

**REPORT ON EXAMINATION
OF
BLUE CROSS AND BLUE SHIELD OF KANSAS, 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:

BLUE CROSS BLUE SHIELD OF KANSAS, INC.

with its statutory home and main administrative office at:

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

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

SCOPE OF EXAMINATION

The examiners performed a single state financial examination of Blue Cross Blue Shield of Kansas, Inc., a Kansas domiciled life insurance company. The last examination covered the period from January 1, 2011, 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 the Company’s wholly-owned subsidiaries, Advance Insurance Company of Kansas (“AICK”), and BlueCross BlueShield Kansas Solutions, Inc. (“Solutions”).

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 (“SSAP”). 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, Solutions, in accordance with K.S.A. 40-3306(b)(4). The Company entered into a tax sharing agreement with its subsidiary, Solutions, 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.

2. The Company did not notify the Commissioner of its entry into an administrative services agreement with another member of its insurance holding company

system, AICK, in accordance with K.S.A. 40-3306(b)(4). The Company entered into an administrative services agreement with its subsidiary, AICK, effective July 7, 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). The agreement remains unfiled with the Commissioner as of the filing of this report.

The Company shall file the noted agreement with the Commissioner to obtain proper approval. Additionally, 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.

3. The long-term care (“LTC”) reserves held by the Company appear to be understated based on the results of an asset adequacy analysis (“AAA”) performed by the Company’s LTC reinsurer and administrator, MedAmerica Insurance Company (“MedAmerica”). MedAmerica held additional reserves based on the results of the AAA, while the Company did not hold any additional actuarial reserves as of the examination date. While the Department was unable to quantify the specific amount of the understatement with the information provided, it was able to calculate an estimated range of impact between \$3 million to \$15 million for additional net asset adequacy reserves as of December 31, 2018. Additionally, it does not appear that the Company’s Appointed Actuary is evaluating the adequacy of the reserves held for the LTC business that the Company retains, and holding additional actuarial reserves, if needed, to meet future policyholder obligations based on moderately adverse conditions that are appropriate for the underlying LTC business. While reliance on another actuary to perform the

analysis is acceptable, the Company's Appointed Actuary should evaluate whether the analysis is reasonable, and if the resulting reserves are sufficient and compliant with Kansas law.

The Company's Appointed Actuary shall review the analysis performed by MedAmerica on an ongoing basis to evaluate whether the methods, assumptions, and results are appropriate for the business retained, and to determine the amount of additional reserves needed, if any, to ensure reserves are sufficient to cover future policyholder obligations. The Company's Appointed Actuary shall also assess whether reserves held meet the requirements of laws and regulations of Kansas.

4. The Company failed to classify and report investment holdings in which it held a 10% or greater interest in, and thus were presumed to have control, as subsidiary, controlled, and affiliated investments in its financial statements. K.S.A. 40-3302(c) states: "'Control" including the terms "controlling," "controlled by" and "under common control with," means the possession, direct or indirect, of the power to direct or cause the direction of the management or policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or nonmanagement services, or otherwise, unless the power is the result of an official position with or corporate office held by the person. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of any other person. This presumption may be rebutted by a showing made in the manner provided by subsection (k) of K.S.A. 40-3305, and amendments thereto, that control does not exist in fact. The commissioner of

insurance may determine, after a hearing in accordance with the provisions of the Kansas administrative procedure act, that control exists in fact, notwithstanding the absence of a presumption to that effect.” This same standard of control is noted in SSAP 25, Paragraph 5, and in SSAP 97, Paragraph 5. As the Company owned 10% or more of certain investment holdings throughout the period under examination, but never filed a disclaimer with the Commissioner stating why control did not exist, the Company should have properly reported the investments as affiliated holdings in their financial statements in accordance with the applicable code section(s), SSAPs, and the Annual Statement Instructions.

The Company shall identify all investment holdings for which it is deemed to meet the definition of control per K.S.A. 40-3302(c), and the applicable SSAPs, and properly report them as affiliated holdings in their financial statements and any other required filings with the Department.

