

State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

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P.O. Box 83720
Boise, Idaho 83720-0043
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WILLIAM W. DEAL
Director

August 15, 2014

Ms. Zelda Geyer-Sylvia
President and Chief Executive Officer
Blue Cross of Idaho Health Service, Inc.
3000 E. Pine Avenue
Meridian, Idaho 83642

****Via U.S. Certified Mail****

Re: Adopted Report of Market Conduct Examination as of December 31, 2012

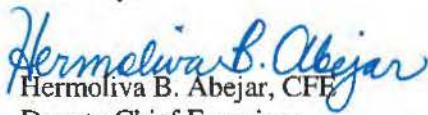
Dear Ms. Geyer-Sylvia,

Please find enclosed a copy of the final, adopted Report of Market Conduct Examination for Blue Cross of Idaho Health Service, Inc. (the Company) for your records, including a copy of the Order Adopting Report of Market Conduct Examination. The Report of Market Conduct Examination was adopted (as a public record) today, August 15, 2014.

Idaho Code Section 41-227 (6) (a) prescribes that within 30 days of the issuance of the adopted report, the examined entity shall file affidavits executed by each of its director (or trustees) stating under oath that they have received a copy of the adopted report and the related order. A sample affidavit has been enclosed for your convenience. Please send the completed affidavits to my attention.

The Department certainly appreciated the high degree of cooperation extended by you, David Jeppesen and his team, Jack Myers and his financial team, the officers, Board of Directors and the Blue Cross staff during the examination. As always, please feel free to contact me at (208) 334-4313, or email: Hermoliva.Abejar@doi.idaho.gov if you have any questions.

Sincerely,


Hermoliva B. Abejar, CFE

Deputy Chief Examiner
IDAHO DEPARTMENT OF INSURANCE

Cc: Georgia Siehl, Bureau Chief/Chief Examiner
Arlen Barrie, Market Conduct Examiner
David Jeppesen, Senior Vice President, Sales and Marketing
Jack Myers, Executive Vice President of Finance & CFO
Carol Mulder, Senior Statutory Accountant

Enclosures

LAWRENCE G. WASDEN
Attorney General

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FILED 

AUG 15 2014

Department of Insurance
State of Idaho

Attorneys for the Department of Insurance

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE
OF THE STATE OF IDAHO**

In the Matter of:

BLUE CROSS OF IDAHO HEALTH
SERVICE, INC.

Certificate of Authority No. 1900
NAIC No. 60095

Docket No. 18-2954-14

**ORDER ADOPTING REPORT
OF LIMITED MARKET CONDUCT
EXAMINATION AS OF
DECEMBER 31, 2012**

The State of Idaho, Department of Insurance (Department), having conducted an examination of the affairs and transactions of Blue Cross of Idaho Health Service, Inc. (Blue Cross), pursuant to Idaho Code § 41-219(1), hereby alleges the following facts that constitute a basis for issuance of an order, pursuant to Idaho Code § 41-227(5)(a), adopting the Report of Limited Market Conduct Examination of Blue Cross of Idaho Health Service, Inc. as of December 31, 2012 (Report), as filed.

FINDINGS OF FACT

1. Blue Cross is an Idaho-domiciled insurance company licensed to transact disability insurance, including managed care, in Idaho under Certificate of Authority No. 1900.

2. The Department completed an examination of Blue Cross pursuant to Idaho Code § 41-219(1) on or about June 27, 2014. The Department's findings are set forth in the Report.

3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department's examiner-in-charge, was filed with the Department on June 27, 2014, and a copy of such verified Report was transmitted to Blue Cross on the same date. A copy of the verified Report is attached hereto as Exhibit A.

4. Pursuant to Idaho Code § 41-227(4), Blue Cross had thirty (30) days from June 27, 2014, to make a written submission or rebuttal with respect to any matters contained in the Report. Blue Cross submitted a response to the Department on or about July 29, 2014, and requested that such response be attached to the order adopting the Report. Because Blue Cross previously communicated to the Department the contents of its written submission and because the written submission is not substantially past due, a copy of the Blue Cross written submission is attached hereto as Exhibit B.

