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FILED
SEP 09 2019 *AK*
Department of Insurance
State of Idaho

Attorneys for the Department of Insurance

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

In the Matter of:

BLUE CROSS OF IDAHO HEALTH
SERVICE, INC.

Certificate of Authority No. 1900
NAIC No. 60095

Docket No. 18-3690-19

**ORDER ADOPTING REPORT
OF EXAMINATION AS OF
DECEMBER 31, 2017**

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, 2017 (“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 August 5, 2019. 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 August 5, 2019, 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 August 5, 2019, to make a written submission or rebuttal with respect to any matters contained in the Report. No such written submission or rebuttal was received by the Department from Blue Cross.

CONCLUSIONS OF LAW

5. Idaho Code § 41-227(5) 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, rejecting the report and reopening the examination, or calling for an investigatory hearing.

6. Having fully considered the Report, the Director concludes that the comments contained in the Report are appropriate.

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Limited Market Conduct Examination of Blue Cross of Idaho Health Service, Inc. as of December 31, 2017 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 chapter 1, title 74, 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 and EFFECTIVE this 6th day of September, 2019.

STATE OF IDAHO
DEPARTMENT OF INSURANCE


DEAN L. CAMERON
Director

NOTIFICATION OF RIGHTS

This is a final order of the agency. Any party may file a motion for reconsideration of this final order within fourteen (14) days of the service date of this order. The agency will dispose of the motion for reconsideration within twenty-one (21) days of its receipt, or the motion will be considered denied by operation of law. See Idaho Code § 67-5246(4).

Pursuant to Idaho Code §§ 67-5270 and 67-5272, any party aggrieved by this final order or orders previously issued in this case may file a petition for judicial review in the district court of the county in which:

- i. A hearing was held;
- ii. The final agency action was taken;
- iii. The party seeking review of the order resides, or operates its principal place of business in Idaho; or
- iv. The real property or personal property that was the subject of the agency action is located.

A petition for judicial review must be filed within twenty-eight (28) days of: (a) the service date of this final order, (b) the service of an order denying motion for reconsideration, or (c) the failure within twenty-one (21) days to grant or deny a motion for reconsideration, whichever is later. See Idaho Code § 67-5273. The filing of a petition for judicial review does not itself stay the effectiveness or enforcement of the order under appeal. Idaho Code § 67-5274.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 9th day of September, 2019, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2017 to be served upon the following by the designated means:

Blue Cross of Idaho Health Service, Inc.
Attn: Charlene Maher, President and CEO
3000 E. Pine Avenue
Meridian, ID 83642

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

Nathan Faragher
Chief Examiner, Company Activities Bureau Chief
Idaho Department of Insurance
700 W. State Street, 3rd Floor
P.O. Box 83720
Boise, ID 83720-0043
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DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF LIMITED MARKET CONDUCT EXAMINATION

Of

BLUE CROSS OF IDAHO HEALTH SERVICE, INC.

NAIC Company Code 60095

Located At:
3000 E PINE AVENUE
MERIDIAN, ID 83642

As of

DECEMBER 31, 2017



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State of Idaho
DEPARTMENT OF INSURANCE

BRAD LITTLE
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DEAN L. CAMERON
Director

Meridian, Idaho
August 5, 2019

The Honorable Dean L. Cameron
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, 2017, 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.

FOREWORD

This examination utilized the exception approach, whereas only exceptions 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, in accordance with Section 41-219(1), Idaho Code, and with the National Association of Insurance Commissioners (NAIC) examination standards established in the most recent *Market Regulation Handbook*.

SCOPE OF EXAMINATION

This limited-scope market conduct examination covered the period January 1, 2013, through December 31, 2017. The examination consisted of a review of the Company's:

- Producer licensing;
- Licensed lines of business;
- Medicare Supplement – replacement requirements and suitability assessments, identification of advertisements and content requirements, marketing prohibited acts and terms;
- Complaint handling – complaint register, complaint handling procedures, resolution of complaints, timeline of resolution;
- Compliance to Mental Health Parity law – specifically on the benefits between mental health and general medical coverage;
- Specific inquiry – injectable medications.

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 and items that were related to proprietary/operational issues.

Failure to identify or discuss improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices. This report will not be used for advertising purposes.

Review of Prior Examination Findings

The prior market conduct examination was conducted by the Idaho Department of Insurance covering the period January 1, 2009, through December 31, 2012.

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 nonprofit 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 with 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, by a letter dated March 12, 1996, notified the Company 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 this 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 reissued 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 nonprofit entity on December 28, 2001. The Board of Directors approved the establishment of the Foundation on November 13, 2001. The purpose of the foundation is 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 WPMI, 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. 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 2016.