COMPANY HISTORY

The Kansas Hospital Service Association, Inc., was licensed in 1942 under K.S.A. 40-1801, *et seq.*, for the purpose of entering into contracts with hospitals to provide services to Kansans. In 1945, Kansas Physicians’ Service was licensed under K.S.A. 40-1901, *et seq.*, for the purpose of entering into contracts with physicians. In the 1970s, the Kansas Hospital Service Association, Inc., changed its name to Blue Cross of Kansas, Inc., and Kansas Physicians’ Service changed its name to Blue Shield of Kansas, Inc. On May 1, 1983, the two companies merged to form one entity under the provisions of K.S.A. 40-19c01, *et seq.*, and became Blue Cross and Blue Shield of Kansas, Inc., which was granted a certificate of authority to operate in the state of Kansas on May 1, 1983. The certificate of authority provides for a perpetual existence.

In 1991, the Kansas Legislature enacted K.S.A. 40-19c12, which required nonprofit medical and hospital service corporations to become a mutual life or a mutual company other than life, no later than July 1, 1992. On May 14, 1992, the Company's board of directors adopted by resolution, a plan of mutualization, which set forth the conditions and requirements for becoming a not-for-profit mutual life insurance company. The Company filed a Restated Articles of Incorporation on June 11, 1992, to be effective July 1, 1992. The Company was formed as a not-for-profit mutual life insurance company. The Articles have not been amended or restated to date.

MANAGEMENT AND CONTROL

Members

Pursuant to the Company's bylaws, the members of the Company are to be each policyholder and each policyholder is to be entitled to one vote in person or by proxy. In voting for directors, each policyholder is entitled to one vote for each director to be elected; the policyholders have the right to cast as many votes in the aggregate as shall equal the number of directors to be elected. The policyholders may cast their whole number of votes for one candidate or may split their votes among two or more candidates.

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 up to sixteen (16) persons who maintain their voting residence in Kansas other than in Johnson or Wyandotte counties.

The bylaws also provide that the board will include no more than two (2) administrators of hospitals that contract with the Company, no more than two (2) physicians licensed in the state of Kansas as a medical doctor or a doctor of osteopathic

medicine, and no more than one (1) dentist licensed in the state of Kansas. The remainder of the board will consist of policyholders or authorized representatives of entities which are policyholders of the Company who are not hospital administrators, physicians, dentists or other providers of health care services, who are not employed by a provider of health care services, who are not employed by an association of providers of health care services, and who do not own or control and have no policymaking position in a competitor of the Company. When elected, the board members serve a term of four (4) years, but may serve no more than three (3) consecutive terms.

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 & CEO BlueCross & BlueShield Kansas, Inc. |
| Jennifer L. Brull, M.D. | Chief Executive Officer Prairie Star Family Practice |
| Jeff D. Mullen | Chief Financial Officer Dondlinger Companies, Inc. |
| Angela N. Wilson, D.D.S. | Private Practice Owner Edwards & Wilson Periodontics |
| Carolyn R. Banning | Member Smoll & Banning, CPA, LLC |
| Gregory V. Binns | President & COO First National Bank of Hutchinson |
| Leonard R. Hernandez | CEO Coffey Health System |
| Rick C. Jackson | Exec. VP & Chief Lending Officer Capital Federal |
| Megan L. Jones | President Jones Advisory Group |

| | |
|-----------------------|--|
| James A. Klausman | President & CEO Midwest Health, Inc. |
| Diane L. Lee | CPA Swindoll, Janzen, Hawk and Loyd, LLC |
| Jena K. Lysen | Vice President of Human Resources Allen, Gibbs & Houlik, LC |
| Steve W. Sloan | President Midwest Minerals, Inc. |
| Cathy M. Taylor, M.D. | Obstetrician & Gynecologist Neosho Memorial Regional Medical Ctr. |
| Jeffrey R. Thompson | President Salina Vortez Corporation |
| Kenneth W. Winter | General Manager Lariat Feeders, LLC |

Committees

Pursuant to the Company's bylaws, the board may establish standing committees to assist in the operation and to carry out the corporate purposes of the Company. The standing committees documented in the Company's bylaws include a governance, finance, audit and compliance, compensation, investment, hospital advisory, medical advisory, and dental advisory committee(s).

