

Report  
of the  
Examination of  
Blue Cross Blue Shield of Wisconsin  
Waukesha, Wisconsin  
As of December 31, 2017

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

*Tony Evers, Governor*  
*Mark V. Afable, Commissioner*

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May 9, 2019

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Honorable Mark V. Afable  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

BLUE CROSS BLUE SHIELD OF WISCONSIN  
Waukesha, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Blue Cross Blue Shield of Wisconsin (BCBSWI or the company) was conducted in 2014 as of December 31, 2013. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 and 2019 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of Anthem, Inc. The Indiana Department of Insurance (IDOI) acted in the capacity as the lead state for the coordinated examinations. Work performed by the IDOI was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and

prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

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, annual statement instructions, and Wisconsin laws and regulations. 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 at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

## II. HISTORY AND PLAN OF OPERATION

The company was organized in 1939 as as a nonprofit hospital service membership corporation under the name of Associated Hospital Services, Inc. (AHS). The company was operated in close affinity with Surgical Care, The Blue Shield Plan of the Medical Society of Milwaukee County, Wisconsin. Surgical Care was established in December 1943 as an unincorporated, nonprofit service plan that operated as a division of the Medical Society of Milwaukee County. It provided medical and surgical coverage as a companion writer to AHS. Cooperative efforts encompassed marketing and rate making.

On May 5, 1976, legislation was enacted in Wisconsin to require the incorporation of unincorporated, nonprofit service plans. Surgical Care applied for a certificate of incorporation and a certificate of authority to be issued to a corporation to be known as Surgical Care - Blue Shield, Inc. (SC-BS). This office granted SC-BS a certificate of authority on November 20, 1978.

On December 28, 1979, under an agreement and plan of merger and reorganization, SC-BS transferred all of its operations, including all assets and liabilities to AHS. The name of AHS was changed simultaneously with the date of this transfer and reorganization to Blue Cross & Blue Shield United of Wisconsin (BCBSU). In 1983, BCBSU organized a downstream holding company, United Wisconsin Services, Inc. (UWSI).

On June 14, 1999, BCBSU filed an application with this office to convert from a nonprofit service insurance corporation to a stock insurance corporation. The Wisconsin United for Health Foundation, Inc., was created on October 31, 1999, as part of this conversion with the aim of achieving the full value of BCBSU and distributing the proceeds from the orderly sale of this interest to The Medical College of Wisconsin and the University of Wisconsin Medical School. The conversion was consummated on March 23, 2001, in conjunction with a combination transaction that resulted in UWSI becoming the parent of BCBSU and BCBSU becoming a stock insurance corporation organized pursuant to ch.611, Wis.Stat. UWSI changed its name to Cobalt Corporation.

Effective September 24, 2003, Cobalt Corporation, an upstream holding company, was merged with and into Crossroads Acquisition Corp. (Crossroads), a wholly owned subsidiary of WellPoint Health Networks, Inc. (WHN). WHN was a publicly traded managed health care company

domiciled in the state of Delaware. BCBSU changed its name on November 20, 2003, from Blue Cross & Blue Shield United of Wisconsin to the name that is presently used, Blue Cross Blue Shield of Wisconsin.

On November 30, 2004, WHN and Anthem, Inc., a publicly traded managed care company domiciled in the state of Indiana, merged. WHN merged with and into Anthem Holding Corp. In connection with the merger, Anthem, Inc., amended its articles of incorporation to change its name to WellPoint, Inc. (WellPoint). In December 2014, Wellpoint, Inc. changed its corporate name to Anthem, Inc.

The company is licensed to do business in Wisconsin. BCBSWI offers coverage for the following: large and small group health, individual health, pharmacy, Medicare supplement, dental and vision. (BCBSWI does not offer an individual product on the health care exchange. All qualified health plans (QHPs) offered on the individual health care exchange are issued exclusively by Compcare Health Services Insurance Corporation [Compcare], a subsidiary of BCBSWI.) The indemnity portion of the point-of-service (POS) coverage offered issued by Compcare is underwritten by BCBSWI under an administrative service agreement dated August 1, 2003. The company also provides administrative service-only plans and stop-loss coverage for local and national groups and participates in the Federal Employees Health Benefits Program. BCBSWI is licensed as a smaller controlled affiliate licensee of the BlueCross BlueShield Association and markets its products under the BlueCross BlueShield trade name, as Anthem Blue Cross Blue Shield.

Business is currently acquired primarily by an independent agency force. The company also utilizes a direct sales force. The company has approximately 5,000 agents throughout the state of Wisconsin to market individual, small, and large group and senior product lines. Dental products are also marketed by this same distribution channel to employers of all sizes throughout the state.