CONCLUSIONS OF LAW

5. Idaho Code § 41-227(5)(a) provides that "[w]ithin thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals, the director shall fully consider and review the report, together with any written submissions or rebuttals and relevant portions of the examiner's work papers" and shall enter an order adopting the report of examination as filed or with modifications or corrections.

6. Having fully considered the Report and the written submission of Blue Cross, the Director concludes that the comments contained in the Report are appropriate and that, to the extent such comments indicate areas of regulatory concern, such concern appears to have been remedied by the discontinuance of the WAIVE SHIP campaign, as indicated in the Blue Cross

written submission. Nothing herein waives enforcement action by the Department for violations of IDAPA 18.01.24, Advertisement of Disability (Accident and Sickness) Insurance, if any, by Blue Cross.

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report is hereby ADOPTED as filed, pursuant to Idaho Code § 41-227(5)(a).


IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(8), that the adopted Report is a public record and shall not be subject to the exemptions from disclosure provided in title 9, chapter 3, Idaho Code.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(6)(a), that, within thirty (30) days of the issuance of the adopted Report, Blue Cross shall file with the Department's Deputy Chief Examiner affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report and related orders.

IT IS SO ORDERED.

DATED this 13th day of August, 2014.

STATE OF IDAHO
DEPARTMENT OF INSURANCE



WILLIAM W. DEAL
Director

CERTIFICATE OF SERVICE

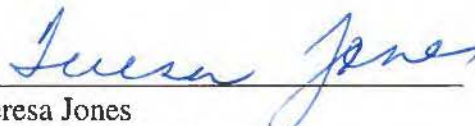
I HEREBY CERTIFY that, on this 15th day of August, 2014, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF LIMITED MARKET CONDUCT EXAMINATION AS OF DECEMBER 31, 2012 to be served upon the following by the designated means:

Blue Cross of Idaho Health Service, Inc.
Attn: Zelda Geyer-Sylvia, President & CEO
3000 E. Pine Avenue
Meridian, ID 83642

☐ first class mail
☒ certified mail
☐ hand delivery
☐ email

Georgia Siehl, CPA, CFE
Bureau Chief / Chief Examiner
Idaho Department of Insurance
700 W. State Street, 3rd Floor
Boise, ID 83720-0043
georgia.siehl@doi.idaho.gov

☐ first class mail
☐ certified mail
☐ hand delivery
☒ email



Teresa Jones
Assistant to the Director

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF LIMITED MARKET CONDUCT EXAMINATION

Of

BLUE CROSS OF IDAHO HEALTH SERVICE, INC.

NAIC Company Code number: 60095

Located At:
3000 E PINE AVENUE
MERIDIAN, ID 83642

As of

DECEMBER 31, 2012



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WILLIAM W. DEAL
Director

Meridian, Idaho
June 27, 2014

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
P. O. Box 83720
Boise, Idaho 83720-0043

Dear Director:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted a Market Conduct examination as of December 31, 2012, of the corporate affairs of:

Blue Cross of Idaho Health Service, Inc.
3000 East Pine Avenue
Meridian, Idaho 83642

hereinafter referred to as the "Company," at its offices in Meridian, Idaho. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This was a limited-scope market conduct examination covered the period January 1, 2009, through December 31, 2012. The approach utilized for this exam was by exception, whereas only exception or errors were noted in this report. Comments regarding additional practices, procedures and files subject to review during the examination were omitted from the report if no improprieties were identified. The examination was conducted at the Company headquarters in Meridian, Idaho by examiners from the State of Idaho. The examination was conducted in accordance with Section 41-219(1), Idaho Code, and in accordance with the National Association of Insurance Commissioners (NAIC) examination standards established in the *Market Regulation Handbook* (2013 Edition, Volumes I & II).

The examination consisted of a review of the Company's:

- Complaint register and sample complaints filed with the Department of Insurance and complaints filed directly with the Company;
- Claim handling and timeliness of payment of claims;
- Underwriting and premium calculations of business insurance policies, automobile and property policies;
- Underwriting practices and procedures regarding cancellations and proof of mailing to ensure compliance required by Idaho Code §§ 41-2508 and 41-2101(1)(j);
- Advertising and marketing;
- Producer/agent appointments;
- Privacy practices.

