

REPORT OF  
FINANCIAL EXAMINATION  
**BLUE CROSS BLUE SHIELD OF WYOMING**  
AS OF  
DECEMBER 31, 2002



STATE OF WYOMING  
DEPARTMENT OF INSURANCE  
CHEYENNE, WYOMING

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SALUTATION  
Cheyenne, Wyoming  
October 17, 2003

Honorable Alfred W. Gross  
Chairman, NAIC Financial Condition  
(E) Committee  
State Corporation Commission  
Bureau of Insurance  
P.O. Box 1157  
Richmond, VA 23218

Honorable Kenneth G. Vines  
Insurance Commissioner  
State of Wyoming  
122 West 25th Street  
Cheyenne, WY 82002-0440

Honorable John Morrison  
Western Zone Secretary  
State Auditor's Office  
840 Helena Avenue  
Helena, MT 59601

Chairman, Secretary, and Commissioner:

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, 2002, 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

The examination reported upon herein was undertaken as a routine examination as called for by W.S. § 26-2-116. The Company was most recently examined as of December 31, 1999. The current examination covers the intervening three-year period ending December 31, 2002.

The examination included a review and analysis of operations and a determination of the financial condition of the Company as of the date of examination. Valuation and verification of assets, determination of liabilities and reserves, and testing and analysis of such accounts and records deemed necessary to the examination were performed. The examination utilized, where appropriate, work performed by the Company's independent Certified Public Accountants. Limited market conduct procedures were also performed during the examination. In addition, the exam included a limited review of material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with procedures suggested by the Financial Condition (E) Committee of the NAIC and other generally accepted insurance standards.

During the examination, there were some immaterial items noted that are not included in this report. These issues are discussed in a management letter that was given to the Company and its Board of Directors under a separate cover.

## DESCRIPTION OF THE COMPANY

### History of the Company:

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.

***Associated Foundation:*** The Company formed a benefit program for needy children called the Caring Foundation of Wyoming, a nonprofit organization, in 1990, and began accepting members at that time. Children are given free primary and preventive care. In 2001, the Foundation was expanded by a grant received from the Wyoming Affiliate of the Susan G. Komen Breast Cancer Foundation in order to provide mammography screening for eligible women. In 2002, the Foundation was expanded to raise awareness about and reduce domestic violence in Wyoming. Claims are paid through private donations. In 2002, revenues received in support of claims were \$300,334, of which the Company donated \$85,876. In addition, the Company incurred \$117,901 in administrative costs to support the program and returned \$170,008 in excess premiums paid to the Company.

### **Management and Control:**

The entire control and direction of the Company rests with its Board of Directors. The number of directors is fixed from time to time at no less than 12 and no more than 24 by the Articles of Consolidation of the Company. As of December 31, 2002, the bylaws provided for not more than 18 and not less than 12 directors. Twelve were actually in office at that time. Approximately one fourth of the directors' terms shall 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, 2002, the following directors were holding office:

Name & address	Principal occupation	Date of first term
Rex Arney Casper, Wyoming	Attorney; Brown, Drew & Massey, LLP	4/87
Darryl Bindschadler Cheyenne, Wyoming	Retired; Physician	4/87
John Bonner	Publisher; Powell Tribune	4/97

Name & address	Principal occupation	Date of first term
Powell, Wyoming		
Becky Costantino Rock Springs, Wyoming	Business Woman	4/95
Tim Crilly Cheyenne, Wyoming	President, Blue Cross Blue Shield of Wyoming	10/98
Irene Devin Laramie, Wyoming	Business Woman	4/97
Ralph Gill Jackson, Wyoming	Rancher	4/98
James Haden Casper, Wyoming	Physician; Central Wyoming Urological Association	4/88
Michael Healy Worland, Wyoming	President; L.U. Ranch Company	4/96
Thomas Nord Centennial, Wyoming	Retired; Hospital Administrator	4/88
Robert Thompson Big Piney, Wyoming	Rancher; Cross Lazy Two Land & Livestock	4/88
Harmon Watt Riverton, Wyoming	Retired; Business Man	4/87

Officers of the Board consist of a Chairman of the Board and one or more Vice Chairmen. The officers are selected from the members of the Board of Directors and are elected at the annual meeting of the Board.

As of December 31, 2002, officers were as follows: Chairperson – Irene Devin; and Vice Chairman – John Bonner.

