



**COMMONWEALTH OF MASSACHUSETTS**  
**OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**  
**DIVISION OF INSURANCE**

***REPORT OF EXAMINATION OF THE***  
**BLUE CROSS AND BLUE SHIELD OF MASSACHUSETTS HMO BLUE, INC.**

**Boston, Massachusetts**

**As of December 31, 2021**

**NAIC GROUP CODE 3637**

**NAIC COMPANY CODE 12219**

**EMPLOYER ID NUMBER 04-3362283**

BLUE CROSS AND BLUE SHIELD OF MASSACHUSETTS HMO BLUE, INC.

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**COMMONWEALTH OF MASSACHUSETTS**  
**Office of Consumer Affairs and Business Regulation**  
**DIVISION OF INSURANCE**

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**MAURA HEALEY**  
GOVERNOR

**GARY D. ANDERSON**  
COMMISSIONER OF INSURANCE

**KIM DRISCOLL**  
LIEUTENANT GOVERNOR

May 31, 2023

The Honorable Gary D. Anderson  
Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street, Suite 810  
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 176G, Section 10 and other applicable statutes, an examination has been made of the financial condition and affairs of

**BLUE CROSS AND BLUE SHIELD OF MASSACHUSETTS HMO BLUE, INC.**

at its home office located at 101 Huntington Avenue, Suite 1300, Boston, MA 02199-7611. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. ("Company" or "HMO Blue") was last examined as of December 31, 2018, by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the three-year period from January 1, 2019, through December 31, 2021, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating 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. 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 following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 176G, Section 10, 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.

The Company is audited annually by Ernst & Young ("E&Y"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for calendar years 2019 through 2021. A review and use of the Certified Public Accountants' work papers were made to the extent deemed appropriate and effective. The Company has an internal audit department. Work papers prepared by the Company's internal audit department have been reviewed as a source of information and were tested and leveraged as deemed appropriate and effective.

Representatives from the firm of KPMG LLP ("KPMG") were engaged by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division's examination staff. KPMG's Health Actuaries were involved in the performance of those procedures to the extent that such procedures related to the Company's reserves for unpaid claims and loss adjustment expenses and provider risk sharing settlements as of December 31, 2021.

KPMG's Information Technology Advisory Services personnel were engaged to review the Company's Information Technology environment to assist in determining the level of reliance to be placed on the information generated by the data processing systems.

### **SUMMARY OF SIGNIFICANT FINDINGS OF FACT**

There were no significant findings identified during the previous examination, and there are no significant findings related to the current examination.

### **COMPANY HISTORY**

Blue Cross and Blue Shield of Massachusetts ("BCBSMA") began as the Associated Hospital Service Corporation of Massachusetts in 1937. The corporation aimed to spread the cost of hospital treatment among a large group of employed persons and, upon its opening, was the twenty-sixth plan of its kind in the United States, differing from others in its offering of statewide coverage. In 1939, the name Blue Cross was officially adopted by the American Hospital Association as the national symbol for the Hospital Service movement and in 1941, Blue Shield was established as a result of physician interest in the prepayment concept of financing health care.

Over the years, Blue Cross and Blue Shield of Massachusetts continued to grow and adapt to the needs of consumers, offering ever-increasing comprehensive coverage. The two separate organizations merged to become Blue Cross and Blue Shield of Massachusetts, Inc. and continued as part of a national network of affiliated plans, the Blue Cross and Blue Shield Association.

In January 2005, BCBSMA transferred its insured HMO business to a separately incorporated, not-for-profit subsidiary, Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. ("HMO Blue"). HMO Blue provides hospitalization, medical and other health benefits as a licensed health maintenance organization. HMO Blue and BCBSMA operate under common management and control. HMO Blue was licensed by the Division effective January 1, 2005. As a condition of granting an HMO license to HMO Blue, the Division required BCBSMA and HMO Blue to enter into an agreement to issue a surplus note to the other company if either entity's health risk based capital ("RBC") falls outside a specified range. BCBSMA also entered into a unilateral agreement with HMO Blue to guarantee all of HMO Blue's current and future financial obligations.

### **MANAGEMENT AND CONTROL**

#### **Board of Directors Minutes**

The minutes of meetings of the Board of Directors ("Board") and its Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board.

## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

### Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed, and there were no changes during the examination period. The bylaws provide guidance related to corporate governance, including the roles and responsibilities of the Directors and officers of the Company.