Benchmark sample error rates of 7% for claims and 10% for other trade practices were utilized as specified by the NAIC *Market Regulation Handbook*.¹ Error rates exceeding these thresholds are presumed to indicate a general business practice. In some cases, however, each instance of a commission of an act may constitute a separate and distinct violation of Idaho law.

In addition to the Report of Examination, a Management Letter was issued to the Company by the Department which covered items that were not included in the Report due to the materiality threshold, items that were related to proprietary/operational issues.

Failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

¹ See 2011 NAIC *Market Regulation Handbook*, Volume I, page 180, second paragraph.

PRIOR EXAMINATION

The prior market conduct examination was conducted by the Idaho Department of Insurance covering the period January 1, 2005 through December 31, 2008.

A review was made to ascertain what action was taken by the Company with regard to comments and recommendations made by the Department in the prior examination report. Unless otherwise mentioned in the *Comments and Recommendations* section of this report, the prior report exceptions were adequately addressed by the Company.

HISTORY AND DESCRIPTION

The Company was formed as a non-profit entity on December 31, 1977. Its incorporation and formation was the result of a consolidation of Blue Cross of Idaho, Inc. and South Idaho Medical Service Bureau, Inc., who had maintained separate operations in Idaho since 1945 and 1962, respectively. The Company was formed under Title 41, Chapter 34, Idaho Code, and operated as a hospital and professional service corporation. In 1995, the Company converted to a nonprofit mutual insurer under Title 41, Chapter 28, Idaho Code.

Beginning in 1987, the Company became subject to Federal income taxes. Prior thereto it had been exempt under Section 501(c)(4), Internal Revenue Code.

Prior to the Company's mutualization, it was exempt from Idaho State premium taxes, state corporation taxes, and participation in the Life and Health Guaranty Association. State taxation in lieu of Idaho premium taxes was provided under Section 41-3427, Idaho Code, which required assessment of four cents per subscriber contract per month.

As a result of mutualization in 1995, the Company's lines of business, with the exception of its administrative service contract business, are no longer exempt from Idaho premium taxes and participation in the Life and Health Guaranty Association. In addition, the Company's Annual Statement reporting form was changed from a hospital, medical, dental and indemnity form to a Life, Accident and Health blank.

Beginning in 1994, the Company's managed care line of business, Idaho Preferred Healthcare, was no longer required to file a separate annual statement. Idaho Preferred Healthcare's line of business was to be reported in the Company's annual statement separately as to premium income, claims, administrative expenses and enrollment in the same manner as required for the other lines of business. Idaho Preferred Healthcare was reported in the Company's 1994 and 1995 annual statements.

The Department notified the Company in a letter dated March 12, 1996 that, effective with the quarterly statement as of March 31, 1996, Idaho Preferred Healthcare was to begin filing separate statements. Although Idaho Preferred Healthcare did not operate as a separate legal entity, it was required to file a separate statement, since it operated

under a separate certificate of authority and its business and operations were clearly distinguishable from the other types of insurance offered by the Company.

In August 1996, the name of Idaho Preferred Healthcare was changed to Blue Cross of Idaho Coordinated Care Services. As noted in the preceding paragraph, Blue Cross of Idaho Coordinated Care Services was not a corporation or legal entity, but was operated concurrently with the operations of the Company and was considered a separate and distinct division within the Company, in accordance with Section 41-3406 (4), Idaho Code.

Effective February 11, 1999, Health Ventures Corporation received its certificate of authority to operate as a managed care organization under Title 41, Chapter 39, Idaho Code. Prior to this, Health Ventures Corporation was incorporated as a third party administrator for the Company's Medicare managed care line of business, which was written by Blue Cross of Idaho Coordinated Care Services. Health Ventures Corporation changed to an insurer on February 11, 1999 and effective that date became the 100 percent reinsurer of the Blue Cross of Idaho Coordinated Care Services' group managed care and Medicare Choice lines of business. Health Ventures Corporation was owned equally by the Company and St. Luke's Regional Medical Center. Health Ventures Corporation owned 50 percent of Triad Limited Liability Company while Eastern Idaho IPA, PLLC owned the remaining 50 percent.