Article VII of the bylaws provide for employees who shall consist of a President, Secretary, Treasurer, Assistant Treasurers and Assistant Secretaries, and, if authorized, an Executive Vice

President and one or more Vice Presidents. As of December 31, 2002, these employees were as follows:

President - Tim J. Crilly  
Vice President of Marketing - Richard F. Schum, Jr.  
Vice President of Benefit Administration - Karen Dobson  
Vice President of Underwriting and Actuary - Joey Van Schaik  
Treasurer – Diane G. Gore  
Secretary - Tim J. Crilly

### **Holding Company Structure:**

Employer Plan Services (a Wyoming Corporation) is a wholly-owned subsidiary. Business activity consisted of serving as a third party administrator (TPA) for self-funded plans in the states of Wyoming and Montana. As of December 31, 2002, the TPA business has been transferred to the Company. It is the Company's plan to utilize Employer Plan Services as an insurance agency to sell allied products.

Over its life, Employer Plan Services has accumulated a deficit of \$80,650 and common capital stock of \$750,000. Employer Plan Services paid dividends of \$675,000 in 2002 as a return of capital.

### **Corporate Records:**

The Articles of Incorporation, bylaws, and minutes of the meetings of the Board of Directors, Personnel Committee, Audit Committee, Governance/Nominating Committee, and Executive Committee were reviewed in detail. It was determined that the Company is in compliance with its bylaws and that actions taken at the various meetings were adequately documented.

### **Fidelity Bonds and Other Insurance:**

The Company maintains \$10,000,000 in directors and officers liability insurance, \$10,000,000 in errors and omissions insurance and \$5,000,000 in managed care organization liability insurance with BCS Insurance Company. The Company also has fidelity bond and electronic crimes insurance on its employees in the amount of \$3,000,000 with BCS Insurance Company. This amount exceeds the NAIC suggested minimum amount of \$800,000 - \$900,000 for fidelity insurance.

The Company obtains its other insurance through Ed Murray and Sons, a licensed Wyoming Agency. The Company has replacement cost property coverage with Fidelity & Deposit Company of Maryland in the amount of \$6,382,500 for buildings, \$1,535,189 for personal property, and \$1,000,000 for business income losses. This policy covers all properties of the Company which have a combined market value of \$3,520,931. There is also additional boiler and machinery coverage in the amount of \$6,900,441 with Fidelity & Deposit Company of Maryland.

The Company has commercial auto liability coverage in the amount of \$1,000,000 and commercial general liability coverage in the amount of \$2,000,000 with Fidelity & Deposit Company of Maryland. The Company also has a commercial catastrophe liability policy in the amount of \$7,000,000 with Fidelity & Deposit Company of Maryland.

**Officers', Employees', and Agents' Welfare and Pension Plans:**

The Company participates in a defined benefit pension plan administered by the Blue Cross Blue Shield Association. The plan is fully funded by the Company and is available to employees who meet certain age and service requirements. The Company accounts for pension costs in accordance with Financial Accounting Standards Board No. 87. The Company made \$2,350,000 in contributions to the plan in 2002.

The Company also participates in a tax-favored savings program sponsored by the Blue Cross Blue Shield Association. This program is available to employees who meet certain age and service requirements. The Company's expense for this program in 2002 was \$337,808.

The Company has also entered into a nonqualified supplemental executive retirement plan. Certain requirements, including years of service and board approval, must be met before an employee is eligible for participation in the plan.

The Company offers long-term disability, life, health and dental insurance to full-time employees while they are employed with the Company.

**Territory and Plan of Operation:**

The Company operates in the State of Wyoming, employs approximately 200 persons, and is authorized to conduct disability (including 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 decreased \$6,869,522 during the three-year exam period, which decrease consists of \$12,495,567 net gain, \$(12,950,734) unrealized capital losses, \$(131,245) change in deferred income taxes, \$(1,628,924) change in nonadmitted assets and \$(4,654,186) cumulative effect of changes in accounting principles. The reported direct premiums written have increased from \$102,292,993 in 2000, to \$127,988,672 in 2002, an increase of \$25,695,679.

The Company's net admitted assets have increased by \$4,922,445 from \$98,380,571 in 2000, to \$103,303,016 in 2002.

**Business In Force by State:**

The Company operates only in the State of Wyoming and is authorized to conduct disability (including health) insurance business.

