

**REPORT ON EXAMINATION
OF
BLUECROSS BLUESHIELD KANSAS SOLUTIONS, INC.
1133 SW TOPEKA BOULEVARD
TOPEKA, KANSAS 66629
AS OF
DECEMBER 31, 2018**

FILED

OCT 06 2020

**VICKI SCHMIDT
Commissioner of Insurance**

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Topeka, Kansas
June 24, 2020

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead
Topeka, Kansas 66604

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

BLUECROSS BLUESHIELD KANSAS SOLUTIONS, INC.

with its statutory home and main administrative office at:

**1133 SW TOPEKA BOULEVARD
TOPEKA, KANSAS 66629**

hereinafter referred to as the “Company” or “Solutions”. The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners performed a single state financial examination of BlueCross BlueShield Kansas Solutions, Inc., a Kansas domiciled health maintenance organization. The last examination covered the period from March 15, 2014, through December 31, 2014. This examination covers the four-year period from January 1, 2015, through December 31, 2018. Concurrent financial examinations were performed as of December 31, 2018, on Blue Cross and Blue Shield of Kansas, Inc. (“BCBSKS”), the ultimate parent company, and Advance Insurance Company of Kansas (“AICK”), an affiliated company.

The examination was conducted in accordance with the rules, regulations, and directives of the Kansas Insurance Department (“Department”) and the observed

guidelines and procedures contained in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the examiners 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 is documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, 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.

Independent Audit Reports

Financial statements of the Company were audited by Eide Bailly, LLP for the years ending December 31, 2015, through December 31, 2018. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders’ surplus of

the Company, the results of its operations, and its cash flows in accordance with the accounting practices prescribed or permitted by the Department.

The independent auditor's work papers were reviewed and analyzed by the examiners. Significant reliance was placed on select work papers during the course of this examination.

Actuarial Review

The Department retained the services of Risk and Regulatory Consulting, LLC ("RRC"), in order to perform a review of the Company's actuarial practices. RRC's review consisted of evaluating certain assumptions, methodologies, and calculations utilized by the Company in the reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

1. The Company did not notify the Commissioner of Insurance ("Commissioner") of its entry into a tax sharing agreement with another member of its insurance holding company system, BCBSKS, in accordance with K.S.A. 40-3306(b)(4). The Company entered into a tax sharing agreement with its ultimate control person, BCBSKS, effective December 31, 2014; however, they failed to notify the Commissioner in writing of their intent to enter into this transaction at least 30 days prior to doing so as is required under K.S.A. 40-3306(b)(4). Notification and approval of the agreement did not occur until 2017.

The Company shall comply with K.S.A. 40-3306(b) by providing proper notification to the Commissioner prior to entering into any future transactions subject to the requirements of the statute.

COMPANY HISTORY

BlueCross BlueShield Kansas Solutions, Inc., a not-for-profit corporation, obtained a certificate of authority under K.S.A. 40-3201 *et seq.*, on December 27, 2013, and commenced business on January 1, 2015. The Company is a wholly owned subsidiary of BCBSKS and provided health insurance to individuals and small groups within the state of Kansas, excluding the counties of Johnson and Wyandotte. During the exam period, the Company offered competitive benefit plans for the federally-facilitated marketplace exchanges and direct sales associated with the Patient Protection and Affordable Care Act.

During the exam period, the Company reported underwriting losses in all years aside from 2018, and overall net losses in all years but 2016 and 2018. BCBSKS contributed \$73.5 million and \$40 million to the Company's surplus in 2015 and 2016, respectively. Overall, BCBSKS has provided capital contributions totaling \$123.5 million to the Company since its inception in 2013.

Ultimately, BCBSKS decided to put the Company's federally-facilitated marketplace exchange business in runoff in 2018. Effective January 1, 2018, the Company did not renew any of its individual business, and as small groups came up for renewal during 2018 those policies were not renewed. All policyholders were encouraged to choose a comparable insurance product from BCBSKS.

During the last quarter of 2018, management made the decision to submit an application to the Centers for Medicare and Medicaid Services to enter the Medicare Advantage market effective January 1, 2020. All applications and filings were made and on January 1, 2020, the Company began offering a Medicare Advantage product.