Officers

Pursuant to the Company's bylaws, the officers of the corporation shall consist of a chairman, a president, a vice-chairman, one or more vice presidents, a secretary, an assistant secretary, and a treasurer. The chairman and vice-chairman are to be elected from among the directors. The president, the treasurer, the secretary, and the assistant secretary shall be elected by the directors. The vice-presidents are to be appointed by the president, not elected by the directors.

All officers except the president, treasurer, vice-presidents, secretary, and assistant secretary shall be elected for terms of one year by the board at the annual meeting of the board. No person may hold any office of the Company, other than the offices of president, treasurer, vice-presidents, secretary, and assistant secretary, for more than three consecutive one-year terms, except that the board may waive this term limit under extraordinary, or emergency, circumstances.

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> |
|--------------------------------|---|
| Diane L. Lee | Chairman of the Board of Directors |
| Leonard R. Hernandez | Vice-Chairman of the Board of Directors |
| Matthew D. All | President & Chief Executive Officer |
| Ronald D. Simmons | Treasurer, Vice President of Finance & Chief Financial Officer |
| Scott H. Raymond | Secretary, Vice President & General Counsel |
| Michael D. Atwood, M.D., FAAFP | Vice President, Medical Affairs & Chief Medical Officer |
| Fredrick D. Palenske | Senior Vice President, Provider and Government Affairs |
| Abby G. Lear | Vice President, Administrative Services and Human Development |
| Suneetra N. Mickle | Vice President, Government and Community Relations |
| Treena S. Mason | Vice President, Sales and Operations |
| Russell E. Doty | Vice President, Operations and Individual Sales & Chief Operations Officer |
| Keith E. Kapp | Vice President, Information Technology and Series & Chief Information Officer |

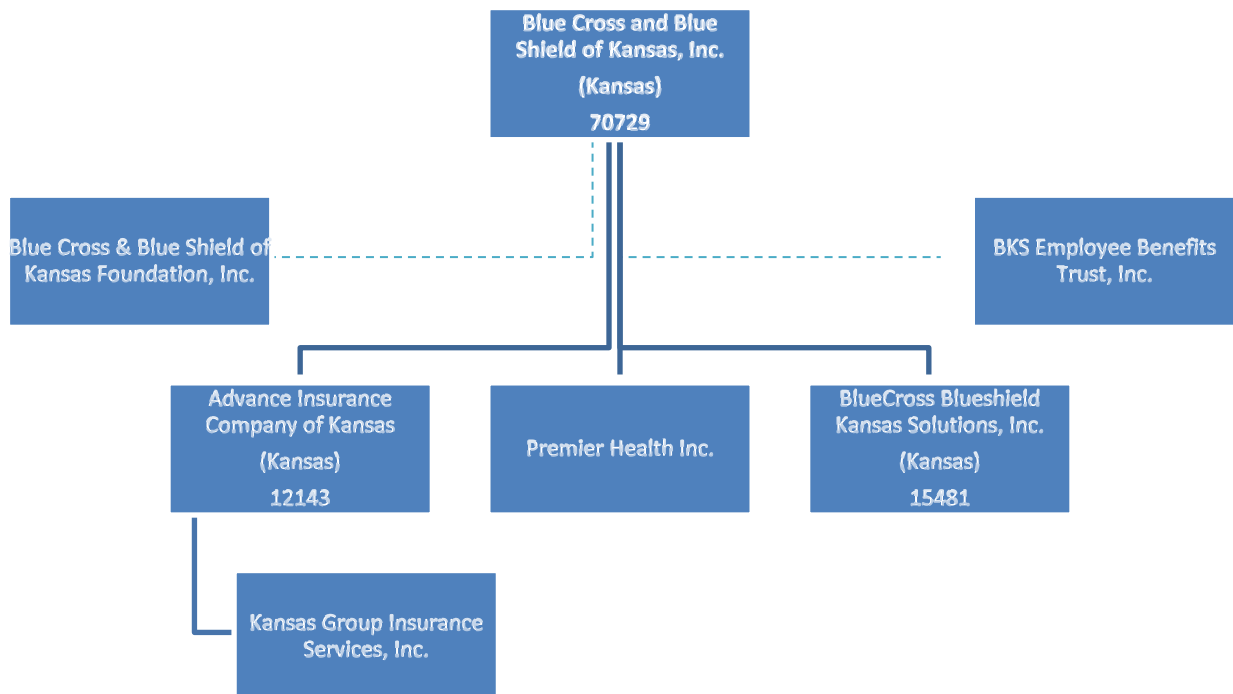
INSURANCE HOLDING COMPANY SYSTEM

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 Form "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(s) noted in the “Summary of Significant Findings” section above.