**Direct Premiums Written:**

<u>Line of Business</u>	<u>Direct Business</u>
Comprehensive (Hospital & Medical)	\$84,792,645
Medicare Supplement	10,426,333
Dental	2,317,485
Federal Employee Health Benefit Plans	29,057,768
Other	1,394,441
Total	\$127,988,672

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 have been hospitalized in a member hospital of another participating plan. ITS allows subscribers to 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 to 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 also 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).

**Loss Experience:**

Taylor-Walker & Associates, actuarial consultants, were retained to review the Company's loss experience and reserving methods. The consulting actuary's report accepted the \$17,361,000 unpaid claims liability amount. A copy of the consulting actuary's report has been given to the Company.

### **Reinsurance:**

As of December 31, 2002, the Company had a reinsurance agreement in place in which it ceded business to American National Insurance Company, a licensed insurer in the State of Wyoming. The Company ceded \$960,292 in premiums to American National Insurance Company in 2002.

The business covered in the reinsurance agreement includes group, individual under 65, association group, alternate funded group, and COBRA policies covering medical care expense benefits underwritten and issued by the Company.

Exhibit A of the contract states that the reinsurer will pay 100 percent of the Company's proportional share of incurred claims in excess of \$350,000 for each insured person subject to the maximum of the policy limit, but in no event will the reinsurer be liable for more than \$650,000 for each person.

Exhibit B of the contract states that the reinsurer will pay 100 percent of the Company's proportional share of incurred claims in excess of \$1,000,000 for each insured person subject to the maximum of the policy limit, but in no event will the reinsurer be liable for more than \$4,000,000 for each person.

The reinsurance contract includes an insolvency clause, an errors and omissions clause and an arbitration clause. The contract also includes a profit commission clause, which states that the reinsurer will pay the Company profit sharing equal to 35 percent of the net profit, if any, accruing to the reinsurer on the first level of business.

The Company also cedes business to the Wyoming Small Employer Health Reinsurance Program. The Company ceded \$265,440 in premiums to the program in 2002.

### **Accounts and Records:**

The Company's administrative, accounting, underwriting, policy administration, investment, and claims handling functions are performed at its home office in Cheyenne, Wyoming.

The Company's accounts and records were reviewed in accordance with the examination programs in the NAIC Examiner's Handbook and the Wyoming Insurance Code.

During the underwriting testing, five of the policy files that were tested were missing the "Application for Group Master Agreements" or were not signed by the insured. In addition, six applications were signed at least several months after the effective date of the coverage.

W.S. 26-24-129 (a) states in part, "Any domestic insurer shall . . . (ii) Keep in the principal place of business accurate and complete accounts and records of its assets, transactions and affairs in

accordance with the usual and accepted principles and practices of insurance accounting and record keeping as applicable to the kinds of insurance the insurer transacts . . . .”

**Recommendation No. 1:**

It is recommended that the Company continue to work on the implementation of procedures to ensure that all Group Master Agreements are on file and signed in a timely manner.

**Market Conduct:**

In conjunction with the financial examination, limited market conduct procedures were performed on the Company’s claims settlement, marketing and advertising, and underwriting practices. No significant items were noted.

