

REPORT ON EXAMINATION
OF
CERULEAN VEGA CAPTIVE, INC.
1133 SOUTHWEST TOPEKA BOULEVARD
TOPEKA, KANSAS, 66629
AS OF
DECEMBER 31, 2022

FILED

February 28, 2024

VICKI SCHMIDT
Commissioner of Insurance

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Topeka, Kansas
February 6, 2024

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Rd
Topeka, Kansas 66604-4019

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-4308(a), an examination has been conducted of the financial condition and business affairs of:

CERULEAN VEGA CAPTIVE, INC.

with its statutory home office and main administrative office at:

**1133 SOUTHWEST TOPEKA BOULEVARD
TOPEKA, KANSAS 66629**

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

SCOPE OF EXAMINATION

The examiners have performed a single-state financial examination of Vega, a Kansas-domiciled captive insurance company. This inaugural examination covers the period from December 6, 2022, through December 31, 2022. Concurrent financial examinations were performed as of December 31, 2022, on the Captive’s parent, Blue Cross and Blue Shield of Kansas, Inc. (“BCBSKS”), and affiliates, BlueCross BlueShield Kansas Solutions, Inc. (“Solutions”), and Advance Insurance Company of Kansas (“AICK”).

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 Captive, 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 Captive 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.

Those activities considered in the examination as key or critical to the Captive were limited to prospective, overarching risks as the Captive was not operational as of December 31, 2022. The examination also included a review and evaluation of information technology general controls.

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 Captive’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 Captive.

Independent Audit Reports

Financial statements of the Captive were not audited for the years ending December 31, 2022. The Department determined that the Captive was not required to file the 2022 Annual Audited Financial Report. K.S.A. 40-4301 et seq., does not specifically require an Annual Audited Financial Report for a pure captive. The Commissioner may require an audit pursuant to K.S.A. 40-4308(d), if determined necessary. As of December 31, 2022, the Captive only reported its capitalization.

Actuarial Review

The Captive appointed Jeremy Pecora, FCAS, MAAA, of Willis Towers Watson of Southfield, WI, as the independent actuary for the purposes of certifying the adequacy of the Captives loss reserves for the period ending December 31, 2022. An annual review of actuarial practices and reserves was not performed for the period ending December 31, 2022. The Department determined that the Captive was not required to file the 2022 Statement of Actuarial Opinion. K.S.A. 40-4301 et seq., does not specifically require a Statement of Actuarial Opinion for a pure captive. The Commissioner may require an actuarial opinion pursuant to K.S.A. 40-4308(d), if determined necessary. As of December 31, 2022, the Captive only reported its capitalization.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings of fact that warranted inclusion in this Report of Examination.

COMPANY HISTORY

General

The Captive was organized to operate as a not-for-profit corporation in Kansas on July 7, 2022, under the name Cerulean Vega Captive, Inc., as a pure captive insurance company under the provisions of K.S.A. 40-4301 et seq.

Capital Stock

As of December 31, 2022, the Captive did not have any shares of capital stock outstanding. According to the Articles of Incorporation, the Captive is not authorized to issue capital stock.

Dividends and Capital Contributions

The Captive was capitalized with \$5,750,000 on September 23, 2022. There were no dividends paid during the examination period.

CORPORATE RECORDS

The Captive's articles of incorporation and bylaws were reviewed. There were no amendments to the articles of incorporation or bylaws.

MANAGEMENT AND CONTROL

Management Company

The Board appointed Willis Towers Watson Management (Vermont) Ltd. of Burlington, Vermont, as its captive manager.

Membership Organization

Article IV, of the Captive's articles of incorporation provides that: "The Corporation shall have no authority to issue stock, and all voting powers normally vested in stockholders shall be vested in the member ("Member") of this Corporation. The sole member of this corporation shall be Blue Cross and Blue Shield of Kansas, Inc. Under no

circumstances shall any other members be permitted.”

Board of Directors

The Captive’s bylaws consist of six (6) articles that provide the framework for operation, management, and control. The Captive is managed under the direction of its board of directors (“Board”).

Pursuant to the Captive’s bylaws, the Board should consist of at least three (3) directors that are also directors, officers, or employees of BCBSKS.

The directors elected and serving as of December 31, 2022, were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Jeffrey C. Bergman	Vice President and Chief Financial Officer Blue Cross and Blue Shield of Kansas, Inc.
David C. Britton, III	Vice President, Legal & Compliance Services & General Counsel Blue Cross and Blue Shield of Kansas, Inc.
Peter D. Didio, Jr.	Controller Blue Cross and Blue Shield of Kansas, Inc.

Committees

Vega has not established any committees of its own as of December 31, 2022. However, Vega may delegate certain matters to the committees established by its parent, BCBSKS.

Officers

Pursuant to the bylaws, the officers of the Captive shall be a president, vice president, a secretary, and a treasurer and other such officers and assistant officers as the board may from time to time deem necessary or advisable.

