

**BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF CALIFORNIA**

IN THE MATTER OF:)
)
The Proposed Acquisition of Control of:)
) File No. APP-2015-00889
HEALTH NET LIFE INSURANCE)
COMPANY, a California domestic stock)
insurer and indirect subsidiary of)
)
HEALTH NET, INC., a Delaware) **WRITTEN TESTIMONY OF STEVEN**
corporation) **SELL ON BEHALF OF HEALTH NET**
) **LIFE INSURANCE COMPANY AND**
) **HEALTH NET, INC.**
BY)
)
CENTENE CORPORATION, a Delaware)
corporation)
)
AND)
)
CHOPIN MERGER SUB I, INC. and)
CHOPIN MERGER SUB II, INC., each a)
Delaware corporation)

I. Witness Identification

1. My name is Steven Sell. My business address is 21650 Oxnard Street, Woodland Hills, California 91367.

2. I am the President of Health Net Life Insurance Company, Inc., a California domestic stock insurer ("HNLIC"), Health Net of California, a California health care service plan licensed under the Knox-Keene Health Care Service Plan Act of 1975, as amended ("Health Net California"), and the Western Region for Health Net, Inc., a publicly traded Delaware corporation ("Health Net").

3. I have held the foregoing positions since 2008 and have been employed by Health Net in various capacities for the past 18 years. Additionally, I am responsible for the Commercial Business, Medicare Business and Marketing and Products in California, Arizona and Oregon. I am a 1989 graduate of Swarthmore College and a 1997 graduate of Stanford Business School.

4. HNLIC is a direct wholly-owned subsidiary of Health Net California, which, in turn, is a direct wholly-owned subsidiary of Health Net.

5. I have been authorized by each of HNLIC and Health Net to provide this Testimony (as defined in Paragraph 6 hereof) on their behalf and in support of the Proposed Acquisition of Control (as defined in Paragraph 6 hereof).

II. Involvement with the Merger; Procedural Matters

6. I submit this written testimony (this "Testimony") to the Department of Insurance for the State of California (the "Department") on behalf of HNLIC and Health Net, and in support of Centene Corporation, a publicly traded Delaware corporation ("Centene"). Centene, together with certain of its subsidiaries (each of which is individually identified below, collectively with Centene, the "Applicants"), seeks to indirectly acquire control of HNLIC (the "Proposed Acquisition of Control"), via a merger (the "Merger") of Health Net with Chopin Merger Sub I, Inc. ("Merger Sub I") and, if certain conditions are met, Chopin Merger Sub II, Inc. ("Merger Sub II"), each of which is a Delaware corporation and a wholly-owned subsidiary of Centene.

7. I have been and continue to be actively involved in the Merger.

8. In connection with the Proposed Acquisition of Control, I have reviewed and am familiar with (a) the Form A Statement and the exhibits attached thereto filed by the Applicants with the Department on July 31, 2015, and (b) the supplemental filings and submissions made by the Applicants with the Department in connection with such Form A Statement since its filing (collectively, the "Form A").

III. Overview of HNLIC

9. HNLIC is a California domestic stock insurance company that has been licensed by the Department to transact life and disability insurance since September 8, 1998 (California Company ID # 3173-2).

10. HNLIC offers commercial and Medicare coverages in addition to dental, vision, behavioral health and life insurance products.

11. In that regard, HNLIC offers PPO and EPO products in the commercial individual and small and large group markets. Such products are typically included as part of a suite of products made available to small and large groups by HNLIC and Health Net's other subsidiaries, from which group members may choose.

IV. The Merger

12. The Applicants propose to acquire control of HNLIC pursuant to, and subject to the terms of, an Agreement and Plan of Merger dated as of July 2, 2015 (the "Merger Agreement") by and among the Applicants and Health Net. An executed copy of the Merger Agreement was provided to the Department as an exhibit to the Form A.

V. Centene as a Merger Partner

13. Health Net is smaller than many of the national competitors in the California market. Health Net believes that based upon scale (*i.e.*, its size relative to the national competitors), there were certain competitive disadvantages in maintaining Health Net as an independent company absent a solution to address the scale issue.

14. In order to address the scale issue and attempt to more effectively compete, Health Net explored several options over the past several years. Those options included discussions with other strategic partners. With respect to strategic alternatives, no viable option materialized until the opportunity with Centene. This was described in Centene's and Health Net's SEC Form 424(b)(3) dated September 21, 2015 (the "SEC Form"), a copy of which was provided to the Department as part of the Form A.

15. To address the scale issues, in November 2014, Health Net signed an agreement with Cognizant Healthcare Services, LLC ("Cognizant") (the "Business Process as a Service" or "BPaaS Agreement"), to become effective following satisfaction of certain conditions, to further outsource certain back office administrative and claims related activities. The BPaaS Agreement would have involved the re-badging (and potential subsequent off-shoring) of a significant portion of Health Net's more than 6,400 California employees.

16. Subsequently, and prior to the implementation of the BPaaS Agreement, Centene informed Health Net that it was interested in pursuing a potential merger with Health Net. After due diligence and arm's-length negotiations, Health Net's Board of Directors unanimously voted in favor of (a) entering into the Merger Agreement and (b) suspending implementation of the BPaaS Agreement.