On January 1, 2000, Blue Cross of Idaho Coordinated Care Services voluntarily surrendered its certificate of authority and ceased writing business. Consequently, Blue Cross of Idaho Coordinated Care Services' assets, liabilities, equity, and all managed care products were absorbed within the Company. The Company's Certificate of Authority was re-issued on January 3, 2000 to include managed care business.

Health Ventures Corporation executed surplus note agreements with the Company and St. Luke's Regional Medical Center on June 29, 2000. During 2000, surplus notes in the amount of \$3,250,000 each were issued to the Company and to St. Luke's.

In December 2001, the Company acquired St. Luke's Regional Medical Center's interest in Health Ventures Corporation for \$7,000,000 in cash in exchange for St. Luke's shares and surplus notes receivable of \$3,250,000. The Board of Directors authorized the transaction on November 30, 2001. The Plan of Dissolution was submitted to the Idaho Department of Insurance and in a letter dated December 27, 2001, the Department indicated it had no objections to the acquisition. Pursuant to the Plan, Health Ventures Corporation was dissolved on February 26, 2002 and voluntarily surrendered its certificate of authority on February 28, 2002. Health Ventures Corporation's share of Triad Limited Liability Company was transferred to the Company. The surplus notes issued to St. Luke's were surrendered and the Company became the owner of Health Ventures' assets and liabilities.

Blue Cross of Idaho Foundation for Health, Inc. was incorporated as a non-profit entity on December 28, 2001. The Board of Directors approved the establishment of the Foundation on November 13, 2001. The purpose of the foundation was to promote health improvement initiatives to Idaho residents.

The Company changed its reporting format from the NAIC Life, Accident and Health blank to the Health blank effective January 1, 2004.

In 2007 the Company purchased 6 percent of WPML, LLC, a joint venture with three other Blue Cross Blue Shield plans for the purpose of providing third party administrative services and health insurance products in China. In 2011 the Company increased its ownership to 8 percent. This investment is nonadmitted for statutory accounting purposes.

In 2008 the Company entered into a limited liability partnership, BlueCross BlueShield Ventures I. This entity was formed for the purpose of providing a structure to gain access to innovative companies and achieve significant strategic insights and returns in the healthcare insurance industry related to new ventures. This investment is nonadmitted for statutory accounting purposes.

In 2010 the Company entered into a limited liability partnership, Blue Health Intelligence LLC. This entity was formed for the purpose of collecting health related data for analysis and/or purchase by outside interests. This investment is nonadmitted for statutory accounting purposes.

In 2011 the Company entered into a joint venture, BlueCross BlueShield Ventures II, for the purpose of providing a structure to gain access to innovative companies and achieve significant strategic insights and returns in the healthcare insurance industry related to new ventures. The common stock of this investment is reported as an admitted asset; the private equity fund portion is nonadmitted for statutory accounting purposes.

The Company entered into a joint venture, PEAK1 Administration, LLC, with Blue Cross and Blue Shield of Montana in 2012. PEAK1 Administration, LLC provides third party administration of account-based employee benefit plans for cafeteria and non-medical ancillary product plans. The Company owned 51 percent of this joint venture. Subsequent to the examination date, PEAK1 was sold on August 9, 2013.

The Company owned 50 percent of Idaho Benefits Administration, Inc., a joint venture with WellPoint Health Networks. The Company contracted with WellPoint for certain administrative services for its dental products in 2011. The Company terminated its participation in this joint venture in 2012.

In February 2012 the Company created Idaho Benefits Administration, LLC as a holding company for potential new business interests. The Company owned 100 percent of this entity at year-end 2012.

In September 2012 the Company created Network Management Initiatives (NM Initiatives, LLC), to allow the use of a non-branded network and to contract with dentists outside of Idaho. At year-end 2012, Idaho Benefits Administration, LLC owned 100 percent of NM Initiatives, LLC.

Subsequent to the examination date, the Company created Blue Cross of Idaho Care Plus, Inc. to manage Medicaid insurance business starting in 2015. See *MANAGEMENT AND CONTROL* and *SUBSEQUENT EVENTS* for additional information.

