

REPORT OF EXAMINATION

BLUE CROSS BLUE SHIELD OF WYOMING

AS OF

DECEMBER 31, 2015



STATE OF WYOMING

DEPARTMENT OF INSURANCE

CHEYENNE, WYOMING

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SALUTATION
Cheyenne, Wyoming
February 21, 2017

The Honorable Tom Glause
Insurance Commissioner
State of Wyoming
106 East 6th Avenue
Cheyenne, WY 82002

Commissioner Glause:

Pursuant to your instructions and in compliance with the provisions of the Wyoming Insurance Code and the rules and regulations promulgated by the National Association of Insurance Commissioners, hereinafter called "NAIC," an examination was made as of December 31, 2015, of the financial condition, management, and affairs of:

BLUE CROSS BLUE SHIELD OF WYOMING

hereinafter referred to as the "Company," at its home office located at 4000 House Avenue, Cheyenne, Wyoming. The following report of the examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

We have performed our single-state examination of Blue Cross Blue Shield of Wyoming. The last examination covered the period of January 1, 2009 through December 31, 2011. This examination covers the period of January 1, 2012 through December 31, 2015.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in Wyoming Statute § 26-2-116 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Previous Examination

There were three findings in the prior report of examination.

First, the Company's by-laws did not agree with the Audit Committee Charter regarding the qualifications of its members. The Company amended its by-laws on March 6, 2013. This issue has been resolved.

Second, the Company was not obtaining a copy of the financial statements of its reinsurance intermediary broker as required by Wyoming Statute § 26-47-106(c). During the current examination, it was noted that the Company was obtaining the financial statements, but there was no documentation that anyone was reviewing them. Since the review is not statutorily required, this issue is addressed in the management letter.

Finally, the Company had mutual funds that were not being maintained in the state of Wyoming as required by Wyoming Statute § 26-24-129(a)(iii). During the current examination, it was noted that the mutual funds are now included in a custodial account located in the state of Wyoming. However, it was noted that three cash accounts are now located in banks outside of the state of Wyoming. This issue is addressed below.

Current Examination

During the examination, it was noted that the Company reported \$3,368,563 in Mutual of Omaha Bank in Omaha, Nebraska, as of December 31, 2015. In addition, subsequent to the exam period, the Company reported \$414,160 in PNC Bank in Pittsburgh, Pennsylvania, and \$2,607,261 in First National Bank in Omaha, Nebraska, as of September 30, 2016.

Wyoming Statute § 26-24-129(a) states in part, “Any domestic insurer shall: (iii) Have and maintain its assets in this state....”

The Company is not in compliance with W.S. § 26-24-129(a)(iii) because it is using out-of-state banks to hold some of its cash. The Company’s vendor agreements do not explicitly state that the out-of-state banks are required to be used in order to comply with the agreements. Therefore, these out-of-state banks do not appear to be reasonably and customarily required in the regular course of business.

Recommendation: It is recommended that the Company comply with W.S. § 26-24-129(a)(iii) by using Wyoming banks to hold its assets.

COMPANY HISTORY

The Company has been located in Cheyenne, Wyoming for its entire existence. The Company was formed from the consolidation of Wyoming Hospital Service and Wyoming Medical Service, Inc., both nonprofit companies, in 1976. The current company name was adopted at that time.

The Company’s Articles of Consolidation state that the corporation was “organized for purposes other than the conduct of a business for profit primarily to establish, maintain and administer programs to help its subscribers and members obtain hospital and health care, services, drugs and supplies, and medical, surgical and health services and related benefits according to contracts with the corporation.”

The Articles further state that if the corporation shall be dissolved voluntarily all proceeds of the sale of assets in excess of any debts shall be distributed to the State of Wyoming to be used for medical, surgical or health services for the people of the State of Wyoming.

Blue Cross Blue Shield Association: The Company is a member of the Blue Cross Blue Shield Association, a national organization, incorporated in the state of Illinois. The Association serves the member plans directly by assisting in such activities which will extend the application and principles of prepaid hospital care and medical/surgical care and improve the operation of member plans. Each plan affiliated with the Association is an independent entity, incorporated in the state in which it operates.

MANAGEMENT AND CONTROL

The entire control and direction of the Company rests with its Board of Directors. The bylaws provide for not more than 18 and not less than 12 directors. Twelve directors were actually in office as of December 31, 2015. Approximately one-fourth of the directors' terms expire each year. Board members must be residents of the State of Wyoming.

