

**REPORT ON ORGANIZATIONAL EXAMINATION**  
**OF**  
**CERULEAN VEGA CAPTIVE, INC.**  
**1133 SW TOPEKA BOULEVARD**  
**TOPEKA, KANSAS 66629**  
**AS OF**  
**SEPTEMBER 26, 2022**

**FILED**

**NOV 07 2022**

**VICKI SCHMIDT**  
**Commissioner of Insurance**

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Topeka, Kansas  
October 7, 2022

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

Dear Commissioner:

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

**CERULEAN VEGA CAPTIVE, INC.  
1133 SW TOPEKA BOULEVARD  
TOPEKA, KANSAS 66629**

hereinafter referred to as the "Captive". The following report on such organizational examination is respectfully submitted.

#### **SCOPE OF EXAMINATION**

This is an organizational examination of the Captive conducted in accordance with K.S.A. 40-4308(a). The examination was conducted pursuant to the instructions and directives of the Kansas Insurance Department.

The affairs, activities, and transactions of the Captive were reviewed and analyzed to determine the Captive's compliance with applicable statutes and regulations and adherence to provisions of its articles of incorporation and bylaws.

#### **COMPANY HISTORY**

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.*

Article III of the Captive's articles of incorporation provides that: "The nature of the business or purposes to be conducted or promoted by the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Kansas general corporation code, including, without limitation, to conduct business as a captive insurance company pursuant to Article 43 of the Kansas Insurance Code as permitted by the Kansas Commissioner of Insurance. In addition to the power and privileges conferred upon the Corporation by law and those incidental thereto, the Corporation will possess and may exercise all the powers and privileges that are necessary or convenient to the conduct, promotion or attainment of the business or purposes of the Corporation."

### **MANAGEMENT AND CONTROL**

#### **Management Company**

The Board appointed Willis Towers Watson Management (Vermont) Ltd. ("WTW") of Burlington, Vermont, as its management company.

#### **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**

Article III, Section 3.1 of the Captive's bylaws provides that: "Directors shall be elected by a plurality of the votes of the directors present in person at their annual meeting. The initial Board as established under the Articles of Incorporation shall consist of three members and shall serve until the first annual meeting of the Corporation.

Thereafter, directors shall be elected for a term of two years and may succeed themselves. The Board of Directors shall at all times be composed exclusively of individuals who are also directors, officers, or employees of Blue Cross Blue Shield of Kansas, Inc, (“Member”). There shall be a minimum of three directors at all times.”

Article III, Section 3.2 of the Captive’s bylaws provides that: “The directors shall meet at such times and places, within or without the State of Kansas, as the Board may from time to time determine. Any regular or special meeting of the Board may be called by the President or Secretary upon two days’ notice oral or written, which notice, however, may be waived in writing by any director. The annual meeting of the Board shall be held at the time and place designed by the President, unless the Board so designates the time and place; provided, however, that said meeting may be held on such other day, hour or place as may be determined by the written consent of all directors, or, in the absence of such consent, as may be designated in written notice sent by the President or by the Secretary to each director at least two days prior to the date specified in said notice.”

K.S.A. 40-4302(b)(2) requires that at least one Board meeting be held in Kansas.

The Board members elected and serving as of September 26, 2022, were as follows.

<b><u>Director</u></b>	<b><u>Position(s) Held</u></b>
Jeff C. Bergman	Director, Actuarial & Risk Management Blue Cross and Blue Shield of Kansas, Inc.
David C. Britton III	V.P, 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.

## **Officers**

Article IV, Section 4.1 of the Captive's bylaws provides that: "The officers of the Corporation shall be a President, a Vice President, a Secretary, a Treasurer, and such other officers and assistant officers as the Board may from time to time deem necessary or advisable. Any number of officers may be held by the same person. All officers shall be elected by the Board at the annual meeting, and the Board shall also be empowered to fill all vacancies in office."

Article IV, Section 4.2 of the Captive's bylaws provides that: "Each officer of the Corporation shall hold office until the next annual meeting of the Board of Directors or until his or her successor is duly elected and qualified, or until his or her earlier death, resignation, or removal; provided, however, that any officer elected by the Board of Directors may at any time, with or without cause, be removed by affirmation vote of two-thirds of the total number of members of the Board."