There is a captive telemarketing distribution channel that sells individual products for BCBSWI, which includes senior plans. Marketing for its products is accomplished through various efforts that incorporate direct marketing campaigns (mailings), print advertising in business publications, radio, television, and billboards. The company also refers potential clients to its website.

The following chart is a summary of premium income as reported by the company in 2017.

The growth of the company is discussed in the "Financial Data" section of this report.

**Premium Income**

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Comprehensive (hospital and medical)	\$159,911,966	\$	\$	\$159,911,966
Medicare supplement	70,692,569			70,692,569
Dental only	21,060,589			21,060,589
Vision only	4,199,144			4,199,144
Federal employee health benefits plan	499,995,338			499,995,338
Other health	<u>38,128,201</u>	—	<u>23,502</u>	<u>38,104,699</u>
Total all lines	<u>\$796,987,807</u>	<u>\$0</u>	<u>\$23,502</u>	<u>\$793,964,305</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of three members. Directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. All board members have executive management positions within the holding company structure and they receive no distinct and separate compensation for service as directors.

Currently, the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Paul Christopher Nobile Waukesha, WI	President and Chief Executive Officer of BCBSWI and Compcare	2019
Ronald William Penczek Zionsville, IN	Senior Vice President and Chief Accounting Officer of Anthem, Inc.	2019
Catherine Irene Kelaghan Carmel, IN	Chief Legal Officer and Vice President and Counsel of Anthem, Inc.	2019

#### Officers of the Company

The officers serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>	<b>2017 Compensation*</b>
Paul Christopher Nobile	President and CEO	\$383,536
Robert David Kretschmer	Vice President and Treasurer	71,564
Kathleen Susan Kiefer	Vice President and Secretary	8,957
Jennifer Lynn Forsythe	Assistant Treasurer	2,464
Eric Kenneth Noble	Assistant Secretary	3,414

\* Compensation reported here is the portion of the individual's total compensation that is allocated to BCBSWI. Most officers' compensation is allocated among the insurance companies in the group.

#### Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. All insurance operations of the Anthem Group are governed by Anthem's board and board-appointed committees. The subsidiary insurance companies, which include BCBSWI, do not have any board-appointed committees. Anthem's board-appointed committees include 1) Governance Committee, 2) Audit Committee; 3) Compensation Committee, and 4) Planning Committee. Anthem's board and



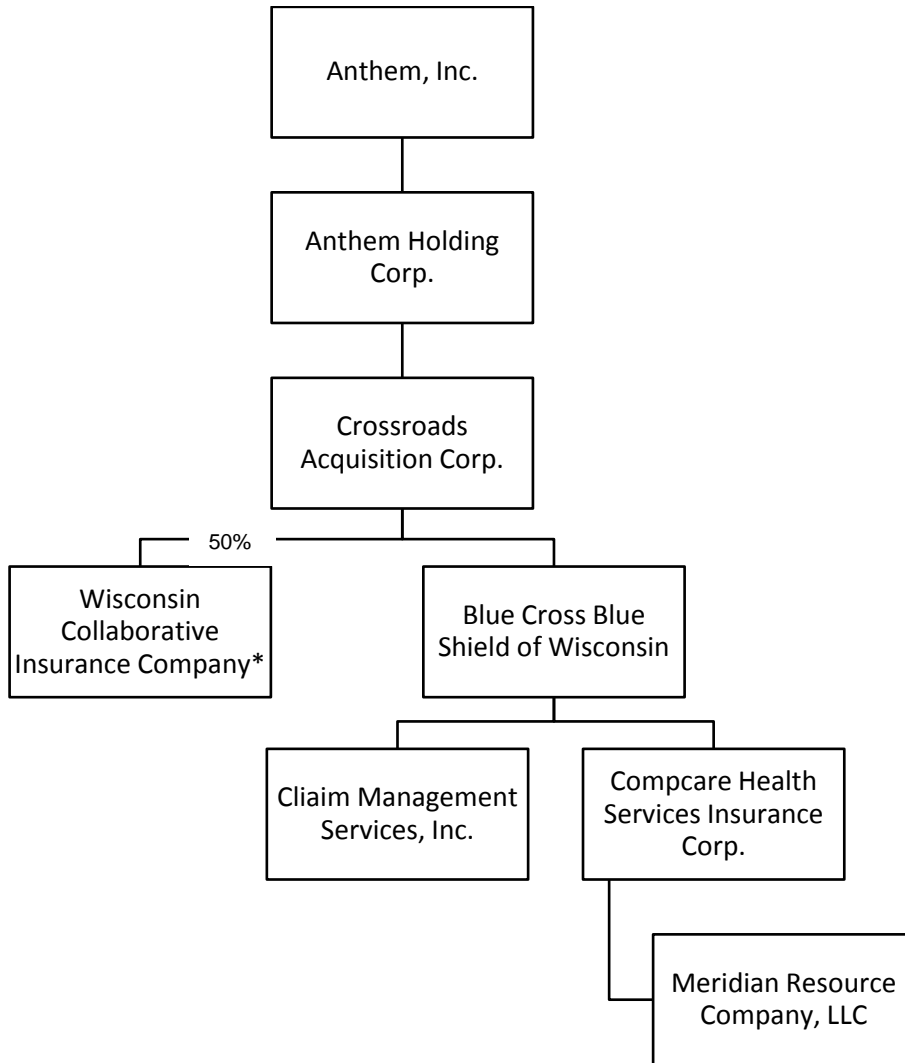
each of the committees meet at least quarterly throughout the year. Annually, Anthem conducts a stockholders' meeting where its directors are nominated and elected.