The Nominating Committee nominates candidates for the Board based upon the composition of the current Board (a majority is to be other than providers of health care services), geographical representation from around the state, quality and character of the nominee, and willingness and ability to serve. Acquaintance and referral are the primary methods used for identifying candidates.

The annual meeting date of the Company is specified by the Chairman of the Board and special meetings may be held, at the request of the Chairman or any five directors, upon proper notice being given. The Board and Executive Committee may act by telephone or without a meeting if a consent in writing is signed by a majority of the Board or Committee so acting.

As of December 31, 2015, the following directors were holding office:

Rex Arney	Michael Healy
Darryl Bindschadler, MD	Clifford Kirk
John Bonner, Jr.	Thomas Lockhart
Becky Costantino	Thomas Nord
Tim Crilly	Richard Schum, Jr.
Irene Devin	Todd Witzeling, MD

Article VI of the bylaws provides for officers of the Corporation who shall consist of a Chairman of the Board, one or more Vice-Chairmen, President, one or more Vice-Presidents, Secretary, Treasurer, Assistant Treasurers and Assistant Secretaries.

As of December 31, 2015, the officers were as follows:

Chairman of the Board – Todd Witzeling, MD
Vice-Chairman of the Board – Irene Devin
President, Chief Executive Officer and Secretary – Richard Schum, Jr.
Treasurer, Vice President of Finance, and Chief Financial Officer – Diane Gore
Vice President and Chief Information Officer – Michael Wells
Vice President of Internal Operations – David Keiter
Vice President of Marketing – Lawrence Shannon, III

Corporate Records

The Articles of Incorporation, bylaws, and minutes of the meetings of the Board of Directors, Personnel Committee, Audit Committee, Governance/Nominating Committee, Investment

Committee, and Executive Committee were reviewed in detail. It was determined that the actions taken at the various meetings were adequately documented.

Holding Company Structure

Employer Plan Services (a Wyoming Corporation) is a wholly-owned subsidiary of the Company. The Company utilizes Employer Plan Services to sell allied products. Employer Plan Services has retained earnings of \$309,236 and total capital of \$491,671 as of December 31, 2015.

The Company formed a benefit program called the Caring Foundation of Wyoming, Inc., a nonprofit organization, in 1990. The Foundation provides college tuition assistance, in the form of scholarships, to various individuals who plan to enter the nursing field or medical field after graduation. Additionally, the Foundation provides financial support to the Boys and Girls Clubs of Wyoming Healthy Habits program and also to Relay for Life. The Company made capital contributions to the Foundation of \$222,000 in 2012 and \$37,000 in 2013. There were no contributions in 2014 and 2015.

TERRITORY AND PLAN OF OPERATION

The Company operates in the state of Wyoming, employs approximately 250 people, and is authorized to conduct disability (health) insurance business. Sales operations are conducted through both a captive sales force and independent brokers and agents. The Company has a compensation incentive plan for its captive sales force. The Company's focus is on direct sales utilizing its own sales force for local presence, visibility and service.

The Company's marketing department actively pursues annual goals. Marketing projections are based on prior experience and future economic factors.

Growth of the Company

The Company's surplus has increased by \$96,085,142 during the four-year examination period. The Company had unrestricted surplus of \$275,129,504 as of December 31, 2015.

The reported direct premiums written have increased by \$98,167,303 during the four-year examination period. The Company had direct premiums written of \$373,348,630 for 2015.

The Company's net admitted assets have increased by \$163,109,885 during the four-year examination period. The Company had net admitted assets of \$437,330,027 as of December 31, 2015.

Business In Force by State

The Company operates only in the state of Wyoming and is authorized to conduct disability (health) insurance business. The Company also participates in Wyoming's Federally Facilitated Marketplace under the Affordable Care Act (ACA).

Direct Premiums Written in 2015:

<u>Line of Business</u>	<u>Direct Business</u>
Comprehensive (Hospital & Medical)	\$252,490,927
Medicare Supplement	18,291,759
Dental Only	3,232,349
Vision Only	190,811
Federal Employees Health Benefit Plan	93,833,383
Other Health	5,309,401
Total	\$373,348,630

The Company participates in the Blue Cross Blue Shield Association's Interplan Teleprocessing System (ITS or Blue Card), which provides service benefits to members who receive care from a provider outside of the plan's area. The claim is submitted to and paid by the Blue Cross Blue Shield plan in the area where the provider resides. This system allows for faster processing and for ease of filing a claim for the providers, and in turn, is a benefit to the subscriber. There are two claim types in the ITS system. The first is called ITS-Home. This is a claim from a Company subscriber with the provider outside of Wyoming. The second claim type is ITS-Host. This is a claim from a non-Company subscriber with the provider in the Company's plan area.

