made locally. In addition, Anthem Blue Cross and Blue Shield anticipates that a Kansas physician will act as the medical director for Anthem Health Plans of Kansas. Matters such as medical management and medical decision-making will occur at the local level, with the Kansas medical director working in conjunction with Kansas participating physicians.

Health Care Providers

Anthem Blue Cross and Blue Shield intends to assume and honor BCBSKS's existing physician, hospital and other health care professional contracts for the duration of their existing terms. In every state in which it operates, Anthem Blue Cross and Blue Shield maintains very broad, state-wide networks giving Anthem customers access to an overwhelming number of hospitals, physicians and other health care providers. In fact, Anthem Blue Cross and Blue Shield contracts with more than 75,000 physicians in the states it serves, and 99.7% of all hospitals in those states are in Anthem's networks.

The size of Anthem Blue Cross and Blue Shield's networks has grown following each Blue Plan affiliation. In Colorado and Nevada, two other states that along with Kansas would comprise the Anthem West region, there has been an expansion of primary

and specialty physicians in the network following the Blue Cross Blue Shield affiliation with Anthem. In Colorado, our HMO network grew from 1,664 to 1,829 primary care physicians and from 4,882 to 5,482 specialty care physicians. Our Colorado PPO physician network grew from 6,950 to 7,314 physicians. In Nevada, our HMO network grew from 441 to 657 primary care physicians, and from 1,890 to 2,102 specialty care physicians. Our Nevada PPO physician network grew from 2,524 to 3,165 physicians. Provider contracting is performed by local and regional personnel.

Anthem Blue Cross and Blue Shield’s relationships with health care providers—physicians, hospitals and other health care professionals—are guided by the principle that health care is a local activity. Anthem Blue Cross and Blue Shield provides fair, market-based hospital reimbursement along industry standards. Anthem Blue Cross and Blue Shield also seeks to ensure that physicians in its networks are paid in a timely manner at appropriate rates.

“For-Profit Conversion”

The transactions will result in BCBSKS becoming a subsidiary of a major investor owned insurer. This should not be a source of concern for the insurance-buying public. A stock corporation’s best approach to satisfying its stockholders is to first satisfy its customers. Shareholders want to invest in companies that are strong and growing. In the health insurance business, a company cannot succeed without consistently meeting the expectations of its customers. Simply put, Anthem Blue Cross and Blue Shield intends to continue to provide excellent service and products at a fair price, thus satisfying both its customers and its shareholders.

The consolidation in the health benefits industry is likely to continue, if not accelerate. As a stock corporation, Anthem Blue Cross and Blue Shield will be better able to participate in this consolidation and reduce per-member fixed costs as such costs are spread over a larger insured base. Access to capital also provides Anthem Blue Cross

and Blue Shield with a greater opportunity to develop computer systems, disease management programs and other initiatives that will improve service, reduce costs and improve the health of the people Anthem serves.

No Special Benefits

No board member or employee of BCBSKS will receive any special benefits in connection with this transaction. In fact, to avoid even the appearance of impropriety, to date Anthem has not promised or created any expectations with respect to particular post-closing positions for BCBSKS managers.

Administrative Costs

Anthem Blue Cross and Blue Shield and BCBSKS calculate their administrative costs differently. BCBSKS' administrative expense ratio is approximately 9%. When calculated in the same manner, Anthem Blue Cross and Blue Shield's administrative expense ratio is 11.5%. This small difference is attributed to mix of funding arrangements, size of ancillary business lines and investments in technology and medical management programs. In addition, the high administrative cost ratios of some Blue Cross and Blue Shield companies that recently joined the Anthem family have caused Anthem's overall numbers to be higher than they otherwise might have been, although Anthem is seeing significant expense ratio decreases in these states as the new plans become more fully integrated.

Overall, Anthem's administrative expense ratio continues to decrease. Anthem has demonstrated an ability to reduce administrative costs in partnerships formed with existing Blue Cross and Blue Shield companies that joined the Anthem family. Anthem believes that it and BCBSKS together can continue to reduce administrative costs.

The Transactions

Under the Alliance Agreement, BCBSKS will convert from a mutual insurance company to a stock insurance company. The stock of BCBSKS will be issued to a subsidiary of Anthem. On the date of closing of the transaction, the legal name of BCBSKS will be changed to “Anthem Health Plans of Kansas, Inc.,” which will do business under the name “Anthem Blue Cross and Blue Shield.”

BCBSKS policyholders eligible to receive consideration in the demutualization will be entitled to receive \$190.0 million, a portion of which will be held in an escrow account, and an additional amount, equal to the consolidated book value of BCBSKS, on the closing date of the acquisition in excess of \$155.0 million, which is expected to be paid as a Special Distribution by BCBSKS to its eligible policyholders. The amount of this Special Distribution is currently estimated to be \$131.0 million.

Approximately \$48.0 million of the \$190.0 million will be held in an escrow account to pay costs, expenses and liabilities relating to an investigation by the Office of Inspector General, U.S. Department of Health and Human Services, of possible improper claims against Medicare by BCBSKS, and to pay costs and expenses of the escrow, with any remaining amount to be distributed to eligible BCBSKS policyholders. These amounts were negotiated as part of a competitive auction process facilitated by one of the country’s top investment banks. As such, they represent fair market value for the stock, a conclusion that has been confirmed by financial advisors to BCBSKS, Anthem Blue Cross and Blue Shield and the Kansas Department of Insurance.

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CERTIFICATE OF SERVICE

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