**BLUE CROSS BLUE SHIELD OF WYOMING**  
**BALANCE SHEET**  
as of December 31, 2002

ASSETS	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$41,037,607		\$41,037,607
Stocks - common	36,653,111		36,653,111
Mortgage loans on real estate - first liens	396		396
Real estate occupied by the company	1,061,365		1,061,365
Properties held for the production of income	513,140		513,140
Cash and short term investments	4,900,052		4,900,052
Aggregate write-ins for invested assets	85,000	85,000	0
Subtotal - cash and invested assets	84,250,671	85,000	84,165,671
Accident and health premiums due and unpaid	8,290,543		8,290,543
Health care receivables	419,048	191,252	227,796
Amounts recoverable from reinsurers	1,185,607		1,185,607
Investment income due and accrued	577,995		577,995
Amounts due from parent, subsidiaries and affiliates	16,237		16,237
Amounts receivable relating to uninsured A&H plans	6,702,243	302,948	6,399,295
Furniture and equipment	335,686	335,686	
Federal and foreign income tax recoverable	1,968,328		1,968,328
Electronic data processing equipment and software	160,574	98,746	61,828
Other nonadmitted assets	1,883,580	1,883,580	0
Aggregate write-ins for other than invested assets	420,819	11,103	409,716
Total assets	\$106,211,331	\$2,908,315	\$103,303,016
<b>LIABILITIES, RESERVES &amp; OTHER FUNDS</b>			
Claims unpaid			\$17,361,000
Unpaid claims adjustment expenses			1,489,661
Aggregate policy reserves			3,966,486
Premiums received in advance			4,901,211
General expenses due or accrued			1,405,197
Federal and foreign income taxes payable			1,147,086
Amounts withheld or retained for account of others			1,502,569
Liability for amounts held under uninsured A&H plans			3,810,882
Aggregate write-ins for other liabilities			587,966
Total liabilities			36,172,058
<b>RESERVES AND UNASSIGNED FUNDS</b>			
Unassigned funds (surplus)			67,130,958
Total reserves and unassigned funds			67,130,958
Total liabilities, reserves and unassigned funds			\$103,303,016

**BLUE CROSS BLUE SHIELD OF WYOMING**  
**STATEMENT OF REVENUE AND EXPENSES**

for the Year Ending December 31, 2002

Net premium income	\$126,762,941
Change in unearned premium reserves and reserve for rate credits	<u>(2,418,144)</u>
Total revenues	124,344,797
Hospital/medical benefits	91,683,520
Emergency room and out-of-area	11,082,810
Prescription drugs	4,979,408
Net reinsurance recoveries	<u>(2,598,534)</u>
Total medical and hospital	105,147,204
Claims adjustment expenses	3,387,491
General administrative expenses	<u>11,096,056</u>
Total underwriting deductions	119,630,751
Net underwriting gain	4,714,046
Net investment income earned	3,217,128
Net realized capital gains or (losses)	<u>(797,962)</u>
Net investment gain or (loss)	2,419,166
Aggregate write-ins for other income	<u>492,357</u>
Net income/(loss) before federal income taxes	7,625,569
Federal income taxes incurred	<u>1,169,880</u>
Net income or (loss)	<u>\$6,455,689</u>
<u>Reserves and Unassigned Funds</u>	
Reserves and unassigned funds, December 31, 2001	\$68,388,557
<u>Gains and (Losses)</u>	
Net income or (loss)	6,455,689
Net unrealized capital gains or (losses)	(5,926,803)
Change in net deferred income tax	(138,674)
Change in nonadmitted assets	<u>(1,647,811)</u>
Net change in reserves and unassigned funds	<u>(1,257,597)</u>
Reserves and unassigned funds, December 31, 2002	<u>\$67,130,958</u>

**BLUE CROSS BLUE SHIELD OF WYOMING**  
**RECONCILIATION OF RESERVES AND UNASSIGNED FUNDS**

December 31, 2000 through December 31, 2002

	*****Per Annual Statements*****			Per Exam
	2000	2001	2002	2002
Reserves and unassigned funds, December 31, of prior year	\$74,000,482	\$72,074,520	\$68,388,557	\$68,388,557
Net income or (loss)	2,051,004	3,988,872	6,455,689	6,455,689
Net unrealized capital gains or (losses)	(3,974,010)	(3,049,921)	(5,926,803)	(5,926,803)
Change in net deferred income tax		7,429	(138,674)	(138,674)
Change in nonadmitted assets	(2,956)	21,843	(1,647,811)	(1,647,811)
Cumulative effect of changes in accounting principles		(4,654,186)		
Net change in reserves and unassigned funds	(1,925,962)	(3,685,963)	(1,257,599)	(1,257,599)
Reserves and unassigned funds, December 31, of current year	\$72,074,520	\$68,388,557	\$67,130,958	\$67,130,958

## **SUMMARY OF RECOMMENDATIONS**

***Recommendation No. 1:*** It is recommended that the Company continue to work on the implementation of procedures to ensure that all Group Master Agreements are on file and signed in a timely manner.

**CONCLUSION**

Jeff Braunschweig, Katy Cotton, and G. Douglas Melvin, examiners for the Wyoming Insurance Department, participated in the examination. Review of the Company's reserves was conducted by Robert D. MacLennan, F.S.A., M.A.A.A., of the firm Taylor-Walker & Associates, Inc.

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 November 2003.

Witness my hand and official seal.

\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_