#### **IV. AFFILIATED COMPANIES**

Blue Cross Blue Shield of Wisconsin is a member of a holding company system under the ultimate control of Anthem, Inc. The holding company system offers a broad spectrum of network-based care plans to the large and small employer, individual, Medicaid, and senior markets. The holding company's care plans include preferred provider organizations, health maintenance organizations, point-of-service plans, traditional indemnity plans, and other hybrid plans, including consumer-driven health plans, hospital-only, and limited-benefit products. In addition, the holding company system provides a broad array of managed care services to self-funded customers, including claims processing, underwriting, stop-loss insurance, actuarial services, provider network access, medical cost management, and other administrative services. An array of specialty and other products and services are also provided including pharmacy benefit management, group life and disability insurance, dental, vision, behavioral health benefits, worker's compensation, and long-term care insurance.

The abbreviated organizational chart below is a simplified version of the complete organizational chart due to the size and complexity of the holding company system. The Anthem group consisted of 172 companies on December 31, 2017. The chart includes affiliates that are mentioned elsewhere in the report, are a party to BCBSWI's intermediate holding company or have agreements with the company's direct parent. A brief description of affiliates follows the organizational chart.

**Organizational Chart**  
**As of December 31, 2017**



\* Wisconsin Collaborative Insurance Company is 50% owned by Crossroads Acquisition Corp. and 50% owned by Aurora Health Care, Inc.

**Anthem, Inc.**

Anthem, Inc., is a publicly traded company listed on the New York Stock Exchange under the ticker symbol ANTM and is domiciled in the state of Indiana. Anthem, Inc., is one of the largest health benefits companies in terms of membership in the United States. The company was formed when WellPoint Health Network Inc., and Anthem, Inc., merged in 2004. The parent company originally

assumed the WellPoint, Inc., name at the time of the merger. In December 2014, WellPoint, Inc., changed its corporate name to Anthem, Inc. It is also an independent licensee of the Blue Cross Blue Shield Association, an association of independent health benefit plans. Anthem, Inc., and its subsidiaries offer a broad spectrum of network-based managed care plans to the large and small employer, individual, Medicaid, and senior markets.

As of December 31, 2017, the consolidated GAAP audited financial statements of Anthem, Inc., reported assets of \$70.5 billion, liabilities of \$44.0 billion, and stockholders' equity of \$26.5 billion. Operations for 2017 produced a net income of \$3.8 billion on revenues of \$90.0 billion.

**Anthem Holding Corp.**

Anthem Holding Corp., is a holding company incorporated in the state of Indiana. Anthem Holding Corp.'s operations consist mainly of its investments in various health care entities across the United States.

As of December 31, 2017, Anthem Holding Corp.'s unaudited financial statements reported assets of \$20.8 billion, liabilities of \$1.1 billion, and equity of \$19.7 billion. Operations for 2017 produced a net income of \$1.1 billion.

**Crossroads Acquisition Corp.**

Crossroads Acquisition Corp. is a holding company incorporated in the state of Delaware. Crossroads' operations consist mainly of its investment holdings in Blue Cross Blue Shield of Wisconsin and its subsidiaries. Crossroads Acquisition Corp. is 50% owner of Wisconsin Collaborative Insurance Company.

As of December 31, 2017, the unaudited financial statements of Crossroads reported assets of \$1,205.1 million, liabilities of \$2.5 million, and equity of \$1,202.6 million. Operations for 2017 produced a net income of \$155.8 million.

