



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, 2018

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
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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

May 29, 2020

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, 2015 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, 2016 through December 31, 2018, 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 2016 through 2018. 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, 2018.

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

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 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

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

Company's bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board.

Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed. The bylaws were amended in December 2017 to reflect changes to the Board's approval of new term limits and the mandatory retirement age.

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. At December 31, 2018, 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.
Phyllis R. Yale	Advisory Partner, Bain & Company, Inc.
Stephanie S. Lovell	Executive Vice President, Medicare and Chief Legal Officer & Secretary, BCBSMA, Inc.

Officers

The officers of the Company as of December 31, 2018 were as follows:

<u>Officer</u>	<u>Title</u>
Phyllis R. Yale	Chair
Andrew C. Dreyfus	President & Chief Executive Officer
Richard D. Lynch	Chief Operating Officer
Andreana Santangelo	Chief Financial Officer
Laure A. Goldberg	Chief Actuary
Anthony C. Criscuolo	Treasurer
Enrico A. Giammarco	Assistant Treasurer
Mark R. Collura	Assistant Treasurer
Stephanie S. Lovell	Clerk
Alona G. Abalos	Assistant Clerk

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

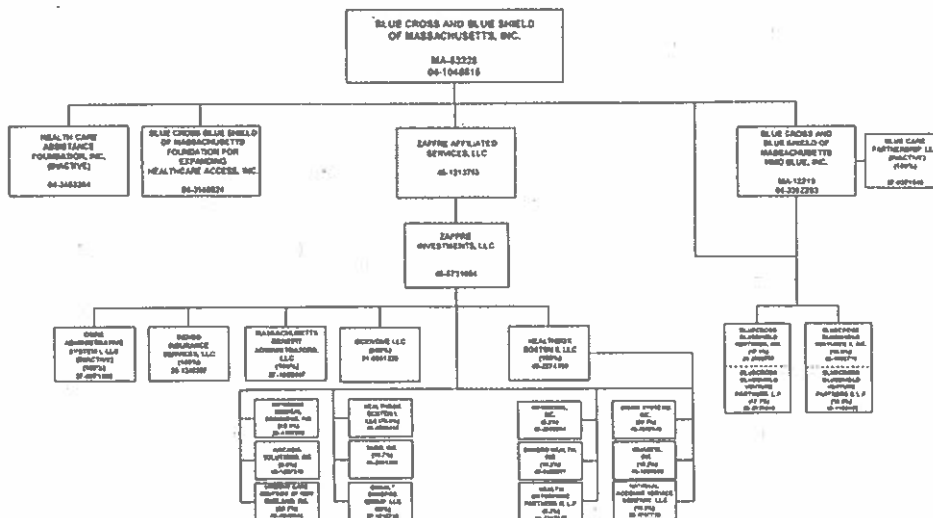
Committees of the Board of Directors

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



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

Transactions and Agreements with Subsidiaries and Affiliates

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

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.

HMO Blue also has one inactive wholly-owned subsidiary, Blue Care Partnership, LLC ("Blue Care Partnership"), and two affiliated companies, BlueCross BlueShield Venture Partners, L.P. ("BCBS Venture") and BlueCross BlueShield Venture Partners II, L.P. ("BCBS Venture II").

During the examination period, the Company contributed and received distributions in the following amounts to and from its various affiliates:

	<u>2016</u>		<u>2017</u>		<u>2018</u>	
	<u>Contribution</u>	<u>Distribution</u>	<u>Contribution</u>	<u>Distribution</u>	<u>Contribution</u>	<u>Distribution</u>
BCBS Venture	\$74,421	\$1,529,465	\$71,775	\$123,426	\$25,603	\$544,074
BCBS Venture II	\$1,085,675	\$242,086	\$1,014,979	\$671,632	\$1,030,782	\$1,366,915
Total	\$1,160,096	\$1,771,551	\$1,086,754	\$795,058	\$1,056,385	\$1,910,989

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, 2018, 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.

