



State of Utah

INSURANCE DEPARTMENT

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November 8, 2001

Kathryn Ellis, Director Internal Audit
Regence Blue Cross Blue Shield
2890 East Cottonwood Parkway
Salt Lake City, Utah 84121-7035



Dear Kathryn:

Enclosed for you review is a copy of the Target Examination Report of Regence BlueCross BlueShield as of June 30, 2001.

Please carefully review the report. If you have any questions regarding this report, please do not hesitate to call, Brian Hansen, Examiner, at 538-3763.

If you desire to contest the report, Subsection 31A-2-204(7), Utah Code, provides you with the right to request and have a hearing. If you do not file a request for a hearing within twenty (20) days, the report will be officially filed as a public document.

Thank you for your cooperation.



Sincerely,

Merwin U. Stewart
Insurance Commissioner

Brian W Hansen, AIE, FLMI, CFE
Examiner

Enclosure
Pc: Brian Hansen
File

Report Summary

The Director the Health Division of the Utah Insurance Department received information that the Utah health insurers were being unfairly discriminatory. The alleged unfair discrimination consisted of one or all of the following practices; (1) applying the 25% off-anniversary surcharge unfairly; (2) delaying acceptance of a group until past it's annual anniversary date so they could apply the 25 % surcharge; and (3) terminating a small group when it reached two eligible employees, if the two employees were husband and wife, and involuntarily issuing them individual insurance. The Health Division director initiated a series of targeted examinations to determine if the marketplace information was accurate.

Health Division market conduct examiners conducted an on-site target examination of Regence Blue Cross Blue Shield (RBCBS) during the period July 17, 2001 to July 19, 2001. Underwriting policy and procedure manuals were provided by RBCBS and reviewed by the examiners. It was later determined that these manuals were not current. The examiners were not provided with current information.

The Company provided four electronic spreadsheets: (1) All groups renewed between January 2000 and June 2001; (2) New Small Employers written for the above time period; (3) Groups the company logged as quoted that never came on during the 18 month period; and (4) A log of all groups coming through underwriting beginning January 2001. The company stated they did not convert any group policies to individual policies during this period so no files would be available. ACL™ was used to create a random sample, of eighty-one policies to review. The sample was increased to include four additional policies itemized in specific complaints to the Health Division. The information in the files was compared to the data in the extracts for completeness, accuracy and whether the procedures followed the company guidelines.

The review indicated that RBCBS applied the off-anniversary surcharge only to off-anniversary groups that received the maximum rate up of 85%. Off-anniversary groups rated less than 85%, and some groups rated 85% were not charged the surcharge. Utah statute gives the insurer the right to impose or not impose the off-anniversary surcharge to off-anniversary groups. RBCBS is not in violation of the statute. When imposed, RBCBS required the surcharge to be paid in full prior to the policy becoming effective.

The review indicated that RBCBS was not delaying effective dates to be able to impose the off-anniversary surcharge. No two-person employer groups had been terminated and converted to individual policies.

The Company activities appear to be in compliance. In accordance with Standard 10 Company Operations/Management, Conducting the Health Examination, NAIC Market Conduct Examiners Handbook, it is recommended that the Company update their policy and procedures manual. This manual should indicate what a complete application is, (no additional underwriting necessary) and when it is due. It is also recommended that the Company consistently follow these policies and procedures.

Brian W Hansen, AIE, FLMI, CFE
Examiner