**Aurora Health Care, Inc.**

Aurora Health Care, Inc., is a not-for-profit health care system. The company is headquartered in Milwaukee and serving eastern Wisconsin. Aurora Health Care, Inc., is 50% owner of Wisconsin Collaborative Insurance Company.

As of December 31, 2017, the consolidated financial statements of Aurora Health Care, Inc., reported assets of \$11.1 billion, liabilities of \$4.1 billion, and surplus of \$7.0 billion. Operations for 2017 produced a net income of \$220 million.

#### **Wisconsin Collaborative Insurance Company**

Wisconsin Collaborative Insurance Company (WCIC) is licensed HMO in Wisconsin. The company is 50% owned by Crossroads Acquisitions Corporation on behalf of Anthem, Inc., and 50% owned by Aurora Health Care, Inc. Through this joint venture, Aurora and Anthem expect to capitalize on Aurora's expertise in clinical operation, and Anthem's expertise in claims operations, to improve patient care coordination and reduce medical cost trends.

As of December 31, 2017, the financial statements of Wisconsin Collaborative Insurance Company reported assets of \$18.1 million, liabilities of \$8.8 million, and surplus of \$9.3 million. Operations for 2017 produced a net loss of \$1.9 million.

#### **Claim Management Services, Inc.**

Claim Management Services, Inc., is a non-insurance company incorporated in the state of Wisconsin and is a wholly owned subsidiary of BCBSWI. The company primarily acted as a third-party administrator for self-funded employee benefit plans in Wisconsin but has no current operations.

As of December 31, 2017, the unaudited financial statements of Claim Management Services, Inc., reported assets of \$3.9 million, liabilities of \$2.6 million, and equity of \$1.3 million. Operations for 2017 produced a net income of \$1.7 million.

#### **Compcare Health Services Insurance Corporation**

Compcare Health Services Insurance Corporation (CHS) is a wholly owned subsidiary of BCBSWI domiciled in the state of Wisconsin that offers a variety of health maintenance organization and point-of-service medical and dental products in Wisconsin. The company is licensed for its commercial lines of business as a smaller controlled affiliate licensee of the BlueCross BlueShield Association and markets its commercial products under the trade name of Anthem Blue Cross Blue Shield.

As of December 31, 2017, Compcare's statutory-basis audited financial statements reported assets of \$308.5 million, liabilities of \$155.6 million, and capital and surplus of \$152.9 million. Operations for 2017 produced a net income of \$41.5 million on revenues of \$798.4 million.

## **Meridian Resource Company, LLC**

Meridian Resources Company, LLC (MRC), is a non-insurance company organized in Wisconsin and is a wholly owned subsidiary of Compcare. The company provides various investigative and health care services for health care organizations and employer groups.

As of December 31, 2017, the unaudited financial statements of Meridian Resource Company, LLC reported assets of \$14.4 million, liabilities of \$2.9 million, and equity of \$11.5 million. Operations for 2017 produced a net income of \$0.2 million on revenues of \$0.6 million.

### **Agreements with Affiliates**

BCBSWI has no employees of its own and all of its operations are conducted by employees of Anthem in accordance with the business practices and internal controls of that organization. In addition to ongoing common management and control by this upstream affiliate, various written agreements and undertakings affect the company's relationship to its affiliates. A brief summary of the other agreements follows in order by effective date:

#### **Administrative Services Agreement**

Effective August 1, 2003, BCBSWI and Compcare entered into a service agreement with respect to the point-of-service product (POS) where BCBSWI will underwrite the indemnity segment of the product and Compcare will underwrite the HMO segment of the product and provide administrative services for both the indemnity and HMO segments. In consideration for the services rendered by Compcare, the company is to pay the lower of 1) actual cost of the services provided or 2) 8% of the gross premium relating to POS indemnity premium. The contract specifies that 10% of the gross premium is attributable to POS indemnity premium and is remitted to the company monthly; however, the contract acknowledges that this can be adjusted throughout the policy year. This agreement may be terminated by either party upon 30-days' written notice.

#### **Master Administrative Services Agreement**

BCBSWI entered into a master administrative service agreement with Anthem and subsidiaries, effective January 1, 2004, to provide and receive certain administrative, consulting, and other support services. Each service receiver reimburses the applicable service provider for all direct and indirect costs and expenses incurred by the provider for services rendered. Costs and expenses

directly traceable to an affiliate that receives services will be passed through at cost. Indirect expenses are allocated based upon the provider's internal cost accounting procedures and allocation methodologies consistently applied. Effective July 1, 2018, this agreement was amended to include services that are provided to any non-affiliated third party are for an amount up to the fair market value of the services at the time such services are provided. This agreement may be terminated by any party upon 90-days' written notice.