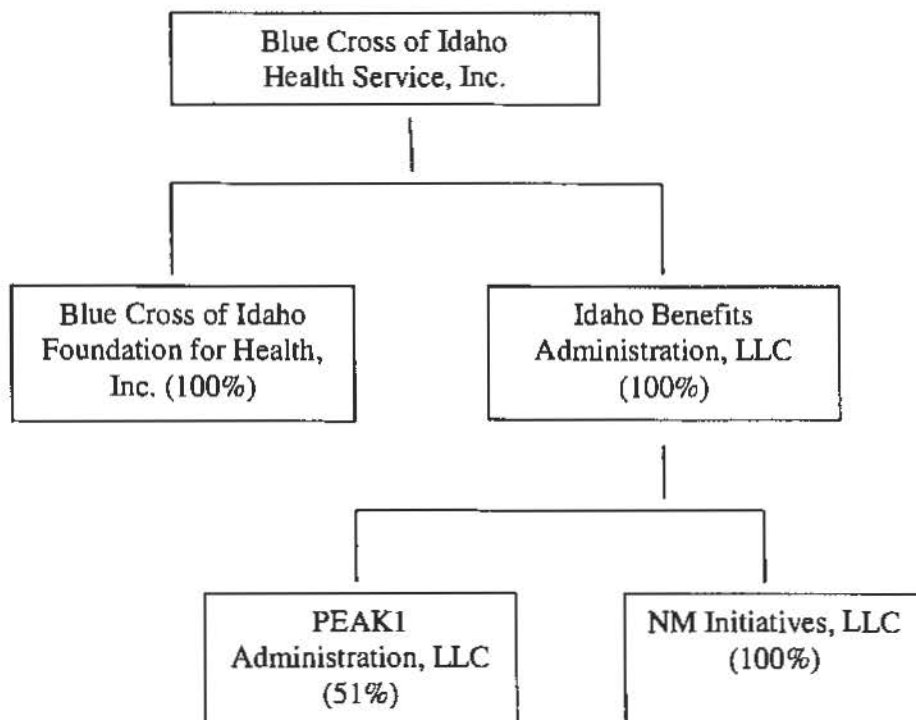
The Company is a member of the Blue Cross and Blue Shield Association. The Association serves as a national non-affiliated advisory organization for all Blue Cross and Blue Shield Plans in the United States.

Subsequent to the examination date, the Company created Blue Cross of Idaho Care Plus, Inc. to manage Medicaid insurance business starting in 2015. Blue Cross of Idaho Care Plus, Inc. holds a certificate of authority from the Idaho Department of Insurance.

MANAGEMENT AND CONTROL

Insurance Holding Company System

The Company is a member of an insurance holding company system and is the ultimate controlling person, as depicted in the following organizational chart as of December 31, 2012:



The affiliated entities are described in more detail under the caption, *HISTORY AND DESCRIPTION*.

As previously reported, Blue Cross of Idaho Care Plus, Inc. was created on February 19, 2013. The Company owns 100 percent of this entity. The Company filed the holding company registration statement with the Idaho Department of Insurance relating to the formation of this entity on March 8, 2013.

Directors

The Company is a mutual organization with each policyholder being a member of the corporation. The members annually elect Company directors to three-year terms.

The affairs of the Company are managed under the direction of and supervised by the Board of Directors. The Company must have at least five directors and up to seventeen directors, including the Chief Executive Officer. The number of directors is in compliance with Section 41-2835(5), Idaho Code, which requires no less than five or more than twenty-five members. The Board is comprised of three categories of directors which must include at least one hospital director, at least one physician director, with the majority being public directors. The President and Chief Executive Officer serves as an ex officio Director.

The following persons are the duly elected or ex officio members of the Board of Directors at December 31, 2012:

<u>Name</u>	<u>Principal Occupation</u>
<u>Physician Directors:</u>	
Micheal John Adox, M.D.	St. Luke's Clinic Nephrology
Richard Kent Thurston M.D.	Chief of Staff & Emergency Department Director, Benewah Hospital
<u>Hospital Directors:</u>	
Sally E. Jeffcoat	President & Chief Executive Officer, Saint Alphonsus Regional Medical Center
David C. Pate, M.D., J.D	President & Chief Executive Officer, St. Luke's Health System
<u>Public Directors:</u>	
Zelda Geyer-Silvia, Ex Officio	President & Chief Executive Officer, Blue Cross of Idaho Health Service, Inc.
Jack Wynn Gustavel	Chairman & Chief Executive Officer, Idaho Independent Bank
Norman Charles Hedemark	Retired
Kenlon Porter Johnson	President, Forde Johnson Oil Company, Inc.
Thomas Frederick Kealey	President, Silver Creek Holding Company
Ward Douglas Parkinson	Director & Vice President, Commercial Development, Ovonyx, Inc.
Michael James Shirley, Chair	Retired
Jo Anne Stringfield, Vice Chair	Human Resources, Finance & Accounting Advisor

