

Report on Examination
of
BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

Providence, Rhode Island

as of

December 31, 2018



State of Rhode Island and Providence Plantations
Department of Business Regulation
Insurance Division



State of Rhode Island and Providence Plantations
OFFICE OF THE HEALTH INSURANCE COMMISSIONER
1511 Pontiac Avenue, Bldg. 69-1
Cranston, Rhode Island 02920

ADOPTION ORDER - (OHIC)

The attached Report of Examination as of December 31, 2018, of the condition and affairs of

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

was recently completed by duly qualified examiners, pursuant to the provisions of the Rhode Island General Laws.

Due consideration has been given to the comments of the examiners regarding the operation of the Company and its financial condition, as reflected in the report.

It is therefore ORDERED that said Report be, and it is hereby, adopted and filed and made an official record of this Department as of this date.

Office of the Health Insurance
Commissioner

Marie L. Ganim, PhD
Health Insurance Commissioner

Dated: September 3, 2019

TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION	2
SUMMARY OF SIGNIFICANT FINDINGS	3
COMPANY HISTORY	3
MANAGEMENT AND CONTROL	5
MEMBERS	5
BOARD OF DIRECTORS	6
COMMITTEES	8
BOARD COMPENSATION	10
OFFICERS	11
CORPORATE STRUCTURE	13
TERRITORY AND PLAN OF OPERATIONS	13
NATIONAL NETWORK PRODUCTS	14
REGIONAL NETWORK PRODUCTS	14
LOCAL NETWORK PRODUCTS	15
REINSURANCE	19
SELF-FUNDED HEALTH PLANS	19
FINANCIAL STATEMENTS	21
COMPARATIVE STATEMENT OF ASSETS	22
COMPARATIVE STATEMENT OF LIABILITIES AND CAPITAL AND SURPLUS	23
STATEMENT OF REVENUE AND EXPENSES	24
RECONCILIATION OF CAPITAL AND SURPLUS	25
ANALYSIS OF EXAMINATION ADJUSTMENTS	26
COMMENTS ON FINANCIAL STATEMENTS	27
ACTUARIALLY DETERMINED ASSETS AND (LIABILITIES)	29
SUBSEQUENT EVENTS	30
CONCLUSION	31

SALUTATION

July 5, 2019

Marie L. Ganim, PhD
Health Insurance Commissioner
State of Rhode Island and Providence Plantations
Office of the Health Insurance Commissioner
1511 Pontiac Avenue, Bldg. 69-1
Cranston, Rhode Island 02920

Dear Commissioner Ganim:

In accordance with your instructions and pursuant to Chapters 13.1 and 35 of Title 27 of the General Laws of the State of Rhode Island, an examination has been made as of December 31, 2018, of the financial condition and affairs of

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

located at 500 Exchange Street, Providence, Rhode Island. The report of such examination is herewith submitted.

Blue Cross & Blue Shield of Rhode Island (also referred to as “BCBSRI” or the “Company”) was previously examined as of December 31, 2013, and both the current and prior examinations were conducted by the Insurance Division of the State of Rhode Island (“Insurance Division”).

SCOPE OF EXAMINATION

The current examination covered the five-year period from January 1, 2014 through December 31, 2018 and was performed in compliance with the above-mentioned sections of the General Laws of the State of Rhode Island, as amended. The current examination was conducted as a single-state full scope risk-focused examination in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”) risk-focused examination process.

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, 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

There were no material adverse or significant non-compliance findings noted during the examination conducted as of December 31, 2018.

COMPANY HISTORY

The Company was organized on February 27, 1939, as the Hospital Service Corporation of Rhode Island, under the provisions of the enabling act passed by the Rhode Island General Assembly in that year. It commenced business the same year under non-business articles of incorporation, for the purpose of conducting business as a non-profit hospital service corporation, as defined and authorized by an act entitled “An Act Providing for the Incorporation of Non-Profit Hospital Service Corporations and Defining Their Powers,” Chapter 719 of the Rhode Island Public Laws, 1939.

On November 20, 1973, the corporate name was changed to Blue Cross of Rhode Island under an amendment to the articles of incorporation.

A separate entity, the Rhode Island Medical Society Physicians Service, was organized on May 2, 1949, under the provisions of an enabling act passed in 1945 by the Rhode Island General Assembly. It commenced business in 1950 under non-business articles of incorporation, for the purpose of providing voluntary insurance against the cost of medical care to the people of the state of Rhode Island. On March 25, 1974, the corporate name was changed to Blue Shield of Rhode Island under an amendment to the articles of incorporation.