17. After due consideration, the Board concluded that the Merger (a) was in Health Net's best interests, (b) would bring greater scale to the benefit of the surviving corporation including HNLIC, and (c) would result in California consumers having the benefit of Health Net being a stronger insurer and better positioned to effectively compete in the evolving health insurance sector with the likes of Blue Shield, Anthem, UnitedHealthcare, Aetna and Kaiser. Health Net and HNLIC have gained familiarity with Centene's service offerings and believe that Centene can strengthen Health Net's position to effectively compete in the California health insurance sector because of the resources, capabilities and customized solutions Centene has developed as a result of its extensive experience in the Medicaid industry. In addition, Health Net can benefit from Centene's array of specialty health solutions and medical management tools to supplement existing Health Net solutions, as well as implement Centene technology solutions and expertise for service enhancements that provide easier access for consumers and providers to the information and systems necessary to seamlessly provide healthcare coverage. Health Net believes that, as compared to other strategic alternatives, as well as outsourcing via the BPaaS Agreement, the proposed Merger presents the best opportunity to allow Health Net to grow and develop its product offerings to California consumers.

18. Moreover, because no overlap exists between Centene's and Health Net's respective businesses, and because of the number of large incumbent insurers, local competitors and new entrants alike, HNLIC believes that the Merger will create a concentration of attention and

improvement in performance, but will not have an adverse effect upon competition for any line of insurance business in the State of California. On August 11, 2015, after conducting an investigation, the Federal Trade Commission and U.S. Department of Justice granted early termination of the waiting period under the Hart Scott Rodino Antitrust Improvements Act of 1976, as amended.

19. The only common line of business for both Centene and Health Net write business in California is Medi-Cal. HNLIC, however, has no Medi-Cal business and no subsidiary of Centene is regulated by the Department. As set forth in the “Form E” analysis submitted to the Department by the Applicants as a supplement to the Form A, there is no geographic overlap by county between the Centene and Health Net Medi-Cal products in California, which means that the companies do not compete with each other in any service area.

VI. California Insurance Markets

20. From the perspective of policyholders and California consumers, Health Net and HNLIC believe that the Merger will: (a) strengthen Health Net’s existing business lines; (b) maintain its commitment to the California-based model of health care; and (c) enhance competition in California.

- (a) HNLIC and Health Net believe that the Merger will strengthen their existing businesses. Centene is an ideal strategic partner for Health Net and HNLIC as Centene maintains a robust nationwide government focused business, but a relatively small footprint in California. The Merger (i) provides the benefit of economies of scale and allows the combined entity to be more competitive and (ii) allows the “new” Health Net to be a stronger competitor in California.
- (b) Health Net will retain its strong commitment to California, including, in particular, to the commercial business in California. Centene has informed Health Net of its local approach pertaining to Health Net’s operations and that it intends to keep Health Net and HNLIC headquartered in California. In that regard, Centene has informed Health Net that it intends to continue the business of HNLIC without any material modification to its existing plan of operation, its product offerings or its management.
- (c) HNLIC and Health Net believe that the Merger will enhance competition in California. The Centene and Health Net combination will bring together complementary products, without limiting any competitive options in the market. Because no overlap exists between Centene’s and Health Net’s respective businesses, the transaction will not result in market concentration. Through the combined entities, HNLIC will continue to provide affordable health care options for California consumers.

See also Appendix 1 (Confidential Supplement).

21. Health Net will also remain committed to the quality of care provided to its members. The National Committee for Quality Assurance (“NCQA”), an independent third party non-profit

organization dedicated to improving health care quality, administers a rating system pertaining to the delivery of quality customer service. Health Net will maintain NCQA accreditation for all products currently subject to such accreditation and will re-submit to the accreditation process with NCQA for off-exchange PPO products, for which Health Net had discontinued its participation independent of, and prior to, the Merger Agreement being signed. The re-submission process would be initiated promptly following the consummation of the Merger for the next NCQA accreditation cycle. Prior to re-accreditation, Health Net will undertake to maintain the quality reporting metrics under the Healthcare Effectiveness Data and Information Set (“HEDIS”) and the Consumer Assessment of Healthcare Providers and Systems (“CAHPS”) associated with NCQA accreditation.


22. Demonstrating its commitment to quality, Health Net will continue its efforts agreed upon with the Department. On December 18, 2015, the Department adopted its Field Claims Examination Report of HNLIC for the claims review period ending July 31, 2012. HNLIC understands the importance of policyholder satisfaction and strives to meet policyholders’ expectations and handle claims in accordance with applicable law and its procedures. HNLIC worked closely with the Department during the claims review process and diligently addressed the examiners’ concerns. In that regard, HNLIC took remedial action to respond to and correct any deficiencies, implemented training sessions for claims employees regarding specific issues raised by the Department, issued employee claims alerts for issues requiring immediate attention, conducted self-audits and made additional payments to claimants as the Department requested. Health Net continues to monitor these areas and address any identified issues.

VII. Conclusion

23. In conclusion, for the foregoing reasons set forth in this Testimony and in the Form A, HNLIC and Health Net believe that the Merger is in their best interests and HNLIC and Health Net respectfully request that the Department approve the Form A in respect of the Proposed Acquisition of Control.

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Steven Sell deposes and says that he is the President of Health Net Life Insurance Company, that he has read the foregoing written testimony and knows the contents thereof and that the same are true of his own knowledge.


Steven Sell

January 15, 2016

CONFIDENTIAL SUPPLEMENT TO THE WRITTEN
TESTIMONY OF STEVEN SELL

[redacted]