The Company, the ultimate controlling person of the insurance holding company system, has three direct wholly-owned insurance subsidiaries: AICK, Solutions, and Premier Health Inc., currently an inactive company. There is also an indirectly wholly-owned subsidiary, Kansas Group Insurance Services, Inc. The Company 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

The Company has entered into separate service agreements, one with AICK effective July 22, 2014, and one with Solutions effective April 8, 2014. The Company provides each entity with services, including but not limited to, data processing, marketing and enrollment, legal, financial, actuarial, underwriting, investing, claims adjudication, and provider network services. The Company is reimbursed monthly for the cost of services provided to Solutions, and based on a pre-set budgeted amount for the services provided to AICK. In addition, the Company is reimbursed for other miscellaneous expenses directly incurred on behalf of the subsidiaries.

The Company and Solutions are parties to a Provider Network Rental Agreement effective July 3, 2014. The Company provides the members of Solutions access to its contracted provider networks on the condition that the Company is involved in the administration of the claims. There is no compensation to the Company for the rental of its provider network by Solutions.

The Company and Solutions are parties to a Tax Sharing Agreement effective December 31, 2014. The consolidated income tax liability is allocated based on each entity's federal income tax liability computed on a separate return basis, and to the extent that tax credits computed on a separate return basis exceed the allowable consolidated credit, the allowable credit will be prorated between the parties in proportion to the tax credit utilized on a separate return basis by each entity. Solutions will pay estimated taxes upon the request of the Company. Any balance due after the consolidated return is filed is payable within 30 days of the determination of the liability. Any tax refunds or overpayments of estimated taxes will be first applied to estimated taxes for the

succeeding year, if any, and the balance remitted to Solutions within 30 days of the receipt of such refund or determination of the overpayment.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company was authorized to transact business in 103 of the 105 counties in Kansas. The Company does not write business in Wyandotte and Johnson counties as these are marketed and serviced by Blue Cross and Blue Shield of Kansas City, Inc.

The Company serves a membership of approximately one-third (1/3) of the health insurance market in Kansas. Market segments include large group (more than 50 lives), small group (under 50 lives), non-group over 65 (Medicare Supplement), non-group under 65 ancillary, and Blue Card products. Also offered are a wide range of individual plans including low cost plans, comprehensive major medical, catastrophic coverage, short-term medical coverage, health savings accounts, and prescription health plans.

The Company administers the benefits available for federal employees in Kansas under the Federal Employees Health Benefits Program in accordance with a contract between the Blue Cross and Blue Shield Association and the United States Office of Personnel Management. Under this contract, the Company assumes the risk of providing benefits with values in excess of the funds available for reimbursement.

The Company also provides administrative services only (“ASO”) services to various corporate and governmental entities who wish to self-insure their employees. The Company administers group benefit plans designed by the various entities for a fee, in addition to amounts reimbursed for all claims paid. The Company assumes no risk for this business other than a small amount of credit risk if any contracted entity would default on any reimbursement of unpaid claims.

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 | 1,555,104 | 1,404,102 | 1,452,303 | 1,730,394 | 1,765,784 |
| Liabilities | 801,529 | 717,406 | 723,441 | 938,835 | 873,250 |
| Capital and Surplus | 753,575 | 686,696 | 728,862 | 791,559 | 892,534 |
| Net Income | (11,506) | (30,837) | 59,094 | 3,408 | 105,091 |
| Net Premiums Earned | 1,797,706 | 1,854,386 | 1,899,755 | 1,774,957 | 2,259,038 |

REINSURANCE

The Company has a Medicare Part D Reinsurance Agreement with Anthem Insurance Companies, Inc. ("Anthem"), effective August 15, 2005, ceding 100% of the Medicare Part D administration to Anthem. Pursuant to the agreement, the Company assigned all rights and title to the reimbursement paid by the Centers for Medicare and Medicaid Services ("CMS") under the Prescription Drug Plan Contract. Anthem agreed to accept such reimbursement as payment in full for the services irrespective of the actual cost incurred.