Subsequently, on October 1, 1982, with the approval of the Board of Directors (“Board”) of both Blue Cross of Rhode Island and Blue Shield of Rhode Island, the two corporations merged through an “Agreement of Merger.” Blue Cross of Rhode Island remained as the continuing corporation and the name was changed to Blue Cross & Blue Shield of Rhode Island. The Company does business under the Enabling Act of Blue Cross, as it is sufficiently flexible to allow activities of both corporations without legislative change.

On August 8, 1985, the Board approved a resolution describing the formation, structure, and operation of a health maintenance organization called HMO Rhode Island, Inc. In May 1996, HMO Rhode Island, Inc., changed its name to Coordinated Health Partners (“CHiP”). CHiP, a wholly owned subsidiary of the Company, received its license to transact business from the Rhode Island Department of Business Regulation on August 12, 1986. As a for-profit federally qualified, individual practice association model health maintenance organization, CHiP provided comprehensive medical services to its members, generally for a fixed, prepaid fee. Effective January 1, 2005, the Company liquidated CHiP and consolidated its product lines into Blue Cross

& Blue Shield of Rhode Island.

In January of 2007, the Company formed a wholly owned subsidiary, The Health & Wellness Institute (“HWI”). HWI operated as a non-insurance limited liability corporation extending beyond the State of Rhode Island. The purpose of HWI was to provide comprehensive healthcare wellness solutions to improve the health of Rhode Islanders. In addition, HWI contracted with out-of-state clients to provide health and wellness programs to their members. On May 31, 2013, HWI ceased operations and subsequently, a filing was made on June 3, 2013 to the Rhode Island Secretary of State to officially affirm its dissolution. The HWI assets net of outstanding obligations were transferred to the Company.

Effective September 10, 2018, the Company became part of an Insurance Holding Company System. The Company and Oak Street Health entered into a limited liability company agreement as the sole members of OSH-RI, LLC, a company formed to provide health care assistance to those in certain Rhode Island communities. The Company holds a 49.9% interest and Oak Street Health holds a 50.1% interest in OSH-RI, LLC.

MANAGEMENT AND CONTROL

Members

The Company’s bylaws provide that the members of the Company shall be a number not less than fifty (50) or more than one hundred thirty (130) members. The annual meeting of the members shall be held in the city of Providence, in April of each year at the time and place designated by

the Company's Board, for the election of Directors and members, and the transaction of such other business that may come before the meeting. Special meetings may be called by the Chairman, Vice Chairman, President, a majority of the Board, or by the written request of 25 percent of the members. The bylaws also stipulate that emeritus Directors shall have the option to serve as lifetime members of the corporation and shall be counted towards the total membership.

A quorum for the transaction of business requires the presence of at least 25 members, present in person. Unless required otherwise by law or by the bylaws, all questions shall be decided by a vote of a majority of the members present in person. Each member is entitled to one vote in person.

Board of Directors

The Company's bylaws provide that its affairs, business, and property shall be managed by a board of directors ("board") of not less than ten (10) or more than nineteen (19) directors. At no time may hospital trustees, hospital directors, hospital administrators or hospital employees, in the aggregate, represent a majority of the board. Not more than twenty-five percent (25%), or as near as may be, of the directors shall be physicians. No officer or employee of the Company or any of its affiliates or subsidiaries shall serve as a director.

In accordance with Rhode Island General Laws §27-19.2-5, six publicly appointed directors shall be appointed, two each by the Governor of the state of Rhode Island, Speaker of the Rhode Island House of Representatives, and the President of the Rhode Island Senate. Once the public appointments are made, vacancies will be filled for a maximum of three, 3-year terms.

The board may, from time to time, elect emeritus directors in accordance with guidelines established by the board. Emeritus directors shall be members of the Company but will not be eligible to serve additional terms on the board.

At each annual meeting, the members of the Company shall fix the total number of directors for the ensuing year. In all cases, directors shall serve until their successors are elected and qualified.

Vacancies in the board occurring from any cause may be filled for the unexpired term by a majority vote of the remaining directors. In the case of a publicly appointed director, the office of the public official who appointed the director will appoint a new director.

Regular meetings of the board may be held from time to time at such times and places as the board shall determine. Special meetings shall be held whenever called by or at the direction of the chairman of the board, vice chairman, president, or any seven (7) members of the board. A majority of the directors shall constitute a quorum for the transaction of business at all meetings.