Officers:

The Company's amended and restated Bylaws provide that the Board shall elect directors to serve as the Board Chair and Vice Chair. The Board Chair and Vice Chair at year-end 2012 were:

Michael James Shirley	Chair of the Board
Jo Anne Stringfield	Vice Chair of the Board

The following persons were appointed as officers of the Company as of December 31, 2012:

Zelda Geyer-Sylvia	President & Chief Executive Officer
Jack Myers	Treasurer, Executive Vice President & Chief Financial Officer
Steven J. Tobiason	Secretary, Senior Vice President and General Counsel
Bruce R. Croffy, M.D., Ph.D.	Senior Vice President & Chief Medical Officer
Dennis Warren	Vice President, Account Management
Tunde Molnar	Assistant Corporate Secretary

Committees:

Pursuant to the amended and restated Bylaws, the Board may create one or more regular or special Board committees. Each committee must include at least two directors. The Committees operate under Statements of Purpose and Organization, which set forth the purpose of each committee, responsibilities, duties, eligibility, appointment, and meetings.

Directors appointed to the Board committees at year-end 2012, as well as staff advisors, are shown below:

Executive Committee

Michael James Shirley	Chair
Jack Wynn Gustavel	
Micheal John Adcox, M.D.	
Norman Charles Hedemark	
Kenlon Porter Johnson	
Jo Anne Stringfield	
Zelda Geyer-Sylvia	Ex Officio

Audit Committee

Kenlon Porter Johnson	Chair
Jack Wynn Gustavel	
Norman Charles Hedemark	
Thomas Frederick Kealey	
Michael James Shirley	
Jo Anne Stringfield	
Jack Alan Myers	Staff

Compensation and Benefits Committee

Norman Charles Hedemark	Chair
Ward Douglas Parkinson	
Michael James Shirley	
Jo Anne Stringfield	
Zelda Geyer-Sylvia, Ex Officio	Staff

Finance Committee

Jack Wynn Gustavel	Chair
Kenlon Porter Johnson	
Michael James Shirley	Ex Officio
Thomas Frederick Kealey	
Zelda Geyer-Sylvia	Ex Officio
Jack Alan Myers	Staff

Governance and Nominating Committee

Jo Anne Stringfield	Chair
Micheal John Adcox, M.D.	
Jack Wynn Gustavel	
Norman Charles Hedemark	
Ward Douglas Parkinson	
Michael James Shirley	Ex Officio
Zelda Geyer-Sylvia	Ex Officio
Steve Tobiason	Staff

Independent Public Directors Committee

Michael James Shirley	Chair
Jo Anne Stringfield	
Jack Wynn Gustavel	
Norman Charles Hedemark	
Kenlon Porter Johnson	
Thomas Frederick Kealey	
Ward Douglas Parkinson	

Quality Committee

Micheal John Adcox, M.D.	Chair
Sally E. Jeffcoat	
Kenlon Porter Johnson	
Thomas Frederick Kealey	
David C. Pate, M.D., J.D.	
Richard K. Thurston, M.D.	
Zelda Geyer-Sylvia	Ex Officio

Conflict of Interest

The Company has a conflict of interest procedure in place that applies to all directors, corporate officers, managers, supervisors, administrative assistants and employees in designated sensitive areas and those who administer benefits for government programs (delegated entities).

Within thirty days from their date of hire, all new corporate officers, managers, supervisors, administrative assistants and employees in designated sensitive areas are required to complete a Conflict of Interest Statement and Questionnaire. Annually, the Board of Directors, corporate officers, directors, managers, supervisors, administrative assistants and certain employees will submit a Conflict of Interest Statement to the Company. Delegated entities are required by contract to certify to the Company that they have obtained and evaluated Conflict of Interest Statements from their employees responsible for the administration of benefits for government programs.

