



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

**REGENCE BLUECROSS BLUESHIELD OF UTAH**

of

Salt Lake City, Utah

as of

December 31, 2017



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February 22, 2019

Honorable Todd E. Kiser, Commissioner  
Utah Insurance Department  
3110 State Office Building  
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2017, has been made of the financial condition and business affairs of:

Regence BlueCross BlueShield of Utah  
Salt Lake City, Utah

hereinafter referred to in this report as the "Organization" and the following report of examination is respectfully submitted.

### **SCOPE OF EXAMINATION**

The last financial examination of the Organization was completed as of December 31, 2014. The current examination is a full scope examination covering the period from January 1, 2015 through December 31, 2017, including any material transactions or events occurring subsequent to the examination date and noted during the course of the examination.

The purpose of this examination is to assess the financial condition of the Organization and its holding company system. The examination was conducted by representatives of the Utah Insurance Department (Department). The examination was part of a coordinated examination led by representatives from Division of Financial Regulation of Oregon Department of Consumer & Business Services. Also participating in the examination were insurance department representatives from Idaho, and Washington.

We conducted our examination in accordance with the risk-focused examination approach as prescribed by the National Association of Insurance Commissioners *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks that could cause the Organization's surplus to be materially misstated, and evaluate controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating management's compliance with Statutory Accounting Principles and annual statement instructions. The examination, however, does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment was identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report.

Workpapers of the Organization's independent auditors, Deloitte & Touche, LLP, were reviewed and relied upon whenever possible and applicable to assist in the completion of examination procedures.

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## **SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

1. Utah Code § 31A-5-407(2) requires that the majority of directors shall be Utah residents unless the Commissioner is satisfied that the corporation's financial condition, management, and other circumstances give assurance that the interests of insureds and the public will not be endangered by the majority being nonresidents.

The Organization was out of compliance from June 20, 2017 through July 17, 2017.

2. Utah Admin. Code R590-192-9(5) requires claims to be paid or claimants to be notified within 30 days of claim receipt.

Two of the twenty claims that were substantively reviewed did not have a notification within 30 days.

We recommend the Organization put in place a procedure to ensure that all claims are paid, or claimants notified, within 30 days.

## **HISTORY OF ORGANIZATION**

### General

In May of 1995, Blue Cross and Blue Shield of Utah, a nonprofit health service insurance corporation, announced its intention to affiliate with The Benchmark Group, an Oregon nonprofit corporation consisting of Blue Cross and Blue Shield plans located in the northwestern United States. On April 2, 1997, The Benchmark Group became known as The Regence Group. Effective December 22, 1997, Blue Cross and Blue Shield of Utah changed its name to Regence BlueCross BlueShield of Utah.

On November 4, 2011, The Regence Group received approval from all relevant insurance departments to use the name Cambia Health Solutions, Inc. (Cambia).

### Dividends and Capital Contributions

The Organization neither declared nor paid dividends during this examination period.

The Organization did not receive any capital contributions during this examination period.

### Mergers and Acquisitions

There were no mergers or acquisitions for the period of the examination.

## MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

### Board of Directors

The Organization's bylaws state that the number of directors shall be no less than three.

The following persons served as directors of the Organization as of December 31, 2017:

<b>Name and Location</b>	<b>Primary Occupation</b>
James Swayze* Salt Lake City, Utah	Utah Market President Regence BlueCross Blue Shield of Utah
Jake R. Nichol Hideout, Utah	Retired
David R. Boren** Boise, Idaho	Founder & President Clearwater Analytics

\* James Swayze was appointed on September 15, 2017, replacing Mark Ganz.

\*\* David R. Boren was appointed on June 23, 2015, replacing William Chenovich.

### Officers

The following persons served as officers of the Organization as of December 31, 2017:

<b>Name</b>	<b>Title</b>
James Swayze ****	President
John Wilson Attey	Secretary
Andreas Bernhard Ellis	Treasurer

\*\*\*\* James Swayze became President on July 17, 2017, replacing Jennifer Danielson.