#### **Guarantee and Conversion Agreement**

Under the membership rules of the BlueCross BlueShield Association, the primary licensee, Anthem, is required to enter into indemnification or guarantee agreements on behalf of its licensed affiliates. BCBSWI has entered into such an agreement with Anthem dated as of November 30, 2004.

#### **Consolidated Federal Income Tax Agreement**

Effective December 31, 2005, BCBSWI entered into a tax allocation agreement with Anthem and its subsidiaries. Under this agreement, Anthem will file a consolidated tax return for member companies. Member companies, in turn, agree to make quarterly payments to Anthem in an amount equal to the full separate federal, state, and local income tax liability attributable to the net taxable income of each member that would have been paid if such member had filed separate federal, state, and local tax returns. This agreement can be terminated by 1) mutual written agreement by all parties, 2) an affiliate is no longer a member of the Anthem Group, and 3) if the Anthem Group fails to file a consolidated corporate income tax return for any taxable year.

#### **Agreement to Provide Hospital Bill and Diagnosis-Related Group (DRG) Validation Audit**

##### **Programs**

The company entered into a service agreement with Meridian Resource Company, LLC, effective January 1, 2007, in which MRC provides hospital bill audit and DRG validation audit services to the company by screening all hospital claims and selecting the service that would offer the highest return. As compensation for services rendered by MRC, it receives 28% of net savings for hospital bill audits and 20% of net savings for DRG validation audits. Either party may terminate this agreement upon 60-days' prior written notice.

## **Cash Concentration Agreement**

The company entered into a cash concentration agreement effective December 15, 2014, with Anthem, Inc. (WellPoint, Inc.), Compcare and BCBSWI are parties to this agreement. Anthem is the designated cash manager and will perform one or more of the following on behalf of Compcare and BCBSWI:

1. Accept the receipt of funds, including but not limited to:
  - a. Premium payments and other revenue and
  - b. Benefit and administrative expense reimbursements.
2. Distribution of funds, including but not limited to:
  - a. Benefit payments,
  - b. Payroll payments, and
  - c. General administrative expense and accounts payable payments.

The settlement of intercompany payables and receivables established in pursuant to this agreement are to be settled within 30 days from the date of establishment. The cash manager will be reimbursed for the direct and indirect costs and expenses it incurs while acting as cash manager. The agreement may be terminated at the end of any quarter with written notice no later than 90 days prior to the last day of any quarter.

## **Network Rental Agreement**

The company entered into a network rental agreement between Wisconsin Collaborative Insurance Company, Blue Cross Blue Shield of Wisconsin, and Compcare Health Services Insurance Corporation effective January 1, 2018. Under this agreement, WCIC has exclusive rights to BCBSWI's Blue Priority network. BCBSWI has other networks, including dental and vision, that WCIC may want to use for its product offerings. All network rental and administrative services fees will be compliant with Statutory Accounting Principles. Each party may terminate this agreement upon 180-days' prior written notice.



## **V. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2017, annual statement. Also included in this section are schedules that reflect the growth of the company and the compulsory and security surplus calculation.

**Blue Cross Blue Shield of Wisconsin  
Assets  
As of December 31, 2017**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$149,100,049	\$	\$149,100,049
Stocks:			
Preferred stocks	154,202,561	1,320,236	152,882,325
Real estate:			
Occupied by the company	5,407,141		5,407,141
Cash, cash equivalents, and short-term investments	(40,854,035)		(40,854,035)
Securities lending reinvested collateral assets	3,314,958		3,314,958
Investment income due and accrued	1,213,033		1,213,033
Uncollected premiums and agents' balances in course of collection	11,465,546	1,185,204	10,280,342
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	47,547,060		47,547,060
Amounts receivable relating to uninsured plans	89,317,917	8,557,779	80,760,138
Net deferred tax asset	9,196,800	4,195,140	5,001,660
Guaranty funds receivable or on deposit	845,420		845,420
Furniture and equipment, including health care delivery assets	1,039,192	1,039,192	
Receivable from the parent, subsidiaries, and affiliates	38,582,479		38,582,479
Health care and other amounts receivable	4,368,145	3,244,895	1,123,250
Write-ins for other than invested assets:			
FEP assets held by agents	121,244,453		121,244,453
Miscellaneous assets	466,574	278,734	187,840
Prepaid expenses	<u>208,845</u>	<u>208,845</u>	<u>                    </u>
<b>Total Assets</b>	<b><u>\$596,666,138</u></b>	<b><u>\$20,030,025</u></b>	<b><u>\$576,636,113</u></b>