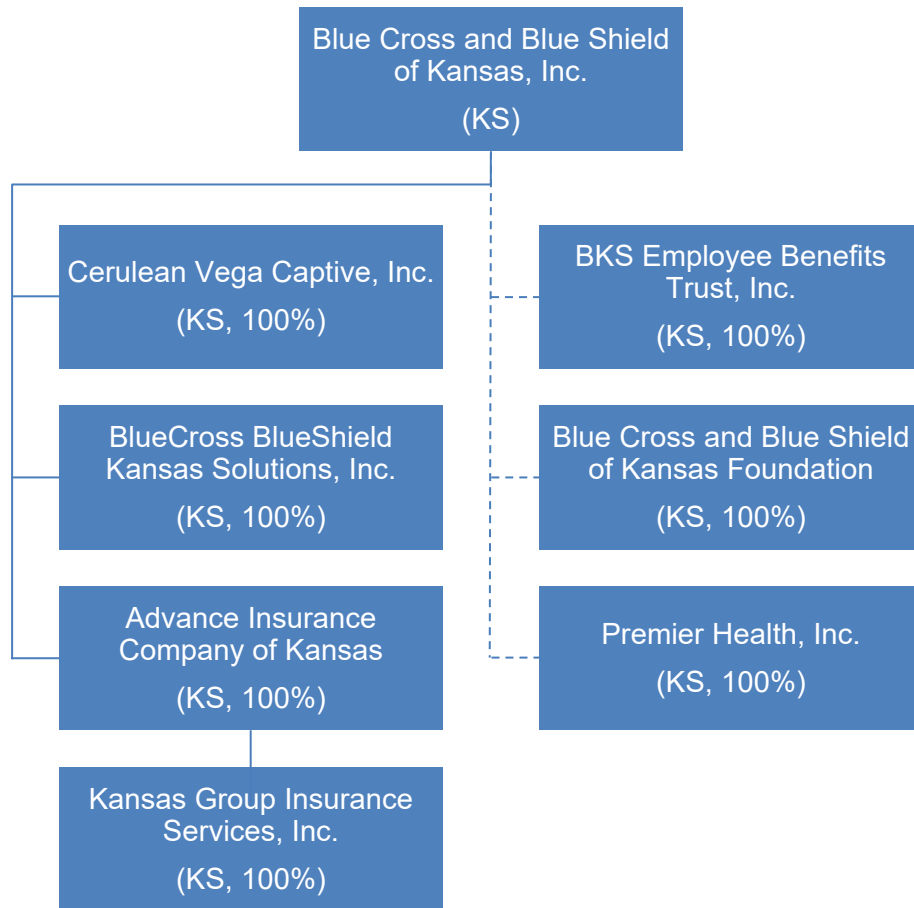
The Officers elected and serving as of September 26, 2022, were as follows.

<b><u>Officer</u></b>	<b><u>Position(s) Held</u></b>
Jeff C. Bergman	President
Peter D. Didio, Jr.	Vice President and Treasurer
David C. Britton III	Secretary

## **INSURANCE HOLDING COMPANY SYSTEM**

K.S.A. 40-4318(c) states that Article 33 of Chapter 40 of the Kansas Statutes Annotated applies to insurers. K.S.A. 40-3301 *et seq.*, requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance.

The exhibit below is an organizational chart as of June 2022, indicating the identities and inter-company relationships having a direct bearing on the Captive.



**Affiliated Transactions**

The Captive will be added as a party to the Tax Sharing Agreement with Blue Cross and Blue Shield of Kansas, Inc. (“BCBSKS”), its parent, and its subsidiaries. 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 for 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 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 the Captive within 30 days of the receipt of such refund or determination of the overpayment.

BCBSKS, its parent, will cede its medical stop loss (“MSL”) to the Captive under a reinsurance agreement. Additionally, BCBSKS will also cede its administrative services only (“ASO”) business to the Captive under a quota share reinsurance agreement.

The draft agreements are in the process of being filed with the Department. All the agreements will be effective January 1, 2023.

### **INSURANCE PRODUCTS AND RELATED PRACTICES**

The Captive provides deductible and retention reimbursement coverage for BCBSKS’ corporate risk. Additionally, it provides reinsurance of BCBSKS’ Medical Stop Loss and quota share reinsurance of the ASO MSL

#### **Territory and Plan of Operation**

Effective January 1, 2023, BCBSKS will utilize the Captive 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’ MSL and ASO MSL. The ASO MSL reinsurance will be written on a quota-share basis.

The Captive will operate only in the State of Kansas.



## FINANCIAL STATEMENTS

The following financial statements reflect only the transactions regarding the capitalization of the Company as of September 26, 2022, and the assets and liabilities as of that date.

### **CERULEAN VEGA CAPTIVE, INC. ASSETS, LIABILITIES, AND RETAINED EARNINGS AS OF SEPTEMBER 26, 2022**

<b>Assets</b>	
Cash and cash equivalents	\$5,750,000
Total assets	<u>\$5,750,000</u>
<b>Liabilities, Surplus and Other Funds</b>	
Total liabilities	<u>\$ -</u>
Capital	\$5,750,000
Retained earnings	-
Total equity	<u>\$5,750,000</u>
Total liabilities, and equity	<u><u>\$5,750,000</u></u>


The Captive's ultimate parent is Blue Cross and Blue Shield of Kansas, Inc. for which a summary of key financial information (in thousands) from its December 31, 2021, audited financial statements is provided:

Assets	\$2,276,993
Liabilities	\$1,191,226
Policyholders' Surplus	\$1,085,767

**CONCLUSION**

The assistance and cooperation by the officers of the Captive during this examination is hereby acknowledged and appreciated.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tamara House". The signature is written in black ink and is positioned above a horizontal line.

Tamara House, CFE  
Senior Insurance Examiner  
Examiner-In-Charge

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

State of Kansas

County of Shawnee

Tamara House, being duly sworn, states as follows:

- 1. I have authority to represent the Kansas Insurance Department in the examination of Cerulean Vega Captive, LLC.
- 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 Cerulean Vega Captive, LLC, was performed in a manner consistent with the standards and procedures required by K.S.A. 40-4308(a).

The affiant says nothing further.

Tamara House

Examiner's Signature

Subscribed and sworn before me by Tamara House on this 25th day of October, 2022.

(SEAL)



Glenda M. Haverkamp

Notary Public

My commission expires 9-23-2023  
(date)