The officers elected and serving as of December 31, 2022, were as follows:

<u>Name</u>	<u>Office</u>
Jeffrey C. Bergman	President
Peter D. Didio	Vice President and Treasurer
David C. Britton, III	Secretary

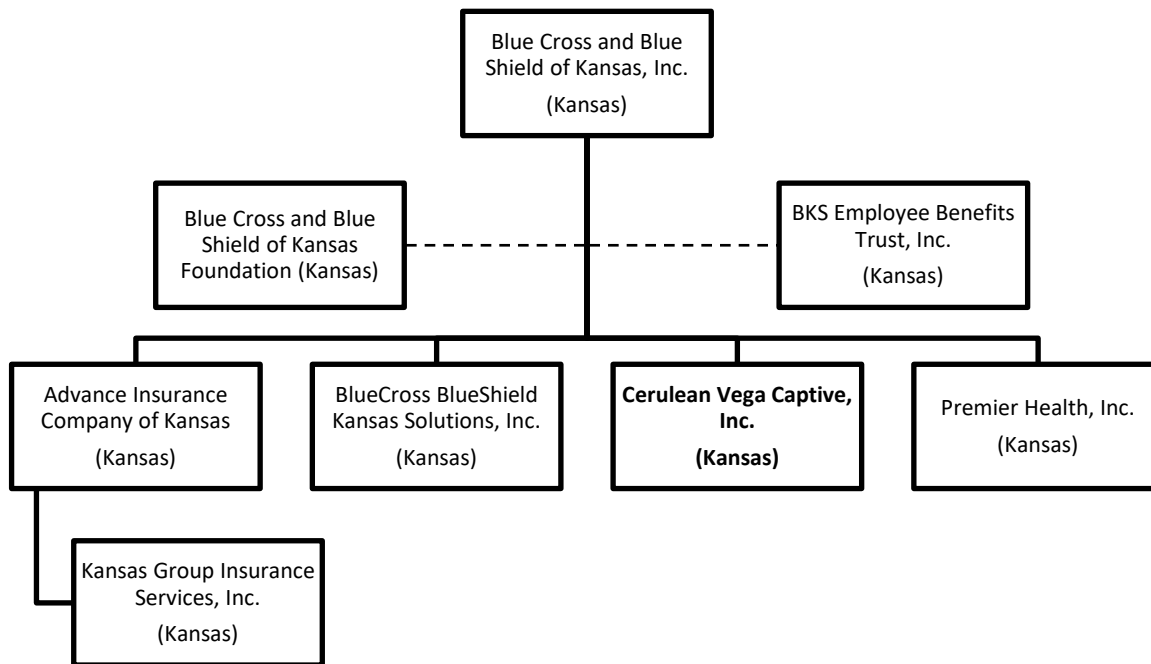
INSURANCE HOLDING COMPANY SYSTEM

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 Captive 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 items and events pertaining to the Company were properly reported as required by statute.

The Captive is a wholly owned subsidiary of BCBSKS and is established to insure the risks of BCBSKS. BCBSKS, the ultimate controlling person of the insurer holding company system, has three direct wholly owned insurance subsidiaries: Solutions, AICK, and Vega. BCBSKS directly owns Premier Health, Inc., a Kansas non-profit entity that is currently inactive, and indirectly owns Kansas Group Insurance Services, Inc., which is a wholly owned subsidiary of AICK. BCBSKS is indirectly associated 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. BCBSKS has no ownership interest in the Foundation. BCBSKS sponsors the BKS Employee Benefits Trust, Inc., a voluntary employee beneficiary association, which provides medical, prescription drug, and dental coverage to eligible members.

The abbreviated organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the

controlling entities thereof, as of December 31, 2022. All entities are wholly owned by the parent, BCBSKS. The Kansas domiciled insurer is bolded below.



Intercompany/Cost Sharing Agreements

There were no significant agreements executed with affiliate entities that were in effect as of December 31, 2022, however, subsequent agreements are summarized below.

Tax Allocation Agreement

Subsequent to the period of examination, effective January 1, 2023, the Captive entered into a separate Tax Sharing Agreement with parent, BCBSKS. BCBSKS computes estimated taxes in an amount not to exceed the liability computed under Article II of the Internal Revenue Code. 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. The Captive will pay estimated taxes upon the request of BCBSKS. Any balance due after the consolidated return is filed is payable within 30 days of the determination of the tax liability. Any tax refunds or overpayments of estimated taxes will be applied to estimated taxes for the succeeding year, if any, and the balance remitted to the Captive within 30 days of the receipt of such refund or determination of the overpayment. There has been no tax return filing or transaction pursuant to this agreement as of the date of this report.