MANAGEMENT AND CONTROL

Board of Directors

Pursuant to the Company's bylaws, the business and affairs of the Company shall be managed by its board of directors ("board"). The board is to be comprised of at least five (5) directors each serving two-year term. The board will at all times be composed exclusively of individuals who are directors, officers, or employees of the parent, BCBSKS. The bylaws do not provide for term limits for board members.

The following is a listing of directors and their position(s) held as of December 31, 2018:

<u>Name</u>	<u>Position(s) Held</u>
Matthew D. All	President and CEO Blue Cross & Blue Shield Kansas, Inc.
Treena S. Mason	Sr. VP, Sales and Operations Blue Cross & Blue Shield Kansas, Inc.
Frederick D. Palenske	Sr. VP, Provider and Government Affairs Blue Cross & Blue Shield Kansas, Inc.
Ronald D. Simmons	VP, Finance and Chief Financial Officer Blue Cross & Blue Shield Kansas, Inc.
Rick C. Jackson	Exec. VP and Chief Lending Officer Capital Federal
Megan L. Jones	President Jones Advisory Group

Committees

The Company has not established any committees as of December 31, 2018. However, the Company may delegate certain matters to the committees established by its parent, BCBSKS.

Officers

Pursuant to the bylaws, the officers of the Company are to be a chief executive officer (“CEO”), a president, a vice president, a secretary, a treasurer and other such officers and assistant officers as deemed necessary by the board. The CEO will preside as chairperson over all board meetings. All officers are to be elected by the board at its annual meeting.

The following is a listing of officers and their position(s) held as of December 31, 2018:

<u>Name</u>	<u>Position(s) Held</u>
Matthew D. All	Chairman, President & CEO
Russell E. Doty	Vice President
Ann M. Shelton	Treasurer
Andrew J. Dufour	Secretary