### Board of Directors

According to the bylaws, the Company's business shall be managed by a Board of Directors which may excise all of the powers of the Company, except as otherwise provided by the articles of incorporation, the law, or the bylaws. The Board of Directors shall consist of not fewer than five nor more than twenty-one Directors. On December 31, 2021, the Company's Board of Directors consisted of the following individuals:

<u>Director</u>	<u>Title</u>
Andrew C. Dreyfus	President & Chief Executive Officer, BCBSMA, Inc.
Richard D. Lynch	Chief Operating Officer, BCBSMA, Inc.
Andreana Santangelo	Executive Vice President & Chief Financial Officer, BCBSMA, Inc.
Dorothy E. Puhy	Retired, EVP & CFO Dana-Farber Cancer Institute

### Officers

The officers of the Company as of December 31, 2021, were as follows:

<u>Officer</u>	<u>Title</u>
Dorothy E. Puhy	Chair
Andrew C. Dreyfus	President & Chief Executive Officer
Richard D. Lynch	Chief Operating Officer
Andreana Santangelo	Chief Financial Officer
Michael Guerriere	Chief Actuary
Anthony C. Criscuolo	Treasurer
Enrico A. Giammarco	Assistant Treasurer
Mark R. Collura	Assistant Treasurer
Linda Williams	Chief Audit Executive
Alona G. Abalos	Assistant Clerk

## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

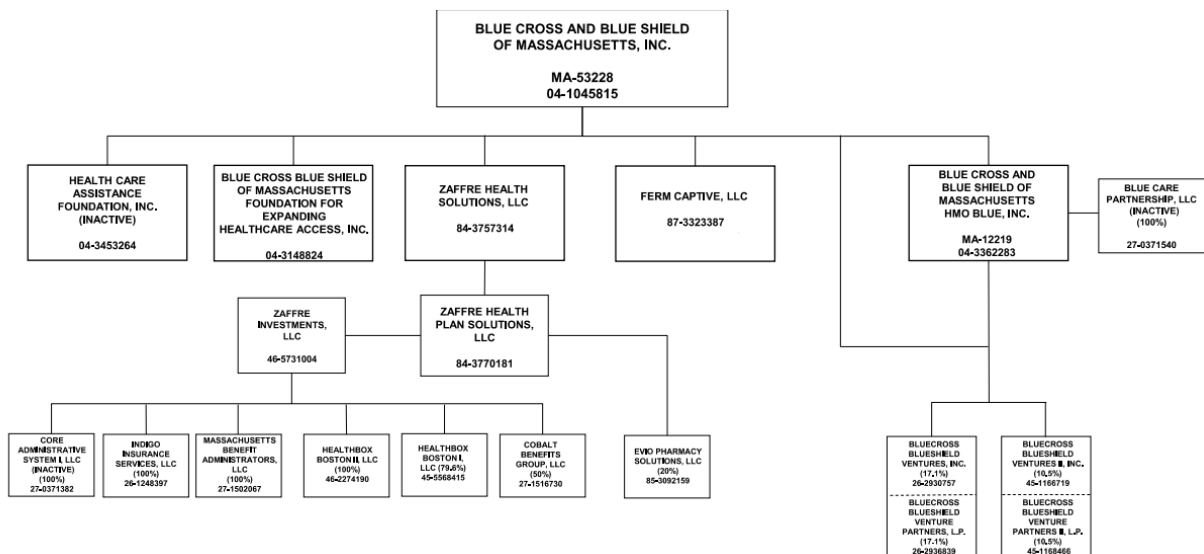
### Committees of the Board of Directors

According to the bylaws, except as otherwise provided by law, by the articles of organization or these bylaws, all corporate powers shall be exercised by or under the authority of the directors. The affairs, property and business of the corporation shall be managed under the direction of the directors, and the directors may adopt such rules and regulations for that purpose and for the conduct of its meetings as they may deem proper. The directors shall have the power from time to time to appoint such committees with such membership and duties as they may determine; to appoint, prescribe the duties of and determine the salaries or compensation of officers, agents and employees; to authorize employment contracts which may extend beyond the terms of the directors and may create contract rights which do not prevent but are not otherwise prejudiced by the removal of or failure to reelect any officer; and to delegate to the extent permitted by law any of their powers to committees, officers, agents and employees of the corporation subject to such limitations as the directors may impose.

### Affiliated Companies

As stated in the Insurance Holding Company System Form B, Form C and Form F as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts General Law Chapter 175, Section 206C, Chapter 176G, Section 28 and Regulation 211 CMR 7.00. BCBSMA is the “ultimate controlling person” of the holding company system.

### Organizational Chart



### Transactions and Agreements with Subsidiaries and Affiliates

#### *Inter-company Agreement*

BCBSMA and HMO Blue operate under a common Board of Directors management and control. The Company participates in a bilateral inter-company agreement with BCBSMA to settle any

## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

claims, fees, administrative cost expense allocation, and pass-through cash and expenses paid by one company on behalf of the other company.