The membership of the board, together with the principal business or professional affiliation of each director was as follows at December 31, 2018:

Name	Business Affiliation	Term Expires
Denise Barge	Barge & Associates, LLC Principal Consultant	2018
Stephen Cohan	One River Art School Franchise Owner, Consultant	2021
Christopher Crosby	Nautic Partners Managing Director	2019
Nicholas Denice, Esq., CFE	Hinckley Allen Attorney	2020
Michael DiChiro	Rhode Island Traffic Tribunal Magistrate	2020
Scott Duhamel	International Union of Painters and Allied Trades Business Representative	2020
James Harrington	SPH Investments Private Equity Consultant	2020
Donna Huntley-Newby, PhD., RN	Rhode Island College Associate Professor/RN/BSN Director	2021
Michael Israelite	MAI Career Coaching, LLC Owner, Consultant	2019
Elizabeth Lange, M.D.	Coastal Medical, Inc. / Waterman Pediatrics Pediatrician	2021
John Langenus	Wellpoint, Inc. Executive Coach and Consultant	2019
Warren Licht, M.D.	University Medical Foundation Primary Care Physician	2021
Robert Norton	North Shore Medical Center President & CEO (retired)	2019
Debra Paul	Fellowship Health Resources President & CEO	2021
Peter Quattromani, <i>Vice Chair</i>	United Cerebral Palsy of Rhode Island Executive Director & CEO	2021
Robert Sanders	Attorney, Captain-Military Professor U.S. Naval War College	2021
Merrill Sherman	Sherman Consulting, LLC President	2019
Randy Wyrofsky, CPA, <i>Chair</i>	Home Loan Investment Bank Chief Financial Officer	2019

Committees

The bylaws provide that the executive committee shall be elected by the board and shall consist of

the chairman of the board, the vice chairman of the board, the secretary of the board, the chairman of the standing committees of the board, and one (1) publicly appointed director. Not more than 40% of the members of the executive committee shall be physicians.

When the board is not in session, the executive committee shall be vested with such powers of the board, except the executive committee shall not have authority to fill vacancies on the board or the executive committee, nor to elect any of the officers, nor to amend bylaws. Also, a majority of the members shall constitute a quorum for the transaction of business at any meeting of the executive committee.

In addition to the executive committee, other standing committees of the board shall include the audit committee, compensation committee, finance committee, governance committee, and social mission committee. Other committees may be established as approved by the board. Each committee shall contain at least one publicly appointed director. Committees elected by the board consisted of the following at December 31, 2018:

Executive Committee

Randy Wyrofsky, *Chair*
Peter Quattromani, *Vice Chair*
Denise Barge
Scott Duhamel
Robert Norton
Debra Paul
Merrill Sherman

Audit Committee

Debra Paul, *Chair*
Nicholas Denice, *Vice Chair*
Scott Duhamel
Michael Israelite
Warren Licht, M.D.
Merrill Sherman
Randy Wyrofsky

Compensation Committee

Robert Norton, *Chair*
Peter Quattromani, *Vice Chair*
Stephen Cohan
Christopher Crosby
James Harrington
John Langenus
Debra Paul

Finance Committee

Merrill Sherman, *Chair*
Debra Paul, *Vice Chair*
Christopher Crosby
Nicholas Denice
Michael DiChiro
James Harrington
Elizabeth Lange, M.D.
Robert Norton
Robert Sanders

Governance Committee

Denise Barge, *Chair*
John Langenus, *Vice Chair*
Stephen Cohan
Donna Huntley-Newby
Warren Licht, M.D.
Peter Quattromani
Randy Wyrofsky

Social Mission Committee

Scott Duhamel, *Chair*
Elizabeth Lange, M.D., *Vice Chair*
Denise Barge
Michael DiChiro
Donna Huntley-Newby
Michael Israelite
Robert Sanders
Dan Baudouin*
Mercedes Bernal*
Carrie Bridges-Feliz*
Judge Ed Clifton*
Derek Collamati*
Joseph Diaz*
John Maguire*
Yvette Mendez*

**Corporation Members*

Board Compensation

In May 2016, the State of Rhode Island, Office of the Health Insurance Commissioner (“OHIC”) approved the BCBSRI board’s application to compensate its members.

The Commissioner approved compensation in the amount requested, which is as follows:

- \$10,000 annual retainer for directors who do not serve as board or committee chairs
- \$12,500 annual retainer for committee chairs
- \$15,000 annual retainer for the board chair

OHIC's rationale for approval indicated that the compensation requested is a reasonable means "to provide appropriate recognition of and appreciation for the significant commitment of time and talent demanded by BCBSRI of its Directors."