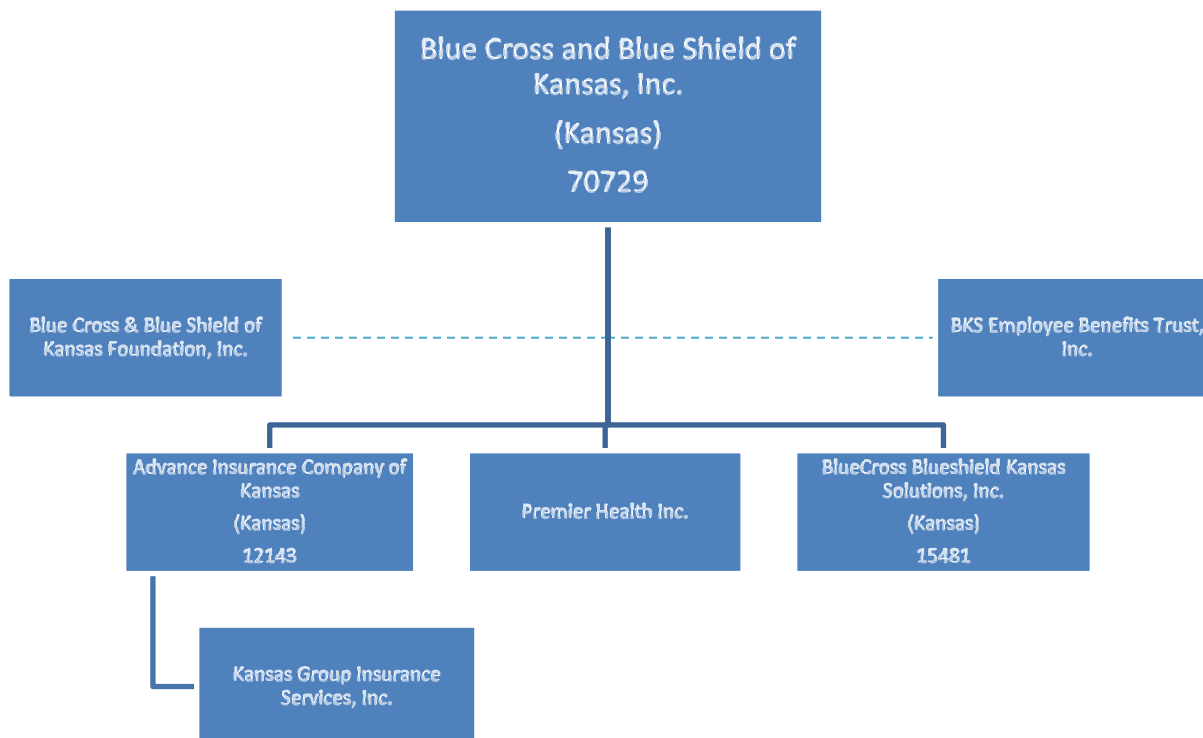
INSURANCE HOLDING COMPANY SYSTEM

K.S.A. 40-3305 requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Forms “B” and “C” registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the Company is properly reporting items and events as required by statute with the exception of the issue noted in the “Summary of Significant Findings” section above.

BCBSKS is the ultimate parent of the insurance holding company system, of which the Company is a part. The Company is wholly owned by BCBSKS. BCBSKS is also the direct parent of Premier Health, Inc., an inactive not-for-profit corporation, and AICK, and is the indirect parent of Kansas Group Insurance Services, Inc. BCBSKS is affiliated with Blue Cross and Blue Shield of Kansas Foundation, Inc., a charitable organization with a

mission to promote health and well-being in the state of Kansas, and BKS Employee Benefits Trust, Inc., a voluntary employee beneficiary association, which provides medical, prescription drug, and dental coverage to eligible members.

The organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2018.



Intercompany/Cost Sharing Agreements

Effective April 8, 2014, the Company entered into an Administrative Services Agreement with BCBSKS. Under the terms of the agreement, BCBSKS provides all administrative services for the Company, which includes but is not limited to marketing, membership enrollment, financial, actuarial, underwriting, claims adjudication services, provider relations, and investments services. The Company will pay BCBSKS within fifteen days (15) after the close of each calendar month an amount equal to the actual

costs of BCBSKS incurred on the Company's behalf according to the cost allocation system and BCBSKS records. Reimbursement determinations between the companies shall be reviewed and renegotiated on an annual basis. Any changes to reimbursement shall be in writing at least thirty-one (31) days prior to the effective date of the change.

Effective July 3, 2014, the Company entered into an Agreement for Provider Network Rental with BCBSKS. Under the terms of the agreement, BCBSKS makes its provider network available to the Company's policyholders. The Company will provide policyholders' member identification cards. BCBSKS will administer all claims for the Company's policyholders, but will not be liable for payment of the claims. There is no compensation made to BCBSKS for the rental of its provider network by the Company.

Effective December 31, 2014, the Company entered into a Tax Sharing Agreement with BCBSKS. The Company files a consolidated tax return with BCBSKS. BCBSKS computes estimated taxes in an amount not to exceed the liability computed under Article II of the Internal Revenue Code, and requests the Company pay their estimated share, as applicable. Upon filing of the consolidated tax return, the Company is required to pay its balance due of any tax liability to BCBSKS within thirty (30) days of the determination of the tax liability. Any tax refunds or overpayments of estimated taxes are credited first to unpaid estimated taxes for the succeeding year, if any, and the remainder paid by BCBSKS to the Company within thirty (30) days of the receipt of such refund or determination of overpayment. Any additional tax due as a result of an IRS audit is payable to BCBSKS within thirty (30) days of notification of the amount due from the Company. Refunds due as a result of an audit are remitted the same as refunds for non-audited tax statements. Tax liabilities and refunds are computed for each as if such corporation had paid tax on a stand-alone basis.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company is authorized to transact business only in Kansas. The Company does not write business in the counties of Wyandotte and Johnson. The Company commenced writing business on January 1, 2015, offering products on and off the Federally Facilitated Exchange (“FFE”) marketplace enabled under the Affordable Care Act. The Company exited the FFE marketplace prior to open enrollment for 2018 and entered the Medicare Advantage market effective January 1, 2020.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company’s financial results for the period of December 31, 2014, through December 31, 2018. The financial amounts were obtained from annual statements filed by the Company.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<i>(in thousands)</i>					
Admitted Assets	10,873	98,419	138,170	143,624	56,586
Liabilities	644	81,415	70,488	102,963	3,125
Capital and Surplus	10,229	17,004	67,682	40,661	53,461
Net Underwriting Gain/(Loss)	(19)	(67,290)	(17,351)	(27,852)	2,483
Net Income	(71)	(60,858)	4,511	(15,115)	3,863
Net Premium Income	0	43,144	157,843	338,939	3,893