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

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, 2018. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2018

Statement of Income for the Year Ended December 31, 2018

Reconciliation of Capital and Surplus for Each Year in the Three Year Period Ended December 31, 2018

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

**Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2018**

	Per Annual Statement
Assets	
Bonds	\$891,298,501
Common stocks	211,118,668
Real estate properties occupied by the Company	88,433,001
Cash, cash equivalents and short-term investments	29,154,399
Other invested assets	921,885,718
Receivables for securities	9,153,926
Subtotals, cash and invested assets	<u>2,151,044,213</u>
Investment income due and accrued	4,541,866
Premiums and considerations:	
Uncollected premiums and agents' balances	21,628,126
Accrued retrospective premium and contracts subject to redetermination	13,054,456
Reinsurance:	
Amounts recoverable from reinsurers	0
Electronic data processing equipment and software	6,006,548
Health care and other amounts receivable	69,077,087
Aggregate write-ins for other than invested assets	1,109,943
Total assets	<u><u>\$2,266,462,239</u></u>
Liabilities	
Claims unpaid	\$413,329,588
Accrued medical incentive pool and bonus amounts	54,361,858
Unpaid claims adjustment expenses	4,806,505
Aggregate health policy reserves	39,246,442
Premiums received in advance	134,862,828
General expenses due or accrued	25,710,422
Current federal and foreign income tax payable and interest	214,416
Borrowed money and interest thereon	145,161,040
Amounts due to parent, subsidiaries and affiliates	11,542,993
Payable for securities	3,853,860
Aggregate write-ins for other liabilities	19,616,957
Total liabilities	<u><u>852,706,909</u></u>
Unassigned funds (surplus)	<u>1,413,755,330</u>
Total capital and surplus	<u><u>1,413,755,330</u></u>
Total liabilities capital, and surplus	<u><u>\$2,266,462,239</u></u>

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

Statement of Income
For the Year Ended December 31, 2018

	Per Annual Statement
Member Months	<u>9,593,992</u>
Net premium income	\$5,094,091,242
Change in unearned premium reserves and reserve for rate credits	<u>2,215,571</u>
Total revenues	<u>5,096,306,813</u>
Deductions:	
Hospital/medical benefits	3,386,395,135
Other professional services	113,443,315
Emergency room and out-of-area	80,569,974
Prescription drugs	737,447,322
Incentive pool, withhold adjustments and bonus amounts	<u>149,845,665</u>
Subtotal	<u>4,467,701,411</u>
Net reinsurance recoveries	<u>1,101,071</u>
Total hospital and medical	<u>4,466,600,340</u>
Claims adjustment expenses	219,390,986
General administrative expenses	<u>365,144,097</u>
Total underwriting deductions	<u>5,051,135,423</u>
Net underwriting gain or loss	45,171,390
Net investment income earned	48,371,392
Net realized capital gains (losses) less capital gains tax	<u>491,294</u>
Net investment gain	48,862,686
Aggregate write-ins for other income or expenses	<u>179,999</u>
Net income, after capital gains tax and before all other federal income taxes	<u>94,214,075</u>
Federal and foreign income taxes incurred	<u>213,149</u>
Net income	<u>\$94,000,926</u>

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Reconciliation of Capital and Surplus
For Each Year in the Three-Year Period Ended December 31, 2018

	2018	2017	2016
Capital and surplus, December 31 prior year	\$1,383,664,080	\$1,207,684,004	\$1,089,582,690
Net income	94,000,926	121,434,079	74,175,381
Change in net unrealized capital gains	(60,909,648)	59,451,481	35,946,642
Change in net deferred income tax			
Change in nonadmitted assets	(3,000,029)	(4,905,484)	7,979,291
Net change in capital and surplus for the year	30,091,249	175,980,076	118,101,314
Capital and surplus, December 31 current year	<u>\$1,413,755,329</u>	<u>\$1,383,664,080</u>	<u>\$1,207,684,004</u>

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, 2018. For December 31, 2018, 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 HMO Blues' UCL are reasonable as of December 31, 2018.

SUBSEQUENT EVENTS

In March 2020 the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy, and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business they underwrite. The Division will continue to monitor how the pandemic might impact the Company.

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.

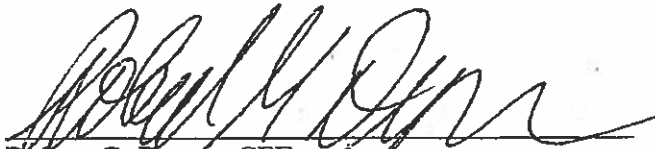
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SIGNATURE PAGE

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 examiner who participated in this examination hereby is acknowledged:

Guangping Wei, CFE, Examiner III

A handwritten signature in black ink, appearing to read 'Robert G. Dynan', is written over a horizontal line.

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