**Blue Cross Blue Shield of Wisconsin  
Liabilities, Surplus, and Other Funds  
As of December 31, 2017**

Claims unpaid		\$ 73,965,520
Accrued medical incentive pool and bonus payments		936,686
Unpaid claims adjustment expenses		2,320,971
Aggregate health policy reserves		121,441,289
Aggregate health claim reserves		54,059
Premiums received in advance		9,820,139
General expenses due or accrued		11,277,778
Current federal and foreign income tax payable and interest thereon		3,533,020
Amounts withheld or retained for the account of others		181,956
Remittance and items not allocated		2,494,237
Payable for securities		2,970,777
Payable for securities lending		3,314,958
Liability for amounts held under uninsured accident and health plans		60,940,012
Aggregate write-ins for other liabilities (including \$5,183,867 current)		<u>6,681,332</u>
Total Liabilities		299,932,734
Aggregate write-ins for special surplus funds	\$ 14,822,881	
Common capital stock		2,000,000
Gross paid in and contributed surplus		29,729,390
Unassigned funds (surplus)		<u>230,151,108</u>
Total capital and surplus		<u>276,703,379</u>
Total liabilities, capital, and surplus		<u>\$576,636,113</u>

**Blue Cross Blue Shield of Wisconsin  
Statement of Revenue and Expenses  
For the Year 2017**

Net premium income		\$793,964,305
Change in unearned premium reserves and reserve for rate credits		<u>(24,862,937)</u>
Total revenues		769,101,368
Medical and Hospital:		
Hospital/medical benefits	\$472,976,755	
Other professional services	75,781,310	
Outside referrals	16,016,657	
Emergency room and out-of-area	15,684,413	
Prescription drugs	86,351,482	
Incentive pool and withhold adjustments	<u>1,449,373</u>	
Subtotal	668,259,990	
Less		
Net reinsurance recoveries	<u>61,261</u>	
Total medical and hospital	668,198,729	
Claims adjustment expenses	3,461,388	
General administrative expenses	18,046,240	
Increase in reserves for life and accident and health contracts	<u>(103,608)</u>	
Total underwriting deductions		<u>689,602,749</u>
Net underwriting gain or (loss)		79,498,619
Net investment income earned	43,867,758	
Net realized capital gains or (losses)	<u>194,768</u>	
Net investment gains or (losses)		44,062,526
Net gain or (loss) from agents' or premium balances charged off		(115,333)
Aggregate write-ins for other income or expenses		<u>(377,886)</u>
Net income or (loss) before federal income taxes		123,067,926
Federal and foreign income taxes incurred		<u>30,297,101</u>
Net income (loss)		<u>\$ 92,770,825</u>

**Blue Cross Blue Shield of Wisconsin  
Capital and Surplus Account  
For the Four-Year Period Ending December 31, 2017**

The following schedule is a reconciliation of total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Capital and surplus, beginning of year	\$260,498,156	\$206,443,963	\$232,138,984	\$235,151,150
Net income (loss)	92,770,825	81,189,818	78,625,506	84,327,346
Change in net unrealized capital gains/losses	18,623,418	34,769,505	(7,078,916)	3,942,995
Change in net deferred income tax	(6,625,756)	(4,674,540)	2,791,004	(2,805,476)
Change in nonadmitted assets	6,436,736	12,769,410	(10,032,615)	6,522,969
Dividends to stockholders	<u>(95,000,000)</u>	<u>(70,000,000)</u>	<u>(90,000,000)</u>	<u>(95,000,000)</u>
Capital and surplus, end of year	<u><b>\$276,703,379</b></u>	<u><b>\$260,498,156</b></u>	<u><b>\$206,443,963</b></u>	<u><b>\$232,138,984</b></u>

**Blue Cross Blue Shield of Wisconsin  
Statement of Cash Flow  
For the Year 2017**

Premiums collected net of reinsurance		\$675,962,446
Net investment income		<u>44,644,897</u>
Total		720,607,342
Less:		
Benefit- and loss-related payments	\$668,865,347	
Commissions, expenses paid, and aggregate write-ins for deductions	25,133,756	
Federal and foreign income taxes paid (recovered)		
\$211,436 net tax on capital gains (losses)	<u>29,035,208</u>	
Total		<u>723,034,311</u>
Net cash from operations		(2,426,968)
Proceeds from investments sold, matured or repaid:		
Bonds	\$38,133,424	
Real estate	35,322	
Net gains (losses) on cash, cash equivalents, and short-term investments	247	
Miscellaneous proceeds	<u>4,302,564</u>	
Total investment proceeds		42,471,557
Cost of investments acquired—long-term only:		
Bonds	46,726,710	
Real estate	<u>110,722</u>	
Total investments acquired		<u>46,837,432</u>
Net cash from investments		<u>(4,365,874)</u>
Cash provided/applied:		
Dividends to stockholders	95,000,000	
Other cash provided (applied)	<u>91,736,491</u>	
Net cash from financing and miscellaneous sources		<u>(3,263,509)</u>
Net change in cash, cash equivalents, and short-term investments		(10,056,351)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>(30,797,684)</u>
End of Year		<u><u>\$(40,854,035)</u></u>