The approval included the following limitations (in addition to the amounts set forth above):

- Approval is provisional and can be revoked by the Commissioner pursuant to the statute (R.I. Gen. Laws 27-19.2-7) that gives the Commissioner authority to approve board compensation.
- The decision does not speak to (or grant) permission for BCBSRI to provide any further benefits to its directors, e.g., free health insurance.
- BCBSRI is required to annually file with OHIC information in a form to be determined by OHIC that discloses board compensation, conflicts of interest and governance information, typically required on an IRS Form 990.
- Absent any extenuating circumstances or convincing new evidence, OHIC will not entertain a new compensation application from the board more than once every 3 years.

Board compensation payments, made quarterly, commenced for the third quarter of 2016.

Officers

The bylaws provide that the officers of the Company shall be elected annually by the board. The officers of the Company shall consist of the following: a chairman of the board; a vice chairman; and a secretary. Other officers of the Company who are not also members of the board include: a

president; one or more vice presidents; a treasurer; a secretary in the event that the board decides not to elect a board member to serve in such position; and such other officers as the board in its discretion may from time to time determine.

The officers serving the Company, and their respective titles at December 31, 2018, are as follows:

Name	Title
Randy Wyrofsky	Chairman of the Board
Peter Quattromani	Vice Chair of the Board
Kim Keck	President & Chief Executive Officer
Mark Stewart	Executive Vice President & Chief Financial Officer
Michele Leberberg, Esq.	Executive Vice President, General Counsel & Chief Administrative Officer
Augustine Manocchia, M.D.	Executive Vice President - Chief Medical Officer
Melissa Cummings	Executive Vice President - Chief Customer Officer
Kevin Splaine	Executive Vice President - Care Integration & Mgmt
Christopher Bush	Vice President - Network Management
Monica Neronha	Vice President - Legal Services
Jeremy Duncan	Vice President - Marketing
Visael Rodriguez	Vice President - Chief People Officer
Derek Costa	Vice President - Chief Information Officer
Linda Winfrey	Vice President - Internal Audit & ERM
Michael Marrone	Vice President - Finance
Samuel Slade	Vice President - Employer Segment
Matthew Collins, M.D.	Vice President - Clinical Integration
Tara Demoura	Vice President - Customer Operations
Corey McCarty	Vice President - Customer Segment
Christina Pitney	Vice President - Strategic Plan & Partnerships
Samir Mistry	Vice President - Chief Pharmacy Officer

Corporate Structure

The Company is part of an Insurance Holding Company System under Title 27, Chapter 35 of the Rhode Island General Laws entitled “Insurance Holding Company Systems.”

TERRITORY AND PLAN OF OPERATIONS

The Company, which is authorized to conduct business only in Rhode Island, markets, administers, services, and underwrites health and dental insurance plans for organizations (groups) and governmental agencies that provide such coverage to their employees or members. The Company also provides claims administration services for groups that elect to assume partial or full risk of medical expenses incurred by their employees or members. In addition, the Company offers fully insured medical insurance plans to individuals through its “Direct Pay” program.

The Company’s health plans include contractual agreements with a network of participating providers to file claims, obtain the necessary pre-authorizations and hold members harmless from any balance billing beyond the normal allowances for services. The Company medical and dental plans offered also provide such services as the issuance of identification cards and plan literature, membership and claim administration, and customer service.

The Company offers a full range of products and plan designs to accommodate group commercial market needs. Products range from traditional plans with first-dollar coverage to Health Savings Account (“HSA”) compatible, High Deductible Health Plans, Coordinate Care Plan, and Value Based Benefit Plans.

National Network Products

HEALTHMATE COAST TO COAST is a traditional preferred provider organization (“PPO”) health plan that provides fully covered benefits for hospital, ancillary, and medical/surgical care through negotiated contractual arrangements with Blue Cross network providers.

VANTAGEBLUE SELECTRI is a tiered network plan that includes all the benefits of VantageBlue and has lower member cost for using Tier 1 providers.

BLUESOLUTIONS FOR HSA is a high-deductible health plan (“HDHP”) that can be paired with a tax-advantage HAS, so members can pay medical expenses, like deductibles, with tax-advantaged dollars.

VANTAGEBLUE is a value-based benefit (“VBB”) design that provides traditional benefits with added features and incentives for healthy living. This plan empowers members with many preventive benefits that make it easier to be healthier and take an active role in their healthcare.

BASICBLUE is a traditional plan that provides coverage for office visits and most generic with copays and covers the remaining services with a combination of deductibles and coinsurance with the in-network benefits only.

Regional Network Products

NETWORK BLUE NEW ENGLAND is a traditional HMO-style health plan with copayments,

coinsurance and deductibles with in-network benefits only. Members have access to providers in New England, are required to choose a primary care physician (“PCP”) and are encouraged to get referrals to see a specialist to promote high levels of coordinated care.

