

Seven Point Plan

for Board of Directors' Oversight Strategy



**BlueCross
BlueShield**
of North Dakota

An independent licensee of the Blue Cross & Blue Shield Association

Executive Leadership Change

On March 9, 2009, the Noridian d.b.a. Blue Cross Blue Shield of North Dakota (BCBSND) Board of Directors terminated the employment of the president and CEO. Following a national search, the Board hired Paul von Ebers to be president and CEO in July 2009. Von Ebers replaced former President and CEO Mike Unhjem who was terminated on March 9, 2009 by the Board.

Actions

Paul von Ebers officially began his position with BCBSND on August 17, 2009. He was hired for the depth of his health care experience and his proven management philosophy of collaboration. Specifically, von Ebers pledged the company will be:

- a. Transparent on all issues.
- b. Responsive to members and stakeholders.
- c. Committed to working with providers and North Dakota leaders to reduce the rate of medical inflation.
- d. Committed to its mission of providing access to quality health care to its members through collaboration with stakeholders.
- e. Committed to Patient Protection and Affordable Care Act (PPACA) implementation on behalf of BCBSND members.

Governance Counsel

To assist the Board in the self-examination process and related governance best practices, the Board enlisted the services of a reputable outside company with governance expertise.

Actions

- a. The Board contracted with McDermott Will & Emery, a nationally recognized law firm with expertise in board and non-profit governance. Specific actions that are the result of recommendations from the expert counsel are covered in more detail in Points 4, 5, 6 and 7 of this Seven Point Plan.

Internal Review

BCBSND evaluated ways the company cooperates with the North Dakota Department of Insurance (DOI) and the department's system of checks and balances, thereby proving a common commitment to represent the best interests of North Dakota health care consumers.

Actions

- a. New President and CEO Paul von Ebers and Insurance Commissioner Adam Hamm held their first meeting September 4, 2009.
- b. BCBSND responded to the targeted market exam (DOI audit) conducted April 7 through July 10, 2009, before the 30-day deadline.
- c. BCBSND continues ongoing dialogue with the DOI and Commissioner Hamm on all issues, including recent meetings about executive compensation and the adoption of business practices that benefit members.

Administrative/Operational Policies

BCBSND implemented self-corrective actions by adopting operational and administrative policies that will prevent future occurrences of the type that led to the termination of the former president and CEO.

Actions

- a. Adopted a policy requiring that Board, executive, management and divisional meetings be held in North Dakota or border cities. All Marketing meetings, including management and divisional meetings, are now held in North Dakota.
- b. Discontinued Marketing incentive trips. Additionally, in May 2009, Marketing compensation, including commissions and incentives, was presented to the Board Human Resources and Compensation Committee, which accepted the findings and approved the report.
- c. Revised corporate policy on donations.
 - Emphasis on programs and projects that affect the health of BCBSND members.
 - Board approval required for donations more than \$5,000.
 - No donations for arts, scholarships, pageants, trips, capital campaigns, endowment funds or schools.

- d. Revised corporate travel policies.
 - Implemented government-based per-diem policy for meals and related travel expenses.
 - Banned reimbursement for alcohol at employee and Board events. All Marketing events follow this policy as well as all corporate policies.
 - Required executive approval for all out-of-state travel and limited the number of attendees at any conference or out-of-town meeting.
 - Restricted all executive travel.
- e. Established a new policy of smaller, more uniform events for all employee retirements.
- f. Evaluated internal purchasing policy.
- g. Revised internal investment policy in relation to joint ventures and real estate investments.

Governance Policies

BCBSND adopted revised governance policies intended to enhance the Board's oversight capabilities.

Actions

- a. Established preference for expert and tailored training at board meetings.
- b. Established Board conference attendance guidelines.
- c. Enhanced reporting relationships of the general counsel, chief financial officer and compliance officer to the Board and the Board's access to those officers.
- d. Implemented requirement that CEO recommendations for executive staff hiring, promotion, separation and severance be subject to Board approval.
- e. Revised internal and external Board communication processes in order to maximize transparency.
- f. Reviewed and enhanced director self-evaluation processes.

Executive Compensation

The Board reviewed the CEO/executive compensation structure to ensure it provides incentives for appropriate executive behavior in the areas of corporate compliance, customer satisfaction, operational oversight, workplace environment and constituent goals and objectives.

Actions

- a. Based on areas identified from the former CEO relationship, the following Board oversight provisions were incorporated into the new CEO employment agreement:
 - CEO reporting relationships.
 - Board approval powers.
 - Commitment to compliance.
- b. Completed review of executive compensation with assistance from outside consultants, Schuster-Zingheim and Associates and Towers Watson.
- c. Engaged international compensation consulting firm Hewitt and Associates to conduct independent comparative executive compensation research benchmarking North Dakota-based companies.
- d. Incorporated research and recommendations into executive compensation decisions beginning with the 2010 process.

Board of Directors Compensation and Elections

Board of Directors Compensation

The compensation structure of the Board was evaluated to determine whether it fairly and reasonably compensates the directors for effective organizational oversight and pursuit of the organization's health care mission on behalf of constituents. Board compensation has remained frozen since 2005.

Actions

- a. Completed extensive internal review of Board compensation levels.
- b. Contracted with Mercer for an external review and recommendations that were presented August 2009.
- c. Directed additional comparative research of North Dakota Board compensation to be incorporated into the McDermott survey.
- d. Presented initial recommendations at the October 2009 Board of Directors meeting.

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- e. Considered final recommendations at the April 23, 2010, Board of Directors meeting and voted to keep Board compensation frozen at 2005 levels. Specific information regarding the decision includes:
- The board compensation research concluded that Board compensation levels are below national board compensation levels and are the median of North Dakota company board compensation levels.
 - The Board workload, comprised of both official and unofficial meetings and conference calls, has greatly increased since 2005 to an average of 18-20 days a year or approximately 144-160 hours a year.
 - The Board time, relative to the Board time invested, equates to the same rate of compensation BCBSND currently pays in legal and accounting consultant fees.

Board of Directors Election

In addition to nominations from the floor at the annual meeting, there are now two ways to nominate candidates to run for those seats.

Actions

- a. Names of candidates can be submitted to the Board's Governance and Nominating Committee. The committee will verify their qualifications, interview final candidates and place successful candidate names on the ballot.
- b. A new option this year allows candidates to secure 250 signatures from voting BCBSND members. Once qualifications are verified and the candidate has been interviewed by the Board's Governance and Nominating Committee, the candidate will be placed on the ballot. This change is documented in Article III, Section 4 of the Corporate Bylaws.