**Growth of Blue Cross Blue Shield of Wisconsin**

<b>Year</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Capital and Surplus</b>	<b>Premium Earned</b>	<b>Medical Expenses Incurred</b>	<b>Net Income</b>
2017	\$576,636,113	\$299,932,734	\$276,703,379	\$769,101,368	\$668,198,729	\$92,770,825
2016	544,630,647	284,132,491	260,498,156	758,622,350	642,309,063	81,189,818
2015	463,826,538	257,382,575	206,443,963	735,144,985	620,872,413	78,625,506
2014	454,225,963	222,086,979	232,138,984	699,434,627	589,071,633	84,327,346

<b>Year</b>	<b>Profit Margin</b>	<b>Medical Expense Ratio</b>	<b>Administrative Expense Ratio</b>	<b>Change in Enrollment</b>
2017	11.4%	86.9%	2.8%	-6.2%
2016	10.3	84.7	3.7	-3.7
2015	10.3	84.4	4.5	3.6
2014	11.4	84.2	5.3	10.0

**Enrollment and Utilization**

<b>Year</b>	<b>Enrollment</b>	<b>Hospital Days/1,000</b>	<b>Average Length of Stay</b>
2017	354,434	982.36	24.8
2016	377,764	1,061.09	29.4
2015	392,262	1,008.81	26.8
2014	378,556	992.02	31.0

### Per Member Per Month Information

	2017	2016	Percentage Change
<b>Premium</b>			
Comprehensive and other	\$288.94	\$301.80	-4.3%
Medicare supplement	262.45	252.71	3.9
Dental only	21.48	21.58	-0.3
Vision only	5.58	5.40	3.4
Aggregate	<u>177.64</u>	<u>177.57</u>	0.0
<b>Expenses</b>			
Hospital/medical benefits	109.24	84.71	29.0
Other professional services	17.50	40.96	-57.3
Outside referrals	3.70	2.99	23.7
Emergency room and out-of-area	3.62	3.30	9.7
Prescription drugs	19.94	18.16	9.8
Incentive pool, withhold adjustments, and bonus amounts	0.33	0.22	51.9
Subtotal	154.35	150.35	2.7
Less: net reinsurance recoveries	0.01	0.00	N/A
Total hospital and medical	154.33	150.35	2.7
Claims adjustment expenses	0.80	(0.93)	-186.1
General administrative expenses	4.17	7.50	-44.4
Increase in reserves for accident and health contracts	<u>(0.02)</u>	<u>(0.05)</u>	-53.9
Total underwriting deductions	<u>\$159.28</u>	<u>\$156.86</u>	1.5

During the examination period, the company's total admitted assets increased 27% from \$454.2 million in 2014 to \$576.6 million in 2017, total liabilities increased by 35% from \$222.1 million in 2014 to \$299.9 million in 2017, and total net income increased by 10% from \$84.3 million in 2014 to \$92.8 million in 2017 resulting in a favorable increase in surplus of 19%. As shown above, the company's enrollment trend increased by 4% from 2014 to 2015 and decreased by 10% from 2015 to 2017 with an overall decrease of 6%. Premium earned increased 10% from \$699.4 million in 2014 to \$769.1 million in 2017.

The company routinely pays dividends to Crossroads Acquisition Corp., its parent, subject to s.617.225, Wis. Stat., and s. Ins. 40.18, Wis. Adm. Code. The company paid dividends totaling \$350 million over the examination period.