BLUE CHOICE NEW ENGLAND is a traditional point of service (“POS”) style health plan with copayments, coinsurance and deductibles with in-network benefits, along with out of network options. Members have access to providers in New England, are required to choose a PCP, and are encouraged to get referrals to see a specialist to promote high levels of coordinated care. Members also have the option to leave the network or self-refer to a specialist at a higher cost share.

ACCESS BLUE NEW ENGLAND is a high deductible health plan (“HDHP”) that can be paired with a tax-advantaged HSA, so members can pay medical expenses, like deductibles, with tax advantaged dollars. Members have access to providers in New England and are required to choose a PCP.

Local Network Products

BLUECHIP is a traditional HMO-style health plan with copayments, coinsurance and deductibles with in-network benefits only. Members have access to providers in Rhode Island, are required to choose a PCP, and are encouraged to get referrals to see a specialist to promote high levels of coordinated care.

When necessary, the Company utilizes the Blue Cross and Blue Shield Association's BlueCard Program to administer services rendered to members who are outside of the local area. The medical services are reimbursed at the prevailing rates negotiated by the local Blue Cross Blue Shield Plans.

The Company administers medical benefits for the United States Office of Personnel Management - Federal Employee Program. The terms of the agreement are similar to a cost plus arrangement where, for an agreed upon administrative fee, the Company will administer the program and be reimbursed for its benefit payments and administrative costs up to a maximum amount, as approved by the Washington Office of the Federal Employee Program. The Company shares in underwriting this national program through a participation agreement with The Blue Cross and Blue Shield Association.

In the individual market, there are a number of plans offered by the Company with varying levels of co-insurance amounts and network access. A high deductible health plan is also offered and can be coupled with a HSA to pay for healthcare expenses, reducing taxable income. The individual plans are fully insured with premiums due in monthly installments.

The Company offers Dental to group accounts and individual subscribers and offers a full range of products and plan designs to accommodate commercial market needs. Dental offers all of the same features and provider guarantees included in the Company medical plans, such as hold harmless protection and administration for claims filed by participating dentists.

The Company offers Wellness Works to educate employees about the long-term benefits of a healthy lifestyle. This program provides customized on-site interactive seminars in English or foreign languages.

The Company offers products in the senior markets that include a Medicare Supplement (“Plan 65”) product, a full replacement product for traditional Medicare, known as Medicare Advantage (“MA”) and a stand-alone Prescription Drug Plan (“PDP”). MA is offered with or without prescription drug benefits. In addition, MA offers supplemental benefits such as vision, hearing and limited dental. The PDP program is administered in a four-state joint operating venture arrangement with Blue Cross plans in Massachusetts, Connecticut, and Vermont, per The Center for Medicare and Medicaid Region 1 assignment that provides a stand-alone prescription drug benefit plan as part of the 2006 Medicare Modernization Act. The Plan 65, MA and PDP products are offered both to Direct and Group business.

While most plans are funded under a fully insured (prospective premium) arrangement, the Company offers several alternative funding arrangements each with incrementally increasing levels of risk to the account. A self-insured account can also purchase stop-loss insurance from the Company or a third-party reinsurer, to cover catastrophic claims expense.

Effective July 1, 2006, the Company commenced selling stop-loss insurance to self-funded health plans. The Company has entered into a quota share arrangement with BCS Insurance Company (“BCS”). Under this arrangement, the Company assumes a 50% risk and BCS assumes a 50% risk

as of July 1, 2011. The stop-loss offered to the self-funded health plans includes specific and aggregate coverage. Effective March 24, 2014, the Company non-renewed its agreement with BCS Insurance Company.

The Company also maintains contractual agreements with each hospital in the State of Rhode Island and several nearby Massachusetts hospitals to provide medically necessary, covered healthcare services to its subscribers. These agreements define the various reimbursement mechanisms negotiated with each hospital, including global per diem, diagnosis-related group, global per case, fixed-fee and discounted fee for service. Arrangements with non-hospital providers include both fixed global provider group payments per member per month, adjusted retroactively for actual services utilized on a shared-risk basis and discounted fee for service arrangements. The Company contracts with healthcare providers and physician organizations that enter into participating provider agreements to provide covered services to the Company's members and who may share in the premium revenues and medical expenses of these members. Prescription drugs services are provided through third-party vendors under fee for service arrangements.