### *Inter-company Guarantees*

As a condition of granting an HMO license to HMO Blue, the Division required the BCBSMA and HMO Blue to enter into an agreement with the Division granting the Division discretionary authority to require either company to issue a surplus note to the other company if either of the company's health risk-based capital is more than seventy-five percentage points higher than the other company's RBC. Under the terms of its license with the Blue Cross and Blue Shield Association, BCBSMA has also entered into a unilateral agreement with HMO Blue to guarantee all current and future financial obligations of HMO Blue.

### *Inter-company Loan Agreement*

BCBSMA and HMO Blue have an inter-company loan agreement, which allows borrowings between the companies, however, such amounts are limited to predetermined levels based on certain financial measures.

### *Captive Agreement*

In September 2021, BCBSMA Board of Directors approved the creation of FERM Captive as a wholly-owned subsidiary. It is a single-parent captive insurer created to finance the risks and liabilities, not otherwise reasonably insurable under Director and Officers, Errors and Omissions, and Cyber Liability policies. The FERM Captive will provide coverage to HMO Blue in accordance with a captive agreement.

### *Committed Investments to affiliates*

HMO Blue and BCBSMA each committed to invest \$10,000,000 in BlueCross BlueShield Ventures, Inc. and BlueCross BlueShield Venture Partners, L.P., in the form of 20 Class A shares of the General Partner and 17.1% limited interest in the Partnership. BlueCross BlueShield is a strategic corporate venture fund formed by eleven Blue Cross and Blue Shield plans to invest in emerging companies that will bring greater innovation, efficiency, consumer-focus, and transparency to healthcare.

HMO Blue and BCBSMA each committed to invest \$10,000,000 in BlueCross BlueShield Ventures II, Inc. and Blue Cross BlueShield Venture Partners II, L.P. in the form of 200 Class A shares of the General Partner II and 10.5% limited interest in the Partnership II. BCBS Venture II is a strategic corporate venture fund formed by twenty Blue Cross and Blue Shield plans to primarily make equity investments in emerging companies of strategic interest to Blue Plans while pursuing positive financial returns.

### *Asset Transfer and Usage Fee Agreement*

Effective May 31, 2020, BCBSMA, in accordance with the Asset Transfer and Usage Fee Agreement, transferred an internally developed software assets with a book value of \$70,639,086 to HMO Blue in exchange for cash. Beginning June 1, 2020, the Company pays HMO Blue a monthly software usage fee, based on a mutually agreed upon methodology, equal to the fair market value of such usage and calculated in accordance with the U.S. Treasury Transfer Pricing Regulations.



*Senior Management Agreement*

Under the existing structure BCBSMA and its senior level management team oversee daily operations and set strategic direction for both companies. Pursuant to the Senior Management Service Agreement BCBSMA will provide the services of the Senior Level Management team in exchange for an arm's length payment

*Leased Employment Agreement*

Effective January 1, 2019, BCBSMA and HMO Blue terminated its Leased Employment Agreement as the employees leased have become exclusively employed by HMO Blue.

*Tri-party Employment Agreement*

BCBSMA, HMO Blue and Indigo, a subsidiary of Zaffre Investments have a Tri-party Employment Agreement which covers the terms and conditions upon which BCBSMA, HMO Blue and Indigo will concurrently employ associates who provide sales, account relations and sale related administrative services for all three entities. This agreement allows the Companies and Indigo to contract for employment services through the issuance of multiple employee work assignments. A common paymaster arrangement has been established for payroll and payroll related benefits. BCBSMA charges HMO Blue a fee based on the Company's allocated share of the Benefit Plans expenses.

## **TERRITORY AND PLAN OF OPERATION**

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. is headquartered in Boston, Massachusetts. The Company is licensed to transact business in the Commonwealth of Massachusetts. As of December 31, 2021, HMO Blue's service area included all of Massachusetts with a focus on the greater metropolitan Boston area.

### **Treatment of Policyholders – Market Conduct**

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to members and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination.

## **REINSURANCE**

Since January 1, 2014, HMO Blue has had health insurance premiums subject to the ACA reinsurance program under the risk sharing provisions of the ACA which ended in 2016. The Company does not have any other reinsurance either assumed or ceded.

**FINANCIAL STATEMENTS**

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2021. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital, and Surplus as of December 31, 2021

Statement of Income for the Year Ended December 31, 2021

Reconciliation of Capital and Surplus for Each Year in the Three Year Period Ended December 31, 2021