### Committees

The following persons served as committee members as of December 31, 2017:

<b>Audit Committee</b>
Fred Beck, Chair
David R. Boren
Jake R. Nichol

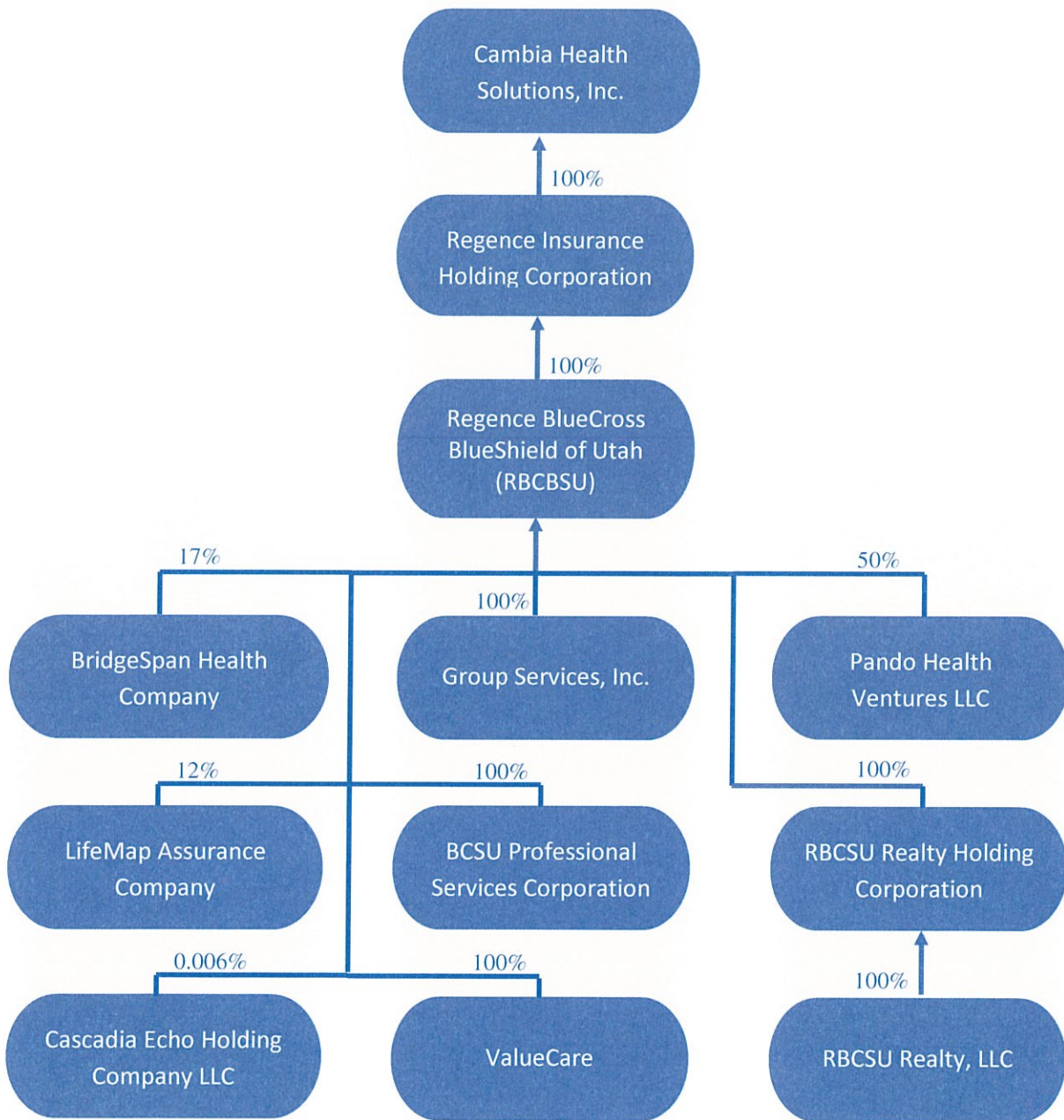
<b>Nominating Committee</b>
James Swayze
David R. Boren
Jake R. Nichol

Holding Company

The Organization is part of a holding company system as defined in Utah Code § 31A-16. The ultimate controlling entity of the holding company is Cambia. There are numerous companies within the holding company system, which were not included in the organizational chart below.

Holding Company Organizational Chart

The organizational chart below reflects the direct ownership of the Organization:



## Transactions and Agreements with Affiliates

The following were the most significant affiliated agreements and transactions in place as of the examination date, December 31, 2017:

1. On August 1, 1997, the Organization loaned \$2,900,000 to Cambia, with maturity date of June 1, 2035.
2. Effective October 1997, the Organization has a lease agreement with RBCSU Realty, LLC pertaining to a property located in Salt Lake City, Utah.
3. Effective September 20, 2000, the Organization entered into a consolidated tax allocation agreement with Cambia and its affiliates and, setting forth the arrangement to allocate consolidated tax liability among the parties. The agreement apportions the tax liability of the parties during consolidation return years as prescribed in Treasury Regulation sections 1.1502-2 and 1.1502-79.
4. The Organization entered into an investment pool with ValueCare to provide for greater return on investments. The investment gains and losses are allocated back to each entity, according to its initial contribution to the pool.
5. In December 2007, the Organization entered into an Administrative Services Agreement with Cambia. According to the terms of the Agreement, Cambia will provide all operational, administrative and management services reasonably necessary to transact business, including managerial, legal, financial, actuarial, underwriting, accounting, human resources, employee benefit administration, data network telecommunications, marketing advertising, community affairs, public relations, communications, billing, banking, membership, claims adjudication, customer service, reporting, regulatory compliance, mail, and information technology services. In addition, Cambia will provide all equipment, materials, office space, and general supplies. The Organization shall pay Cambia its proportionate share of the cost, as well as its proportional share of general overhead expenses, according to a system-wide cost allocation methodology and in accordance with generally accepted cost accounting principles. It is not intended that Cambia shall receive complete reimbursement for its costs to derive no profit from such reimbursement. All direct and indirect expenses incurred will be reconciled monthly and balances settled within 90 days from the end of the reporting month.
6. Effective January 1, 2012, the Organization entered into a Joint Enterprise Agreement with Regence BlueShield of Idaho, Inc. which permits each organization to contract with the Centers for Medicare and Medicaid Services to offer Medicare Part D pharmacy benefit plans to residents of the respective states.
7. Effective November 8, 2016, the Organization entered into an Operating Agreement for Cascade Echo Holding Company LLC.
8. The Organization entered into a Stop-Loss Policyholder Transition Agreement with Commencement Bay Risk Management Insurance Company for Stop Loss coverage in April of 2018.

## **TERRITORY AND PLAN OF OPERATION**

The Organization is licensed in Utah and serves 216,588 members offering a full line of health insurance products for large and small employer groups, individuals, and government programs. The Organization's business segments include Commercial Group and Individual, Medicare Advantage and Medicare Supplement, Federal Employee Program, and the BlueCard Program. The Organization offers plans of preferred provider organizations with a variety of co-pays, deductibles, and out-of-pocket options from richer to lower cost benefit plans, with or without a health savings account option. The Organization also offers health benefit services for self-funded plans including claims processing, stop-loss insurance, actuarial and reporting services, medical cost management and other administrative services. The Organization's health products are distributed primarily through brokers. Over the last several years, the Organization has introduced several narrow network products representing a majority of its new sales.

## **REINSURANCE**

### Assumed

The Organization did not have any assumed reinsurance during the examination period.

### Ceded

Effective January 5, 2015, the Organization entered into an Excess of Loss contract with HM Life Insurance Company. The arrangement reinsures the Organization against high claims incurred for its fully insured members including commercial, retrospective, federal exchange and stop-loss members for claims incurred in excess of the Organization's retention of \$2 million ultimate net loss.

Effective July 20, 1999, the Organization ceded all long-term care insurance to MedAmerica Insurance Company 100% pro rata, no stop-loss was designated.