All hospitals in Rhode Island are participating hospitals. For commercial products, the payment allowance for covered services provided by a hospital outside of Rhode Island that is not participating with their local Blue Cross Blue Shield plan is the lower of: a) the hospital's charge or b) BCBSRI's weighted average of local allowance calculated at the service level. Depending on the particular benefit and/or product, the subscriber may be responsible for cost share e.g., co-

payments and/or deductibles or may be balance-billed by the non-participating provider. For Medicare Advantage, payment allowance for covered services provided by a hospital outside of Rhode Island is the allowance that Fee for Service Medicare would apply to that facility, including any geographic adjustments.

REINSURANCE

At December 31, 2018, the Company had the following reinsurance agreements in effect:

- 1) BCBSRI and Houston International Insurance Group (“HIIG”) entered into a 70% / 30% quota share or proportional risk agreement, effective January 1, 2015, to provide reinsurance for the Company’s self-funded health plans. Under this arrangement, the Company assumes 70% of each risk and HIIG assumes 30% of each risk.
- 2) BCBSRI and Medical Risk Manager, Inc. (“MRM”) entered into a 70% / 30% quota share or proportional risk agreement, effective January 1, 2017, to provide reinsurance for the Company’s self-funded health plans. Under this arrangement, the Company assumes 70% of each risk and MRM assumes 30% of each risk.

The following is a summary of the primary provisions of each reinsurance agreement in effect at December 31, 2018:

Self-Funded Health Plans

Effective January 1, 2015 for HIIG and January 1, 2017 for MRM, the Company entered into a reinsurance agreement with an unaffiliated reinsurer to provide stop-loss insurance to self-funded

health plans in the State of Rhode Island on a quota share or proportional arrangement. At December 31, 2018, the reinsurers and the Company share in the risk 70% / 30%. The reinsurance agreement provides for specific, aggregate and aggregating specific coverage based on the terms of the contract negotiated with the self-funded group. The contract is between the self-funded group and the Company. The contract terms negotiated include a covered line of business, attachment point, benefit accumulation period, benefit exclusions, lasering and a maximum retained liability. The contract with the self-funded group is negotiated on an annual basis that coincides with the group's renewal period.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Rhode Island Department of Business Regulation and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments on financial statements reflect examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements:

Comparative Statement of Assets
December 31, 2018 and December 31, 2013

Comparative Statement of Liabilities and Capital and Surplus
December 31, 2018 and December 31, 2013

Statement of Revenue and Expenses
Year Ended December 31, 2018

Reconciliation of Capital and Surplus
December 31, 2013 to December 31, 2018

Analysis of Examination Adjustments
December 31, 2018

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

Comparative Statement of Assets

December 31, 2018 and December 31, 2013

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2013</u>	<u>Increase</u> <u>(Decrease)</u>
Bonds	\$ 314,102,016	\$ 235,571,935	78,530,081
Preferred stocks	45,225	485,240	(440,015)
Common stocks	108,095,353	76,820,432	31,274,921
Real Estate occupied by the company	37,693,095	33,044,149	4,648,946
Cash, cash equivalents, and short-term investments	14,745,766	36,821,272	(22,075,506)
Other invested assets	16,852,066	98,399,476	(81,547,410)
Receivables for securities	2,896	369	2,527
Investment income due and accrued	1,893,771	1,318,434	575,337
Uncollected premiums and agents' balances in the course of collection	30,530,022	53,839,905	(23,309,883)
Accrued retrospective premiums	35,672,098	184,580	35,487,518
Amounts recoverable from reinsurers	815,020	441,339	373,681
Amounts receivable relating to uninsured plans	22,670,406	24,495,947	(1,825,541)
Current federal and foreign income tax recoverables		126,672	(126,672)
Electronic data processing equipment and software	298,359	1,951,529	(1,653,170)
Health care and other amounts receivable	20,498,523	14,323,933	6,174,590
Aggregate write-ins for other than invested assets	34,327,824	23,640,685	10,687,139
Total Assets	<u>\$ 638,242,440</u>	<u>\$ 601,465,897</u>	<u>\$ 36,776,543</u>

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND
Comparative Statement of Liabilities and Capital and Surplus
December 31, 2018 and December 31, 2013