REINSURANCE

The Company and BCBSKS had an excess of loss (“XOL”) agreement with XL Reinsurance America, Inc., each year of the examination that expires annually. The Company and BCBSKS’s retention is \$5 million, and the reinsurer is liable for an unlimited amount of the ultimate net loss as respects any one person, per policy period in excess of the retention amount. The XOL agreement does not cover any Administrative Service Only business, Federal Employee Program business, nor any Medicare Supplement

business. The reinsurer will also be liable for any extra contractual obligations or ex gratia payments, as both are defined in the contract, not to exceed \$5 million. The most recent contract was in effect from October 1, 2017, through September 30, 2018. The XOL Agreement was renewed for another one year term effective October 1, 2018, with expiration September 30, 2019, but the renewal did not include the Company.

Effective October 1, 2019, BCBSKS and the Company entered into a Fully Insured & Self-Funded Medical XOL Contract with Odyssey Reinsurance Company. The terms were similar to the XL Reinsurance America, Inc. agreement that expired September 30, 2019, except the coverage included Medicare Advantage business effective January 1, 2020.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2018. Any accompanying comments on the 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.

BLUECROSS BLUESHIELD KANSAS SOLUTIONS, INC.
ASSETS
AS OF DECEMBER 31, 2018

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 30,601,684	\$ -	\$ 30,601,684
Common stocks	11,896,600	2,133,705	9,762,895
Cash and cash equivalents	15,695,249	-	15,695,249
Investment income due & accrued	191,238	-	191,238
Uncollected premiums and agents' balances in the course of collection	230,512	19,711	210,801
Amounts recoverable from reinsurers	51,432	-	51,432
Net deferred tax asset	449,602	417,849	31,753
Healthcare and other amounts receivable	56,869	15,491	41,378
Aggregate write-ins for other than invested assets	95,230	95,230	-
Totals	<u>\$ 59,268,416</u>	<u>\$ 2,681,986</u>	<u>\$ 56,586,430</u>

BLUECROSS BLUESHIELD KANSAS SOLUTIONS, INC.
LIABILITIES, CAPITAL AND SURPLUS
AS OF DECEMBER 31, 2018

Claims unpaid	\$ 953,000
Unpaid claims adjustment expenses	23,194
General expense due or accrued	49,614
Amounts due to parent, subsidiaries and affiliates	885,459
Payable for securities	319,931
Aggregate write-ins for other liabilities	893,388
Total liabilities	<u>\$ 3,124,586</u>
Gross paid in and contributed surplus	\$ 123,500,000
Unassigned funds (surplus)	<u>(70,038,156)</u>
Total capital and surplus	\$ 53,461,844
Total liabilities, capital and surplus	<u><u>\$ 56,586,430</u></u>

**BLUECROSS BLUESHIELD KANSAS SOLUTIONS, INC.
STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Member months	12,549
Net premium income	\$ 3,893,483
Total revenues	<u>\$ 3,893,483</u>
<u>Hospital and medical:</u>	
Hospital/medical benefits	\$ (2,260,123)
Prescription drugs	(86,020)
Aggregate write-ins for other hospital and medical	9,200
Subtotal	<u>\$ (2,336,943)</u>
<u>Less:</u>	
Net reinsurance recoveries	\$ 7,553
Total hospital and medical	(2,344,496)
Claims adjustment expenses	(184,168)
General administrative expenses	10,439,427
Increase in reserves for life and accident and health contracts	(6,500,000)
Total underwriting deductions	<u>\$ 1,410,763</u>
Net underwriting gain	\$ 2,482,720
Net investment income earned	\$ 1,554,434
Net realized capital gains	467,093
Net investment gain	<u>\$ 2,021,527</u>
Aggregate write-ins for other income or expense	\$ 78,446
Total other income	<u>\$ 78,446</u>
Net income after capital gains tax and before all other federal income taxes	\$ 4,582,693
Federal income taxes incurred	719,665
Net income	<u><u>\$ 3,863,028</u></u>