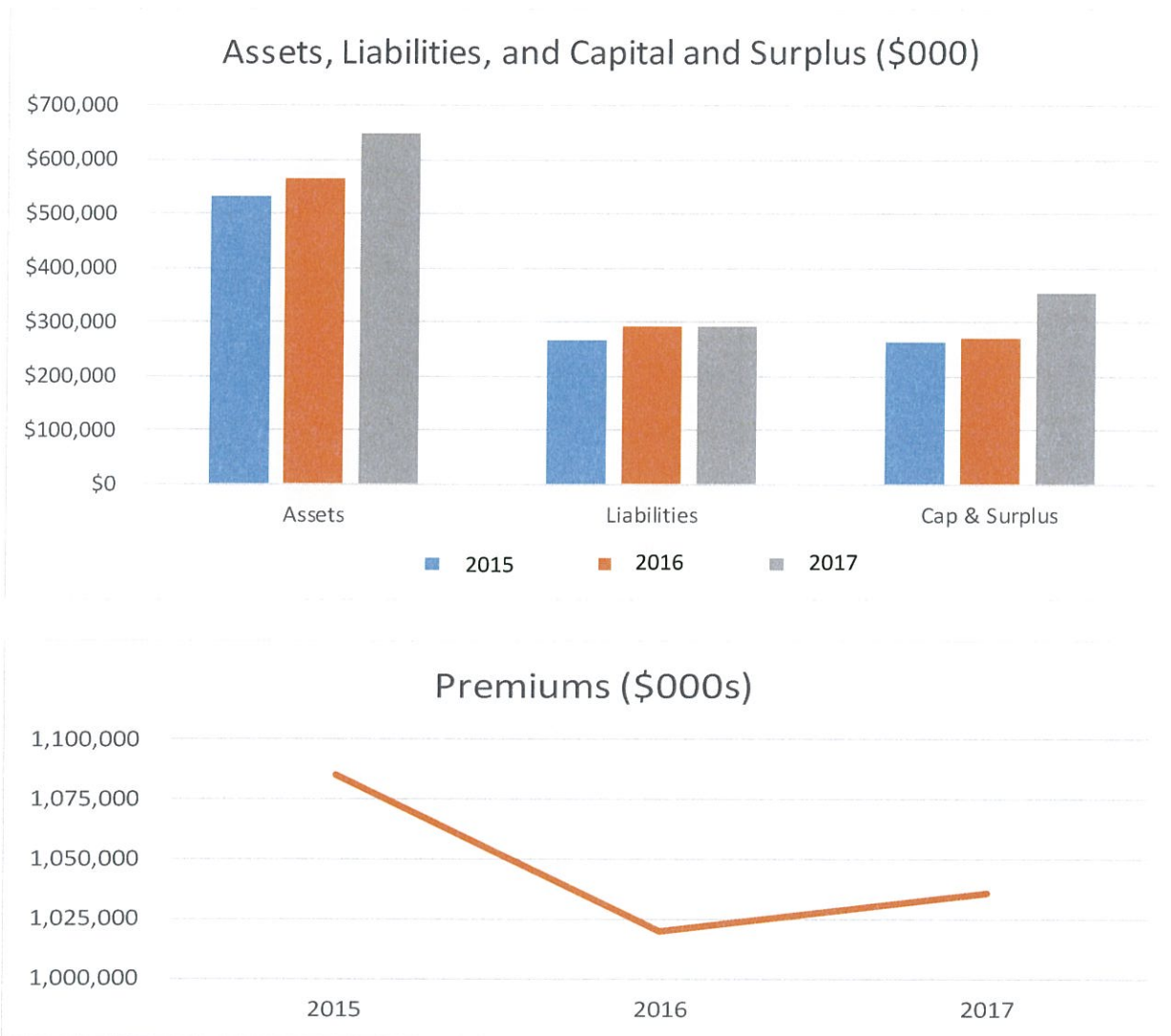
## **GROWTH OF COMPANY**

During the examination period, AM Best upgraded the Organization's financial strength rating from an A- to an A.

The Organization reported an increase in its RBC ratio from 842.1% at year-end 2015 to 1,174.6% at year-end 2017. Unassigned surplus as of December 31, 2017, reported a material increase of around \$61 million due to an increase in net income of \$64.4 million. Revenues decreased from 2015 to 2016 due to a decrease in comprehensive and Medicare membership.



The following graphs reflect the Organization’s financial condition for the examination period:



Sources: 2015-2017 Annual Statements

### FINANCIAL STATEMENTS

The following financial statements are based on the statutory annual statement filed by the Organization with the Department and present the financial condition of the Organization for the period ending December 31, 2017. The accompanying comments (if any) on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

REGENCE BLUECROSS BLUESHIELD OF UTAH  
ASSETS  
as of December 31, 2017

	Net Admitted Assets
ASSETS	
Bonds	\$ 308,713,071
Common stocks	94,751,827
Real estate occupied by the Organization	3,203,292
Cash, cash equivalents and short-term investments	(10,378)
Receivables for securities	135,674
Net investment income due and accrued	2,169,852
Uncollected premiums and agents' balances in the course of collection	144,526,052
Contracts subject to redetermination	8,811,560
Amounts receivable relating to uninsured plans	47,908,342
Current federal and foreign income tax recoverable and interest thereon	24,378,236
Net deferred tax asset	13,068,125
Receivables from parent, subsidiaries and affiliates	457,529
Health care and other amounts receivable	4,786,301
Executive and directors deferred compensation	779,433
Investment pool subsidiaries	(7,985,543)
Total Assets	\$ 645,693,373