The Company functions as an administrator for various private self-insured plans. The Company is reimbursed for certain administrative costs and for payments made on behalf of the beneficiaries of the plans.

In addition, the Company participates with other Blue Cross Blue Shield plans in a line of business known as the Federal Employees Program (FEP). FEP is the program administered by the Blue Cross Blue Shield Association whereby the Association acts as agent for the participating Blue Cross Blue Shield plans in a contract with the federal Office of Personnel Management (OPM). Under the contract, the Association serves as a participating carrier for the Federal Employees Health Benefits Program (FEHBP).

REINSURANCE

As of December 31, 2015, the Company had a reinsurance agreement in place in which it ceded business to RGA Reinsurance Company, a licensed insurer in the State of Wyoming. The Company ceded \$3,941,753 in premiums to RGA Reinsurance Company in 2015. Claims reimbursed under this agreement were \$5,138,422 in 2015.

The reinsurance agreement covered medical care expense benefits underwritten and issued by the Company for group, non-group, alternate-funded group, and Kid Care policies. The contract reinsured that portion of the risk in excess of \$550,000 per year on individuals. After the stop loss deductible, there is no dollar threshold to the reinsurer's liability. The reinsurance contract included an insolvency clause, an errors and omissions clause and an arbitration clause.

The Company also cedes business to the Wyoming Small Employer Health Reinsurance Program. The Company ceded \$935,569 in premiums to the program in 2015 and recovered \$6,426,669 under the program for 2015.

The Company participated in the Transitional Reinsurance Program under the ACA during 2014 and 2015. The Company ceded \$382,404 in premiums to the program in 2015. In addition, the Company paid \$1,959,056 in fees to the program in 2015. Reinsurance recoveries under this program were \$13,270,983 for 2015.

The Company would be liable for any obligations that the reinsuring companies are unable to meet under these reinsurance agreements.

Risk & Regulatory Consulting, LLC reviewed the reinsurance agreements for proper risk transfer. No exceptions were noted.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Wyoming Department of Insurance and present the financial condition of the Company for the period ending December 31, 2015.

There were no adjustments to the financial statements as a result of the examination.

Blue Cross Blue Shield of Wyoming
Statement of Assets, Liabilities and Surplus
as of December 31, 2015

ASSETS	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$149,249,779		\$149,249,779
Common stocks	164,822,156		164,822,156
Real estate			
Properties occupied by the company	1,851,046		1,851,046
Properties held for the production of income	173,656		173,656
Cash and short-term investments	5,494,682		5,494,682
Other invested assets	13,142,719	3,740	13,138,979
Aggregate write-ins for invested assets	85,000	85,000	0
Subtotal - cash and invested assets	334,819,038	88,740	334,730,298
Investment income due and accrued	1,526,756		1,526,756
Uncollected premiums	43,502,143	2,667	43,499,476
Accrued retrospective premiums	453,526		453,526
Amounts recoverable from reinsurers	12,228,177		12,228,177
Other amounts receivable under reinsurance contracts	4,182		4,182
Amounts receivable relating to uninsured plans	22,785,673	309,642	22,476,031
Current federal and foreign income tax recoverable	1,382,892		1,382,892
Guaranty funds receivable or on deposit	5,689,943		5,689,943
Electronic data processing equipment and software	38,592	1,049	37,543
Furniture and equipment	1,272,460	1,272,460	0
Receivables from parent, subsidiaries and affiliates	20,156		20,156
Health care receivables	7,853,968	4,069,326	3,784,642
Aggregate write-ins for other than invested assets	11,544,573	48,168	11,496,405
Total assets	\$443,122,079	\$5,792,052	\$437,330,027
LIABILITIES & SURPLUS			
Claims unpaid			\$37,398,670
Unpaid claims adjustment expenses			1,141,000
Aggregate health policy reserves			43,411,160
Premiums received in advance			9,602,995
General expenses due or accrued			21,895,585
Net deferred tax liability			6,140,584
Ceded reinsurance premiums payable			95,601
Amounts withheld or retained for account of others			1,750,294
Remittances and items not allocated			809,901
Liability for amounts held under uninsured plans			18,674,704
Aggregate write-ins for other liabilities			21,280,029
Total liabilities			162,200,523
SURPLUS			
Aggregate write-ins for special surplus funds			4,800,000
Unassigned funds (surplus)			270,329,504
Total surplus			275,129,504
Total liabilities and surplus			\$437,330,027