The Company has established processes for addressing and mitigating any conflicts of interest, which includes reviews by the Company's General Counsel and Corporate Compliance Officer or Manager. Furthermore, summaries of conflicts of interest reported by Company employees are submitted to the Board of Directors for their review.

Conflict of interest questionnaires that were completed for the period January 1, 2009, through December 31, 2012 and subsequent thereto appeared to appropriately disclose any real or potential conflicts of interest.

TERRITORY AND PLAN OF OPERATION

The Company is licensed only in the State of Idaho as a mutual insurer authorized to write disability insurance, including managed care. In addition to the home office located in Meridian, Idaho, the Company maintains five district offices located throughout the State of Idaho in the cities of Coeur d'Alene, Idaho Falls, Lewiston, Pocatello, and Twin Falls. The primary functions of the district offices include marketing, policyholder service, and writing new business. Claims processing is performed in the home office.

The Company provided health care services to group and individual subscribers utilizing participating/contracting providers as a means of fulfilling their contractual obligations. In addition, the Company provided administrative services to companies which have self-funded a portion of their employees' health care claims, and the Federal Employee Health Benefit Plan to federal government employees.

During the examination period, the Company provided traditional individual major medical and Medicare supplement plans, Medicare Advantage plans, small and large group plans, Preferred Provider Organization plans, Managed Care plans and also administered Administrative Service Contracts (ASC) for self-funded plans. The Company also began administering and paying the claims to participants of the State of Idaho Medicaid dental program, "Idaho Smiles".

According to NAIC market share report for 2012, the company is the largest health carrier in the state of Idaho with a 62.98% Market Share. Total dollar amount of business written in Idaho in 2012 was \$1,262,042,460. The total number of member insureds at the end of 2012 was 558,006 which included 46,851 Individual Comprehensive; 161,530 Group Comprehensive; 8,087 Medicare Supplement; 274,816 dental only; 34,567 Federal Employee Health Benefit Plan; 32,155 Title XVIII Medicare.

The Company marketed its insurance products through commissioned producers and agencies and utilized a field force of approximately 2,927 appointed producers.

Agencies produce business pursuant to Independent Production Agreements – Agency. There is a separate Independent Production Agreement for individual agents. An

Addendum to Agreement with Business Associate, which is included as part of the Independent Production Agreement, specifically pertains to privacy issues and responsibilities. The Production Agreements contain standard language, such as Agency responsibilities, confidentiality, indemnification, hold harmless, and compensation information. The contracts may be terminated by either party by written certified notice or personal delivery. The termination date will be effective 30 days after the date a written notice is mailed by either party.

EXECUTIVE SUMMARY

This limited-scope market conduct examination included tests of policies that were:

- issued,
- renewed,
- cancelled,
- non-renewed or
- declined

In conjunction with the review of the above policy areas, the Company's general practices and procedures relating to rating, underwriting, advertising and marketing, and risk selection were scrutinized.

Test-work conducted in the areas of claims handling and timeliness of claims payments included the following populations:

- Paid claims
- Denied claims

In summary, the main areas of non-compliance identified during this examination included incorrect premium calculation for pharmaceutical drug coverage, delays in providing Certificates of Credible Coverage and delays in terminations, all regarding Small Group New Business. Also, certain advertising was identified as not in compliance.

Recommendations included in this report may extend to other jurisdictions. The company is advised to take necessary steps to comply with Idaho insurance laws and regulations and if applicable, with other jurisdictions as well.

COMMENTS AND RECOMMENDATION

Advertising and Sales Material

The Company's WAIVE SHIP 2012 advertising campaign was in violation of IDAPA Rule 18.01.24. During the review of various advertising materials it was noted specifically, that the campaign promotion items did not clearly identify the product being advertised as required by Rule 18.01.24.020.01.a and the promotion materials

included the mention of a \$77 per month premium. Neither the policy form nor basic policy provisions were disclosed with the advertising material as required by IDAPA Rule 18.01.24.013.02.a and 18.01.24.014.

It is recommended that the Company file all advertising material with the Department for review prior to using and that its advertising material is in compliance with IDAPA 18.01.24, Advertisement of Disability (Accident and Sickness) Insurance.