The Company has a quota share reinsurance agreement with LifeSecure Insurance Company effective April 15, 2008, ceding 100% of the long-term care business sold after January 1, 2008. Long-term care business issued before January 1, 2008, is 50% ceded to MedAmerica under an amended quota share agreement effective November 1, 2004.

The Company and Solutions had a medical excess of loss ("XOL") agreement with XL Reinsurance America, Inc. The Companies' 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 ASO business, Federal Employee Program business nor any Medicare Supplement business. The reinsurer is also liable for any extra contractual obligations or ex gratia payments, as both are defined in the contract, not to exceed \$5 million. The 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 Solutions.

Effective October 1, 2019, the Company and Solutions entered into a Fully Insured & Self-Funded Medical XOL Contract with Odyssey Reinsurance Company. The terms were similar as with XL Reinsurance America, Inc. agreement that expired September 30, 2019, apart from coverage would include Medicare Advantage business beginning on 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.

BLUE CROSS AND BLUE SHIELD OF KANSAS, INC.
ASSETS
AS OF DECEMBER 31, 2018

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|--|-------------------------|-----------------------|-------------------------|
| Bonds | \$ 867,616,922 | \$ - | \$ 867,616,922 |
| Common stocks | 400,481,841 | 1 | 400,481,840 |
| Properties occupied by the Company | 31,725,926 | - | 31,725,926 |
| Cash and cash equivalents | 74,992,856 | 77,685 | 74,915,171 |
| Other invested assets | 146,014,706 | - | 146,014,706 |
| Receivable for securities | 50,026,906 | - | 50,026,906 |
| Investment income due & accrued | 5,676,722 | - | 5,676,722 |
| Uncollected premiums and agents' balances in the course of collection | 5,855,115 | 338,493 | 5,516,622 |
| Amounts recoverable from reinsurers | 1,795,064 | 1,727,945 | 67,119 |
| Amounts receivable related to uninsured plans | 14,108,938 | - | 14,108,938 |
| Current federal and foreign income tax recoverable | 1,911,876 | - | 1,911,876 |
| Net deferred tax asset | 19,201,848 | 1,288,583 | 17,913,265 |
| Guaranty funds receivable or on deposit | 3,955,823 | - | 3,955,823 |
| EDP equipment and software | 59,277,357 | 54,581,346 | 4,696,011 |
| Furniture and equipment | 2,077,081 | 2,077,081 | - |
| Receivables from parent, subsidiaries and affiliates | 1,200,444 | 835,667 | 364,777 |
| Health care and other amounts receivable | 50,833,493 | 3,849,940 | 46,983,553 |
| Agregate write-ins for other than invested assets | 132,043,995 | 38,236,626 | 93,807,369 |
| Totals | \$ 1,868,796,913 | \$ 103,013,367 | \$ 1,765,783,546 |

BLUE CROSS AND BLUE SHIELD OF KANSAS, INC.
LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2018

| | |
|---|--------------------------------|
| Aggregate reserve for accident and health contracts | \$ 88,596,540 |
| Liability for deposit type contracts | 4,183,035 |
| Contract claims - accident and health | 200,791,180 |
| Premiums and annuity considerations for life and accident and health received in advance | 85,310,319 |
| Provision for experience rating refunds | 19,651,339 |
| Interest maintenance reserve | 13,182,021 |
| General expenses due and accrued | 230,681,541 |
| Taxes, licenses and fees due or accrued | 8,993,917 |
| Amounts withheld or retained by company as agent or trustee | 72,608 |
| Remittances and items not allocated | 6,655,230 |
| Asset valuation reserve | 72,571,660 |
| Liability for amounts held under uninsured plans | 1,483,289 |
| Payable for securities | 106,484,750 |
| Aggregate write-ins for liabilities | 34,592,518 |
| Total liabilities | <u>\$ 873,249,947</u> |
| Unassigned funds | <u>\$ 892,533,599</u> |
| Total capital and surplus | <u>\$ 892,533,599</u> |
| Total liabilities, capital and surplus | <u><u>\$ 1,765,783,546</u></u> |