	December 31, 2018	December 31, 2013	Increase (Decrease)
Claims unpaid	\$ 120,163,351	\$ 134,783,138	\$ (14,619,787)
Accrued medical incentive pool and bonus amounts	27,714,000	3,455,014	24,258,986
Unpaid claims adjustment expense	18,365,862	20,860,391	(2,494,529)
Aggregate health policy reserves	23,786,238	23,251,448	534,790
Aggregate health claim reserves	3,418,000	1,569,000	1,849,000
Premiums received in advance	20,029,112	19,473,223	555,889
General expenses due or accrued	44,605,768	30,551,320	14,054,448
Current federal and foreign income tax payable	335,172	-	335,172
Ceded reinsurance premiums payable	372,895	261,909	110,986
Amounts withheld or retained for the account of others	7,201,386	1,549,903	5,651,483
Remittances and items not allocated	2,596,568	1,255,537	1,341,031
Borrowed money and interest thereon	25,196,659	35,022,954	(9,826,295)
Payable for securities	1,633,075	-	1,633,075
Liability for amounts held under uninsured plans	27,531,217	19,962,979	7,568,238
Aggregate write-ins for other liabilities	16,634,513	21,867,881	(5,233,368)
Total Liabilities	\$ 339,583,816	\$ 313,864,697	\$ 25,719,119
Unassigned funds (surplus)	298,658,624	287,601,200	11,057,424
Total Capital and Surplus	\$ 298,658,624	\$ 287,601,200	\$ 11,057,424
Total Liabilities, Capital and Surplus	\$ 638,242,440	\$ 601,465,897	\$ 36,776,543

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

Statement of Revenue and Expenses

December 31, 2018

Revenues:

Net premium income	\$ 1,712,956,037
Aggregate write-ins for other health care related revenues	(4,090,980)
Total revenues	<u>1,708,865,057</u>

Hospital and Medical:

Hospital/medical benefits	\$ 954,017,502
Other professional services	22,951,081
Emergency room and out-of-area	157,306,261
Prescription drugs	214,046,431
Aggregate write-ins for other hospital and medical	51,716,474
Incentive pool, withhold adjustments and bonus amounts	19,391,856
Subtotal	<u>1,419,429,605</u>

Less:

Net reinsurance recoveries	<u>2,062,386</u>	
Total hospital and medical	1,417,367,219	
Claims adjustment expenses, including \$25,346,308 cost containment expenses	60,188,631	
General administrative expenses	196,550,484	
Increase in reserves for life and accident and health contracts	<u>(2,100,000)</u>	
Total underwriting deductions		<u>1,672,006,334</u>
Net underwriting gain or (loss)		36,858,723
Net investment income earned	6,019,021	
Net realized capital gains (losses) less capital gains tax	<u>(7,130,761)</u>	
Net investment gains (losses)		(1,111,740)
Aggregate write-ins for other income or expenses		<u>(26,337,001)</u>
Net income or (loss) after capital gains tax and before all other federal income taxes		9,409,982
Federal and foreign income taxes incurred		(1,416)
Net income		<u><u>\$ 9,411,398</u></u>

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

Reconciliation of Capital and Surplus

December 31, 2013 to December 31, 2018

Capital and Surplus, December 31, 2013			\$ 287,601,200
	<u>Gains</u>	<u>Losses</u>	
Net income		\$ 128,339,084	
Change in net unrealized capital gains		14,450,195	
Change in net deferred income tax	\$ 72,516,207		
Change in nonadmitted assets	100,794,326		
Aggregate write-in for surplus gains or (losses)	<u> </u>	<u>19,463,830</u>	
Total Gains and Losses	<u>173,310,533</u>	<u>162,253,109</u>	
Net change in Capital and Surplus for the period			<u>11,057,424</u>
Capital and Surplus, December 31, 2018			<u>\$ 298,658,624</u>

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

Analysis of Examination Adjustments

December 31, 2018

The examination of Blue Cross & Blue Shield of Rhode Island, performed as of December 31, 2018, did not disclose any material misstatements to the financial statements contained in its 2018 Annual Statement filing. Accordingly, the amounts reported by the Company have been accepted for purposes of this report.

COMMENTS ON FINANCIAL STATEMENTS

Bonds

\$ 314,102,016

The above amount is the net admitted value of bonds held by the Company at December 31, 2018 and is the same amount reported by the Company in its 2018 Annual Statement. All the bonds are held in accordance with the terms of custodial agreements with third-party financial institutions.

The quality ratings of all securities included in the Company's bond portfolio were reviewed based upon criteria established by the National Association of Insurance Commissioners ("NAIC"). It was noted that 87% of the bond portfolio represented class NAIC-1, which are bonds of the "highest" quality, according to the NAIC rating system, 12.7% were NAIC-2, and 0.3% were NAIC-3.

The book value, fair value, actual cost and par value of the bond portfolio at December 31, 2018, are as follows:

<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Actual Cost</u>	<u>Par Value</u>
\$314,102,016	\$311,493,693	\$314,856,350	\$313,246,591

Securities with a combined par value of \$31,473,000 are pledged to satisfy The Blue Cross Blue Shield Association's membership standards for out-of-area provider claim settlements. Securities with a combined par value of \$85,633,334 are pledged as collateral for a line of credit.