BLUECROSS BLUESHIELD KANSAS SOLUTIONS, INC.
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION

Surplus as regards policyholders, December 31, 2014			<u>\$ 10,228,999</u>
Net income	2015	(60,857,725)	
	2016	4,511,096	
	2017	(15,114,985)	
	2018	<u>3,863,028</u>	(67,598,586)
Change in net unrealized capital gains or (losses)	2015	34,218	
	2016	257,114	
	2017	968,257	
	2018	<u>(1,066,367)</u>	193,222
Change in net deferred income tax	2015	19,483,474	
	2016	(16,332,882)	
	2017	192,223	
	2018	<u>(3,540,251)</u>	(197,436)
Change in nonadmitted assets	2015	(25,385,084)	
	2016	22,242,903	
	2017	(13,066,198)	
	2018	<u>13,544,024</u>	(2,664,355)
Capital changes - paid in	2015	73,500,000	
	2016	40,000,000	
	2017	-	
	2018	<u>-</u>	<u>113,500,000</u>
Surplus as regards policyholders, December 31, 2018			<u><u>\$ 53,461,844</u></u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company, as of December 31, 2018, was \$53,461,844, which was the same amount reported by the Company in its 2018 Annual Statement filed with the Department.

COMMENTS ON FINANCIAL STATEMENTS

No comments on the financial statements were identified that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

Effective January 1, 2020, the Company began offering a Medicare Advantage product.

On March 11, 2020, the World Health Organization declared the spreading coronavirus (“COVID-19”) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets. The full effect of COVID-19 on the Company is still unknown at the time of releasing this report.

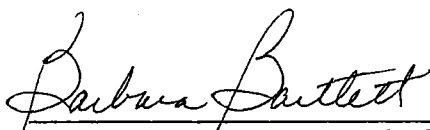
SUMMARY OF RECOMMENDATIONS

No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

CONCLUSION

The officers of the Company provided the required assistance and cooperation during the course of this examination. In addition to the undersigned, Jan Moenck, CFE, CIA, CBA, CFSA – Partner and Exam Supervisor; Alex Pirie, CFE, CPA, CMA, CIA, CFE (Fraud) – Financial Examiner; Wyatt Sample, CFE, CPA – Financial Examiner; Sara Schumacher, CPA, CFE, CPCU, CIE, MCM – Financial Examiner; Natalie Henley, AFE, CPA – Financial Examiner; Michael Maertz, CISA, CRISC – Manager and IT Specialist; David Hall, CISA, CPA – Manager and IT Specialist; LeeAnne Creevy, CPA, CISA, CITP, CRMA, MCM – Partner and IT Review; Becky Sheppard, FSA, MAAA – Actuarial Specialist; and Tricia Matson, FSA, MAA – Partner and Actuarial Review; all from RRC, representing the Kansas Insurance Department, participated in this examination.

Respectfully submitted,



Barbara Bartlett, CPA, MBA, CFE
Manager
Examiner-in-Charge
Risk & Regulatory Consulting, LLC



Joseph McGarry, CFE, CPCU, CIA, CFE, PIR
Department Designee
Chief Examiner
Kansas Insurance Department

EXHIBIT S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

State of Missouri,

County of Caldwell,

Barbara A. Bartlett, being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of BlueCross BlueShield Kansas Solutions, Inc.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of BlueCross BlueShield Kansas Solutions, Inc., was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

The affiant says nothing further.

Barbara A. Bartlett
Examiner's Signature

Subscribed and sworn before me by Jessica E. Green on this 25 day of Sept, 2020.

(SEAL)



JESSICA E. GREEN
My Commission Expires
July 19, 2022
Caldwell County
Commission #14996514

Jessica E. Green
Notary Public

My commission expires July 19, 2022 [date].