CONCLUSION

The Undersigned acknowledges the assistance and cooperation of the Company's officers and employees in conducting the examination.

In addition to the undersigned, Dale Freeman, CIE of the Idaho Department of Insurance, participated in the examination.

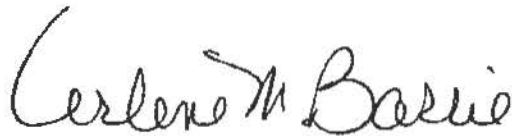
A handwritten signature in cursive script, reading "Arlene Barrie". The signature is written in dark ink and is positioned above a horizontal line.

Arlene Barrie
Market Conduct Examiner
State of Idaho
Department of Insurance

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

Arlene Barrie, being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, tha he has made an examination of the affairs of Blue Shield of Idaho Health Service, Inc. for the period from January 1, 2009 through December 31, 2012, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.



Arlene Barrie
Market Conduct Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 27th day of JUNE, 2014 at Boise, Idaho



Notary Public
My commission expires: 30 OCT 2019





July 29, 2014

Hermoliva B. Abejar, CFE
Deputy Chief Examiner
Idaho Department of Insurance
P.O. Box 83720
Boise, Idaho 83720

RE: Blue Cross of Idaho attached response – Market Conduct Exam Report

Dear Ms. Abejar,

Attached is the response to the Market Conduct Examination Report for Blue Cross of Idaho Health Service, Inc. as of December 31, 2012.

We respectfully submit our response to you and welcome any comments you may have regarding them. If you have any questions, please contact David Slonaker at (208) 331-7456 or Carol Mulder at (208) 331-7464.

Sincerely,

A handwritten signature in black ink, appearing to read "David Slonaker", written over a horizontal line.

David Slonaker
Director of Finance





Report of limited market conduct examination of Blue Cross of Idaho Health Service, Inc. as of December 31, 2012

COMMENTS AND RECOMMENDATION

Advertising and Sales Material

The Company's WAIVE SHIP 2012 advertising campaign was in violation of IDAPA Rule 18.01.24. During the review of various advertising materials it was noted specifically, that the campaign promotion items did not clearly identify the product being advertised as required by Rule 18.01.24.020.01.a and the promotion materials included the mention of a \$77 per month premium. Neither the policy form nor basic policy provisions were disclosed with the advertising material as required by IDAPA Rule 18.01.24.013.02.a and 18.01.24.014.

It is recommended that the Company file all advertising material with the Department for review prior to using and that its advertising material is in compliance with IDAPA 18.01.24, Advertisement of Disability (Accident and Sickness) Insurance.

Response: The Rules of IDAPA 18.01.24 provide a tool to the Department of Insurance to prevent false or misleading advertising and ensure fair competition among insurers. Blue Cross of Idaho (BCI) has a long and consistent record in Idaho, not only of adherence to these principles, but insistence on their practice as a matter of its own corporate integrity.

BCI maintains that, consistent with this corporate ethic, the WAIVE SHIP campaign advertisements cited in the Report do not 'create a tendency to mislead or deceive' (18.01.24.13.02a) or otherwise violate public policy.

Although the IDAPA Rules provide important guidelines for the advertisement of insurance policies or products, the WAIVE SHIP campaign did not market a specific policy or product. Rather, it encouraged potential members to visit a separate website and review multiple coverage options in detail.

Because the advertisements did not reference a specific policy or product (only that a customer could switch 'for as little as \$76 per month,') the customer literally could not have acted on the basis of the advertisement alone to make a purchase. In other words, by the advertisements' very design, the customer would have to conduct further investigation of multiple coverage options in order to make a fully informed purchasing decision.

In respect to the identified advertising campaign, BCI is not aware of any complaint by a consumer concerning the advertisement in question. It is extremely unlikely that any Idaho consumer was misled by the WAIVE SHIP campaign particularly since an interested consumer could not purchase healthcare coverage unless the consumer initiated access to the identified BCI website and to obtain product and pricing information. There is no allegation that the product and pricing information directly available to the consumer from the BCI website was inaccurate, misleading or incorrect.

BCI discontinued the WAIVE SHIP campaign in 2013 for unrelated business reasons. We will continue to review all BCI advertising materials to ensure compliance with the applicable legal requirements.