Common Stocks **\$ 108,095,353**

The above amount is the same amount reported by the Company in its 2018 Annual Statement. Common stocks are stated at fair market value. The Company's common stocks are comprised of \$47,487,900 (44%) in unaffiliated industrial and miscellaneous common stocks and \$60,607,453 (56%) in mutual funds.

The book value, fair value, and actual cost of the common stock portfolio at December 31, 2018, are as follows:

<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Actual Cost</u>
\$108,095,353	\$108,095,353	\$104,308,333

Other invested assets **\$ 16,852,066**

The above amount is the same amount reported by the Company in its 2018 Annual Statement. The Company's other invested assets are comprised of \$36,963 (0.2%) in limited partnership and limited liability companies (unaffiliated) and \$16,815,103 (99.8%) in common stock of affiliated companies. Of the common stock of affiliated companies, the Company owns 49.9% of Oak Street Health – RI, LLC, with a value of \$3,493,000, which is valued using the equity method. The remaining common stock of affiliated companies are comprised of three (3) companies in which the Company has less than a 20% interest, with a value of \$13,322,103, which is valued using the fair value method.

Actuarially Determined Assets and (Liabilities)

Accrued Retrospective Premiums	\$ 35,672,098
Health Care and Other Amounts Receivable	20,498,523
Claims Unpaid	(120,163,351)
Accrued Medical Incentive Pool and Bonus Amounts	(27,714,000)
Unpaid Claims Adjustment Expenses	(18,365,862)
Aggregate Health Policy Reserves	(23,786,238)
Aggregate Health Claim Reserves	(3,418,000)

The significant actuarially determined amounts above are the same as those reported in the Company's 2018 Annual Statement. The calculations prepared by the Company were reviewed by INS Consultants, Inc., consulting actuaries for the State of Rhode Island Insurance Division. INS Consultants, Inc., relied upon the underlying data reported by the Company, and their analyses included a review of the actuarial assumptions and methods used by the Company in determining the reserves, and such tests of actuarial calculations as deemed necessary.

In assisting INS Consultants, Inc. with their analysis, the examiners either independently performed or relied upon the procedures performed by the Company's independent accounting firm to verify the integrity of the underlying claims data, including completeness and accuracy testing. A combination of subjective and statistical sampling techniques was utilized in testing the claims data, as deemed appropriate.

INS Consultants, Inc. reviewed the actuarially determined liabilities as of December 31, 2018 and rendered an opinion that the amounts carried in the balance sheet as of December 31, 2018, are fairly stated.

Borrowed Money and Interest Thereon**\$ 25,196,659**

The Company has a revolving line of credit in effect until September 2019 with a maximum commitment amount of \$60,000,000. The outstanding balance as of December 31, 2018 was \$25,000,000 with accrued interest of \$196,659.

SUBSEQUENT EVENTS

A review of financial information, Company records, and the minutes to the Board of Directors' meetings and its various committees for the period subsequent to the examination period was performed to ascertain whether any subsequent events have occurred which would have a material impact on the Company's operations or financial statements. In addition, an inquiry was made of the Company's management regarding subsequent events. Based upon our review, there was one significant event which is anticipated to occur subsequent to December 31, 2018 as follows:

Blue Cross Blue Shield Association and individual Plans, which include Blue Cross & Blue Shield of Rhode Island, are defendants in an ongoing class action lawsuit in which the parties are engaged in settlement negotiations. The Company has not made any representation as to whether the settlement will be material to the financial statements.

CONCLUSION

We have applied verification procedures to the data and information contained in this report using sampling techniques and other examination procedures as deemed appropriate. While sampling and other examination procedures do not give complete assurance that all errors and irregularities will be detected, had any been detected during the course of this examination, such errors and/or irregularities would have been disclosed in this report. Other than what has been noted in the body of this report, we were not informed of, and did not become aware of any errors or irregularities that could have a material effect on the financial condition of the Company as presented in this report.

Participating in the examination with the undersigned were various insurance examiners from the Rhode Island Insurance Division. In addition, acknowledgment is made of INS Regulatory Insurance Services, Inc. and its related companies, INS Consultants, Inc. and INS Services, Inc., for the services rendered to assist with the examination by providing consulting financial examiners, actuaries and information technology specialists.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "K M Willison".

Kelly M. Willison, CPA, CFE, CFE (Fraud)
Insurance Examiner-In-Charge
INS Regulatory Insurance Services, Inc., on behalf of the
Rhode Island Insurance Division