Affiliated Reinsurance Agreement

Subsequent to the period of examination, effective January 1, 2023, the Captive entered into a stop loss reinsurance contract with parent, BCBSKS, effective January 1, 2023. Under the agreement, BCBSKS cedes its net liability from all medical stop-loss insurance policies issued to individual employers that have administrative services only (“ASO”) contracts with BCBSKS to Vega.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Captive was authorized to assume liability risks of BCBSKS. The Captive will be used by its parent, BCBSKS, primarily as a formalized funding mechanism to facilitate a gradual increase in self-insured retentions thereby reducing its reliance on commercial coverage for the higher loss exposure layers. Initially, the Captive will be utilized to fund certain self-insured risk Managed Care Organization Errors and Omissions (“MCO E&O”), Directors and Officers (“D&O”), and reinsurance of BCBSKS’ Medical Stop Loss (MSL) and ASO MSL. The ASO MSL reinsurance will be written on a quota-share basis. The Captive is only authorized to operate in the state of Kansas.

REINSURANCE

General

The Captive did not report any premium activity on a direct written, assumed, and ceded basis for the period under examination. Subsequent to the examination period, Vega entered into an affiliated reinsurance agreement with its parent, BCBSKS, as described above in the Intercompany/Cost Sharing Agreements section of this report.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Captive with the Department and present the financial condition of the Captive for the period ending December 31, 2022. There were no adjustments to the Captive's filed statutory financial statements as a result of this examination.

CERULEAN VEGA CAPTIVE, INC.

STATEMENT OF ASSETS

AS OF DECEMBER 31, 2022

	Assets	Assets Nonadmitted	Net Admitted Assets
Cash and cash equivalent and short-term investments	\$5,750,000	-	\$5,750,000
Totals	<u>\$5,750,000</u>	-	<u>\$5,750,000</u>

CERULEAN VEGA CAPTIVE, INC.
LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2022

Common capital stock	\$250,000
Gross paid in and contributed surplus	5,500,000
Surplus as regards policyholders	<u>5,750,000</u>
Totals	<u>\$5,750,000</u>

CERULEAN VEGA CAPTIVE, INC.

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2022

There was no revenue or expense activity as of the year ended December 31, 2022, as the Captive had no policies issued or other operations during the period.

CERULEAN VEGA CAPTIVE, INC.
CAPITAL AND SURPLUS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2022

Capital changes: Paid in	\$250,000
Surplus adjustments: Paid in	5,500,000
Change in surplus as regards policyholders for the year	<u>5,750,000</u>
Surplus as regards policyholders, December 31 current year	<u>\$5,750,000</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 Captive as of December 31, 2022, was \$5,750,000.

COMMENTS ON FINANCIAL STATEMENTS

There were no significant or material findings resulting from the examination that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

Subsequent to the examination period, effective January 1, 2023, Vega issued two policies to its parent, BCBSKS. One policy provides Managed Care Errors and Omissions coverage retroactively to January 1, 1941. The other policy provides Anti-Trust, Regulatory Claims, and Other Liability coverages.

CONCLUSION

The assistance and cooperation by the officers of the Captive during this examination is hereby acknowledged and appreciated. In addition to the undersigned, Kyra Brown, MBA, ARC, Senior Examiner; Delia Geyer, Staff Examiner; Dennis Schaeffer, CISSP, CISA, IT Supervising Senior Manager; TJ Helm, CPA, CISA, Senior IT Examiner; Chandini Kannan, IT Examiner; Neal Freedman, FSA, MAAA, Actuarial Manager; Jake Powell, Senior Actuary Consultant; Nathan Bolles, Actuary Consultant all of whom are Baker Tilly, US, LLP associates, participated in this examination.

Respectfully submitted,



Kelsey Barlow, MBA, CFE, PIR
Examiner-in-Charge
Baker Tilly, US, LLP., representing the Kansas
Insurance Department

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Handbook has been confirmed except where practices, procedures and applicable regulations of the Department and statutes of the State of Kansas prevailed.

A handwritten signature in black ink, appearing to read "Levi Nwasoria", written in a cursive style.

Levi Nwasoria, CPA, CFE
Chief Examiner
Kansas Insurance Department

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

State of Pennsylvania ,

County of Philadelphia ,

Kelsey Barlow , being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of Cerulean Vega Captive, 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 Cerulean Vega Captive, Inc. was performed in a manner consistent with the standards and procedures required by K.S.A 40-222.

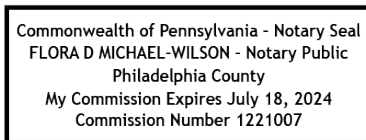
The affiant says nothing further.

Kelsey Barlow

Examiner's Signature

Subscribed and sworn before me by Kelsey Barlow on this 22nd day of February, 20 24 .

(SEAL)



Flora D. Michael-Wilson
Flora D. Michael-Wilson, Notary Public

My commission expires July 18, 2024 [date].