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

**Statement of Assets, Liabilities, Capital, and Surplus  
As of December 31, 2021**

	Per Annual Statement
<b>Assets</b>	
Bonds	\$1,000,805,830
Preferred stocks	1,666,500
Common stocks	626,034,895
Real estate properties occupied by the Company	82,835,235
Cash, cash equivalents and short-term investments	200,502,188
Other invested assets	962,957,588
Receivables for securities	47,253,575
Subtotals, cash, and invested assets	<u>2,922,055,812</u>
Investment income due and accrued	4,431,875
Premiums and considerations:	
Uncollected premiums and agents' balances	15,729,024
Accrued retrospective premium and contracts subject to redetermination	69,738,208
Current federal and foreign income tax recoverable and interest thereon	140,971
Electronic data processing equipment and software	4,207,709
Health care and other amounts receivable	81,818,581
Aggregate write-ins for other than invested assets	2,604,536
Total assets	<u><u>\$3,100,726,716</u></u>
<b>Liabilities</b>	
Claims unpaid	\$453,750,831
Accrued medical incentive pool and bonus amounts	55,515,655
Unpaid claims adjustment expenses	4,690,905
Aggregate health policy reserves	42,319,619
Premiums received in advance	135,419,775
General expenses due or accrued	39,282,691
Borrowed money and interest thereon	180,158,814
Amounts due to parent, subsidiaries, and affiliates	6,863,296
Payable for securities	7,005,456
Aggregate write-ins for other liabilities	72,608,193
Total liabilities	<u><u>997,615,235</u></u>
Unassigned funds (surplus)	<u>2,103,111,481</u>
Total capital and surplus	<u><u>2,103,111,481</u></u>
Total liabilities capital, and surplus	<u><u>\$3,100,726,716</u></u>

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

**Statement of Income**  
**For the Year Ended December 31, 2021**

	Per Annual Statement
<b>Member Months</b>	<u>8,502,492</u>
Net premium income	\$5,261,000,712
Change in unearned premium reserves and reserves for rate credits	(3,753,219)
Total revenues	<u>5,257,247,493</u>
<b>Deductions:</b>	
Hospital/medical benefits	3,586,916,322
Other professional services	112,108,686
Emergency room and out-of-area	84,562,846
Prescription drugs	792,693,145
Incentive pool, withhold adjustments and bonus amounts	123,925,939
Subtotal	<u>4,700,206,938</u>
Net reinsurance recoveries	0
Total hospital and medical	<u>4,700,206,938</u>
Claims adjustment expenses	224,311,085
General administrative expenses	339,802,130
Increase in reserves for life and accident and health contracts	(73,000,000)
Total underwriting deductions	<u>5,191,320,153</u>
Net underwriting gain or loss	65,927,340
Net investment income earned	78,595,036
Net realized capital gains (losses) less capital gains tax	43,738,252
Net investment gains	<u>122,333,288</u>
Aggregate write-ins for other income or expenses	(3,939,770)
Net income, after capital gains tax and before all other federal income taxes	<u>184,320,858</u>
Federal and foreign income taxes incurred	0
Net income	<u>\$184,320,858</u>

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

**Reconciliation of Capital and Surplus**  
**For Each Year in the Three-Year Period Ended December 31, 2021**

	2021	2020	2019
Capital and surplus, December 31 prior year	\$1,896,733,661	\$1,630,938,417	\$1,413,755,330
Net income	184,320,858	339,585,012	111,569,500
Change in net unrealized capital gains	46,670,718	12,233,780	106,255,065
Change in net unrealized foreign exchange capital gain or (loss)	(1,305,887)	586,607	-
Change in nonadmitted assets	(23,307,869)	(86,610,155)	(641,478)
Net change in capital and surplus for the year	206,377,820	265,795,244	217,183,087
Capital and surplus, December 31 current year	\$2,103,111,481	\$1,896,733,661	\$1,630,938,417

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

There have been no changes made to the financial statements as a result of the examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

The Company uses estimates for determining its claims incurred but not yet reported which are based on historical claim payment patterns, healthcare trends and membership and includes a provision for adverse changes in claim frequency and severity. Amounts incurred related to prior years may vary from previously estimated liabilities as the claims are ultimately settled.

KPMG Health Actuaries prepared independent estimates of the unpaid claim liabilities (“UCL”) as of December 31, 2021. For December 31, 2021, completion factors for the projection of ultimate claims were developed using historical payment patterns and actuarial judgment. “Low” and “High” estimates were developed by subtracting the claims paid-to-date from the actuarial range of incurred estimates. The actuarial estimates, as determined by KPMG Health Actuaries, indicate that BCBSMA 's UCL are reasonable as of December 31, 2021.

**SUBSEQUENT EVENTS**

In August 2022, Sarah Iselin was named as the new Chief Executive Officer of BCBSMA; replacing Andrew Dreyfus who announced in January 2022 his intention to retire by the end of the year.

**SUMMARY OF RECOMMENDATIONS**

There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report.

**SIGNATURE PAGE**

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by KPMG LLP and the following Division examiners who participated in this examination hereby is acknowledged:

Carla Mallqui, CFE, Examiner II  
Guangping Wei, CFE, Examiner III

*Robert G. Dynan*

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Robert G. Dynan, CFE  
Supervising Examiner & Examiner-In-Charge  
Commonwealth of Massachusetts  
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