**Blue Cross Blue Shield of Wisconsin  
Compulsory and Security Surplus Calculation  
December 31, 2017**

Assets		\$576,636,113
Add security surplus of insurance subsidiaries		\$105,345,663
Less security surplus of insurance subsidiaries		152,882,325
Less liabilities		<u>299,932,734</u>
Adjusted surplus		229,166,717
Annual premium:		
Individual life and health	\$ 82,086,324	
Factor	<u>15%</u>	
Total		\$12,312,948
Group life and health	711,877,981	
Factor	<u>10%</u>	
Total		<u>71,187,798</u>
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>83,500,746</u>
Compulsory surplus excess (deficit)		<u>\$145,665,971</u>
Adjusted surplus (from above)		\$229,166,717
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum of 110%)		<u>97,695,872</u>
Security surplus excess (deficit)		<u>\$131,470,845</u>

## VI. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were three specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Corporate Records—It is again recommended that the company report all remuneration to executives, which includes deferred compensation and other retirement compensation fully funded or awarded by the company, for those executives whose remuneration meets the requirements to be reported to the Commissioner of Insurance in accordance with s. 611.63, Wis. Stat.

Action—Noncompliance.

2. Actuarial Memoranda Detail—It is recommended that the appointed actuary's technical component includes the analysis from the basic data (e.g., claim lags) to the conclusions as well as organize the technical appendices in a manner such that the analysis can be followed from data to conclusions in a future actuarial memoranda as is required by the NAIC Annual Statement Instructions – Health.

Action—Compliance.

3. Actuarial Memoranda Exhibit—It is recommended that the appointed actuary include an exhibit which ties to the annual statement and compares the actuary's conclusions to the carried amounts in future actuarial memoranda as is required by the NAIC Annual Statement Instructions – Health.

Action—Compliance.

## **Summary of Current Examination Results**

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

## **Corporate Records**

The examination reviewed the Report on Executive Compensation for BCBSWI filed with the Commissioner for 2017 to verify that this supplemental annual report included and disclosed all compensation given to executives included in that report, such as 401(k) and deferred compensation contributions, exercised stock options under a stock incentive plan, payments made on executive incentive plans, etc. The review disclosed that the company failed to include contributions made by the company or affiliates to individuals under a 401(k) or deferred compensation plan. It is again recommended that the company report all remuneration to executives including deferred compensation and other retirement compensation fully funded or awarded by the company pursuant to s. 611.63, Wis. Stat.

## **Biographical Information**

Pursuant to s. Ins 6.52 (5), Wis. Adm. Code, insurers are required to report the appointment or election of any new director, trustee, or officer elected or appointed within 15 days after such appointment or election. Such reports will include biographical information in form and substance set forth in OCI Form 21-200 Biographical Form A. The examination review of officer/director biographical information disclosed the required information was not submitted for Ronald W. Penczek. The company was able to produce a copy of Mr. Penczek's biographical information, however, it still remains that BCBSWI failed to comply with the filing requirement in s. Ins 6.52 (5), Wis. Adm. Code. It is recommended that BCBSWI timely file biographical information for newly elected or appointed officers and directors in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

## **Information Technology**

BCBSWI is reliant on Anthem Group Information Technology Services (IT). The examination review of the systems that the company uses in day-to-day operations showed that the formal processes and procedures of Anthem's controls over its information systems were not as robust

as the high-risk level required. The review resulted in certain findings which were presented in a letter to management dated May 9, 2019. It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management dated May 9, 2019.

## **VII. CONCLUSION**

Blue Cross Blue Shield of Wisconsin is a stock insurance company domiciled in the state of Wisconsin. BCBSWI was originally incorporated in 1939 as a nonstock, service membership corporation. In 1976 the company was reorganized as a service insurance corporation pursuant to ch. 613, Wis. Stat. Effective March 23, 2001, BCBSWI converted to a stock insurance corporation organized pursuant to s. 613.75, Wis. Stat. BCBSWI offers traditional indemnity and managed health care products.

The company reported assets of \$576.6 million, liabilities of \$299.9 million, and capital and surplus of \$276.7 million for 2017. The company's surplus increased under examination period by approximately \$41.6 million or 18%. Operations for 2017 produced net income of \$92.8 million on revenues of \$769.1 million. The company paid dividends totaling \$350 million over the examination period.

The examination of BCBSWI resulted in three recommendations, one of which was a repeat from the previous examination. The repeat recommendation pertains to not meeting filing requirements relating to executive compensation. There were no examination adjustments or reclassifications.

## VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 - Corporate Records—It is again recommended that the company report all remuneration to executives including deferred compensation and other retirement compensation fully funded or awarded by the company pursuant to s. 611.63, Wis. Stat.
2. Page 25 - Biographical Information—It is recommended that BCBSWI timely file biographical information for newly elected or appointed officers and directors in accordance with s. Ins 6.52 (5), Wis. Adm. Code.
3. Page 26 - Information Technology—It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management dated May 9, 2019.

## IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Karl Albert, CFE	Workpaper Specialist
Eleanor Lu	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Judith Michael  
Examiner-in-Charge