Blue Cross Blue Shield of Wyoming
Statement of Revenue and Expenses
for the Year Ending December 31, 2015

Net premium income	\$368,088,903
Change in unearned premium reserves and reserve for rate credits	1,004,371
Total revenues	369,093,274
Hospital/medical benefits	241,376,665
Emergency room and out-of-area	41,905,696
Prescription drugs	45,495,240
Net reinsurance recoveries	(24,836,074)
Total hospital and medical	303,941,527
Claims adjustment expenses	15,319,387
General administrative expenses	26,245,385
Total underwriting deductions	345,506,299
Net underwriting gain	23,586,975
Net investment income earned	8,277,053
Net realized capital gains or (losses)	2,425,992
Net investment gain or (loss)	10,703,045
Aggregate write-ins for other income or expenses	232,391
Net income (loss) before federal income taxes	34,522,411
Federal income taxes incurred	14,404,770
Net income or (loss)	\$20,117,641
<u>Surplus</u>	
Surplus, December 31, 2014	\$251,333,845
<u>Gains and (Losses)</u>	
Net income or (loss)	20,117,641
Change in net unrealized capital gains or (losses)	(4,596,626)
Change in net deferred income tax	(219,334)
Change in nonadmitted assets	4,731,785
Aggregate write-ins for gains or (losses) in surplus	3,762,193
Net change in surplus	23,795,659
Surplus, December 31, 2015	\$275,129,504

Blue Cross Blue Shield of Wyoming
Reconciliation of Surplus

January 1, 2012 through December 31, 2015

	*****As Reported and Filed by the Company*****			
	2012	2013	2014	2015
Surplus, December 31, of prior year	\$179,044,362	\$199,911,582	\$242,252,140	\$251,333,845
Net income or (loss)	29,597,572	11,783,139	12,675,253	20,117,641
Change in net unrealized capital gains or (losses)	8,040,823	19,355,965	2,047,779	(4,596,626)
Change in unrealized foreign exchange capital gain or (loss)	0	19,136	0	0
Change in net deferred income tax	(750,329)	1,129,935	941,328	(219,334)
Change in nonadmitted assets	1,926,914	1,530,524	(131,914)	4,731,785
Cumulative effect of changes in accounting principles	(17,947,760)	0	0	0
Aggregate write-ins for gains or (losses)	0	8,521,859	(6,450,741)	3,762,193
Net change in surplus	20,867,220	42,340,558	9,081,705	23,795,659
Surplus, December 31, of current year	\$199,911,582	\$242,252,140	\$251,333,845	\$275,129,504

SUBSEQUENT EVENTS

Beginning in 2016, the Company was the only insurer on Wyoming's Federally Facilitated Marketplace under the Affordable Care Act. As a result, the Company's members increased from 77,330 in 2015 to 92,372 as of March 31, 2016. This was an increase of 19.5 percent. The increase in membership is due in part to the insolvency of the other carrier that was on Wyoming's Federally Facilitated Marketplace in 2015.

SUMMARY OF RECOMMENDATIONS

Recommendation: It is recommended that the Company comply with W.S. § 26-24-129(a)(iii) by using Wyoming banks to hold its assets.

CONCLUSION

Jeff Braunschweig, Nola Rocha, and G. Douglas Melvin, examiners for the Wyoming Department of Insurance, participated in the examination. Review of the Company’s reserves was conducted by the firm Risk & Regulatory Consulting, LLC.

Appreciation is expressed for the cooperation and assistance extended by the officers and employees of the Company during the course of the examination.

I, the undersigned, hereby certify that an examination has been made of **BLUE CROSS BLUE SHIELD OF WYOMING**, and the preceding report is true and correct to the best of my knowledge and information.

Respectfully submitted,

G. Douglas Melvin, CPA, CFE
Examiner In-Charge
Senior Examiner
Department of Insurance
State of Wyoming

This report has been reviewed and is true and correct to the best of my knowledge and information.

Linda Johnson, CPA, CFE
Chief Financial Examiner
Department of Insurance
State of Wyoming

The foregoing instrument was acknowledged under oath before me this _____ day of March 2017.

Witness my hand and official seal.

Notary Public

My Commission Expires: _____