BLUE CROSS AND BLUE SHIELD OF KANSAS, INC.
SUMMARY OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

| | |
|--|------------------------------|
| Premium and annuity considerations for life and accident and health contracts | \$ 2,259,038,151 |
| Net investment income | 33,734,757 |
| Amortization of Interest Maintenance Reserve | 2,920,579 |
| Aggregate write-ins for miscellaneous income | 2,116,842 |
| Totals | <u>\$ 2,297,810,329</u> |
| Disability benefits and benefits under accident and health contracts | \$ 1,933,687,219 |
| Increase in aggregate reserves for life and accident and health contracts | (2,335,258) |
| Totals | <u>\$ 1,931,351,961</u> |
| Commissions on premiums, annuity considerations and deposit-type contract funds | \$ 5,974,226 |
| General insurance expenses | 164,072,537 |
| Insurance taxes, licenses and fees | 77,461,074 |
| Aggregate write-ins for deductions | (447,155) |
| Totals | <u>\$ 2,178,412,643</u> |
| Net gain from operations after dividends to policyholders and before federal income taxes | \$ 119,397,686 |
| Federal income taxes incurred | 23,090,268 |
| Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains | <u>\$ 96,307,418</u> |
| Net realized capital gains | 8,783,270 |
| Net income | <u><u>\$ 105,090,688</u></u> |

BLUE CROSS AND BLUE SHIELD OF KANSAS, INC.
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION

| | | | |
|--|------|---------------------|-----------------------|
| Surplus as regards policyholders, December 31, 2014 | | | <u>\$ 753,574,991</u> |
| Net income | 2015 | (30,837,298) | |
| | 2016 | 59,093,764 | |
| | 2017 | 3,408,089 | |
| | 2018 | 105,090,688 | 136,755,243 |
| Change in net unrealized capital gains or (losses) | 2015 | (73,253,647) | |
| | 2016 | 14,022,215 | |
| | 2017 | 105,915,284 | |
| | 2018 | <u>(20,444,076)</u> | 26,239,776 |
| Change in unrealized foreign exchange capital gain (loss) | 2015 | 2,280,739 | |
| | 2016 | 115,886 | |
| | 2017 | 2,029,148 | |
| | 2018 | <u>(1,138,221)</u> | 3,287,552 |
| Change in net deferred income tax | 2015 | (6,329,964) | |
| | 2016 | (20,958,033) | |
| | 2017 | (22,708,755) | |
| | 2018 | <u>(3,071,379)</u> | (53,068,131) |
| Change in non-admitted assets | 2015 | (37,521,351) | |
| | 2016 | (11,155,370) | |
| | 2017 | 21,454,301 | |
| | 2018 | <u>9,599,290</u> | (17,623,130) |
| Change in asset valuation reserve | 2015 | 54,324,014 | |
| | 2016 | (26,259,896) | |
| | 2017 | (22,218,712) | |
| | 2018 | <u>14,714,731</u> | 20,560,137 |
| Aggregate write-ins for gains and losses in surplus | 2015 | 24,458,739 | |
| | 2016 | 27,307,815 | |
| | 2017 | (25,182,840) | |
| | 2018 | <u>(3,776,553)</u> | <u>22,807,161</u> |
| Surplus as regards policyholders, December 31, 2018 | | | <u>\$ 892,533,599</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 \$892,533,599, which was the same amount, reported by the Company in its 2018 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

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

SUBSEQUENT EVENTS

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

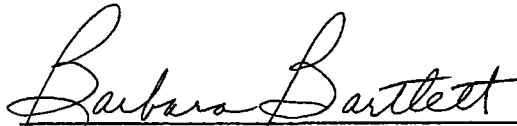
No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

CONCLUSION

The officers of the Company provided the necessary 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 and; 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 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 Blue Cross and Blue Shield of Kansas, 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 Blue Cross and Blue Shield of Kansas, 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].