REGENCE BLUECROSS BLUESHIELD OF UTAH  
 LIABILITIES, CAPITAL AND SURPLUS  
 as of December 31, 2017

<b>LIABILITIES</b>	
Claims unpaid	\$ 122,428,967
Accrued medical incentive pool and bonus amounts	2,306,837
Unpaid claims adjustment expenses	5,143,085
Aggregation health policy reserves, include MLR rebate	95,277,042
Premiums received in advance	7,977,653
General expenses due or accrued	6,052,832
Ceded reinsurance premiums payable	139,800
Amounts withheld or retained for the account of others	3,309,171
Remittances and items not allocated	2,697,585
Borrowed money	5,000,000
Amounts due to parent, subsidiaries, and affiliates	11,251,105
Payable for securities	1,336,334
Liability for amounts held under uninsured plans	28,751,028
Unclaimed property	560,515
Total Liabilities	<u>292,231,954</u>
 <b>CAPITAL AND SURPLUS</b>	
Special surplus funds for ACA Section 9010 fee	21,207,464
Unassigned surplus funds	<u>332,253,955</u>
Total Capital and Surplus	<u>353,461,419</u>
 Total Liabilities, Capital and Surplus	 <u><u>\$ 645,693,373</u></u>

REGENCE BLUECROSS BLUESHIELD OF UTAH  
STATEMENT OF REVENUE AND EXPENSES  
for the Year Ended December 31, 2017

	Total
<b>REVENUE:</b>	
Net premium income	\$1,043,350,641
Change in unearned premium reserves and reserve for rate credits	(7,364,883)
Total Revenue	1,035,985,758
 <b>HOSPITAL AND MEDICAL EXPENSES:</b>	
Hospital and medical benefits	524,875,739
Other professional services	44,006,929
Outside referrals	17,005,001
Emergency room and out-of-area	120,858,149
Prescription drugs	174,053,852
Incentive pool, withhold adjustments and bonus amounts	1,586,838
Total Hospital and Medical	882,386,508
 <b>GENERAL AND ADMINISTRATIVE EXPENSES:</b>	
Net reinsurance recoveries	(467,419)
Claims adjustment expenses	58,265,997
General administrative expenses	53,377,441
Increase in reserves for life and accident and health contracts	2,024,000
Total underwriting deductions	995,586,527
Net underwriting gain	40,399,231
Net investment income earned	10,472,028
Net realized capital gains	2,989,598
Net investment gains	13,461,626
Net loss from agent's or premium balances charged off	(68,268)
Other expense	(6,260,903)
Net income after capital gains, before federal income taxes	47,531,686
Federal and foreign income taxes incurred	(19,975,085)
Net Income	\$ 67,506,771

REGENCE BLUECROSS BLUESHIELD OF UTAH  
RECONCILIATION OF CAPITAL AND SURPLUS  
2015 through 2017

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Capital and Surplus, December 31, prior year	\$ 269,827,102	\$ 261,756,867	\$ 271,201,771
Net income / (loss)	3,116,723	8,638,608	67,506,771
Change in net unrealized capital gains (losses) less capital gains tax	(31,559,787)	3,367,278	8,579,307
Change in net unrealized foreign exchange capital gain	(9,547)	823,704	1,014
Change in net deferred income tax	1,620,715	225,608	16,232,663
Change in nonadmitted assets	<u>18,761,661</u>	<u>(3,610,294)</u>	<u>(10,060,107)</u>
Net change in Capital and Surplus for the year	<u>(8,070,235)</u>	<u>9,444,904</u>	<u>82,259,648</u>
Capital and Surplus, December 31, current year	<u>\$ 261,756,867</u>	<u>\$ 271,201,771</u>	<u>\$ 353,461,419</u>

## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No financial adjustments were made to surplus as a result of the examination.

## **COMMENTS ON FINANCIAL STATEMENT ITEMS**

The Organization's capital and surplus in the amount of \$353,461,419 was determined to be the same as that reported in the Organization's annual statement as of December 31, 2017. The capital and surplus significantly exceeded the authorized control level risk-based capital.

## **SUBSEQUENT EVENTS**

There have been no significant subsequent events for inclusion in this report.

## **ACKNOWLEDGEMENT**

John Humphries, ASA, MAAA, CFE, CISA, AES, MCM; Mike Presley, FSA, MAAA; Shumei Kuo, FSA, MAAA, and Kristina Gaddis, AES, CFE, CISA, of Risk & Regulatory Consulting, reviewed the actuarial portion of the examination. Mike Phillips, CPA, CFE, AES, of Oregon Division of Financial Regulation reviewed the Organization's Information Systems. Jacob W. Garn, CFE, CPA, Chief Examiner, Utah Insurance Department, supervised the examination. In addition, Mike Porter, AFE, Financial Examiner, Utah Insurance Department, participated in the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Organization.

Respectfully Submitted,



Malis Rasmussen, MSA, CFE, SPIR  
Examiner-in-Charge  
Deputy Chief Examiner  
Utah Insurance Department