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 2017.

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 2017, Idaho Benefits Administration, LLC, owned 100 percent of NM Initiatives, LLC.

Following the passage of the Patient Protection and Affordable Care Act (PPACA), the Company was an active participant in the state-based health insurance exchange, Your Health Idaho, providing critical input and guidance as the exchange built its enrollment processes and procedures.

In 2013, Blue Cross of Idaho Care Plus, Inc., was formed for the Company's Medicare Advantage policyholders. This move, approved by the Centers for Medicare and Medicaid Services, allowed the Company to better serve the financial needs of its members based on federal tax benefits available to companies that primarily serve members in government programs.

In 2015, the Company launched an online cost transparency tool, CostAdvisor, as well as a mobile app for smartphones, giving members easy access to their health insurance information.

During 2016, the Company created new provider networks for individual health plans sold on and off the state health exchange. These new tailored health plans required a member to have a primary care physician who directed the member's care, including referrals to specialists. The Company began selling these new customized network plans in late 2016 for the 2017 calendar year.

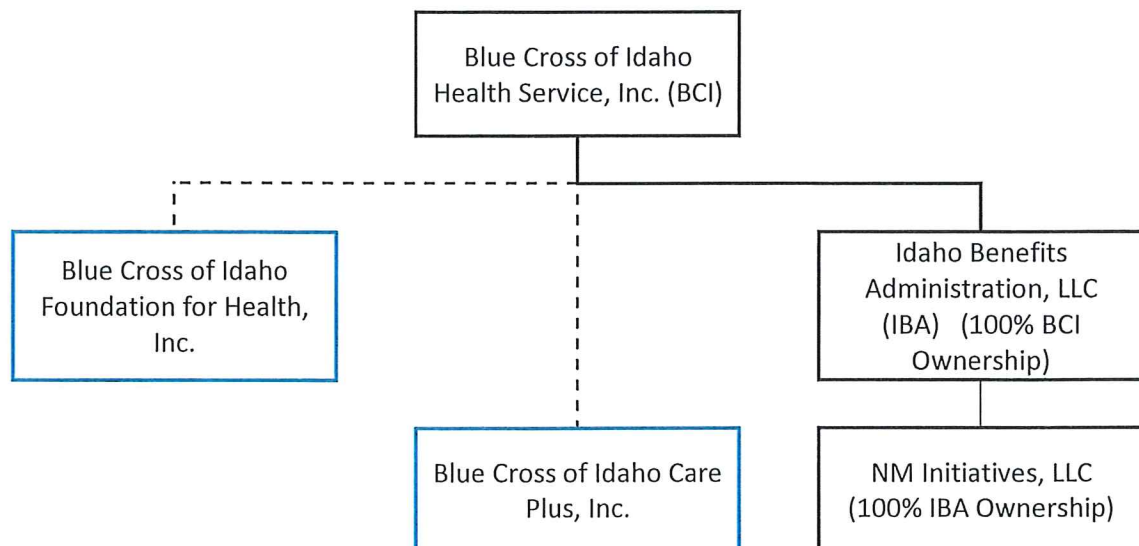
The Company continues to lead the state in innovative solutions to lower the cost of care. As of April 2017, the Company paid 47% of claims to providers as part of a value-based payment arrangement. Value-based payment methods include pay-for performance programs, bundled payments and shared-savings or shared-risk programs with physician clinics or physicians networks.

The Company is a member of the Blue Cross 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.

AFFILIATION 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, 2017:



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 filed the holding company registration statement with the Idaho Department of Insurance relating to the formation of this entity on March 8, 2013.

TERRITORY AND PLAN OF OPERATION

The Company is licensed only in the State of Idaho as a taxable nonprofit mutual insurer authorized to write disability insurance, including managed care. In addition to the home office located in Meridian, Idaho, the Company maintains four district offices located throughout the State of Idaho in the cities of Coeur d'Alene, Idaho Falls, 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 marketed its insurance products through commissioned producers and agencies and utilized a field force of approximately 1,357 appointed producers. As of December 31, 2017, the Company has 251,989 policies or certificates in force in the State of Idaho, covering 508,426 lives, equivalent to \$1,064,247,155 business written. The Company's 2017 Idaho market share was 29.3373%, making them the industry leader in the state.

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

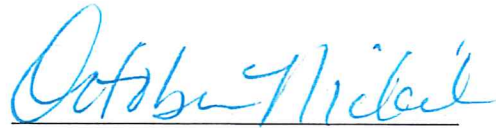
The limited-scope market conduct examination did not change from the original scope of the examination. No additional items were added or removed from the original scope under review.

Minor compliance issues were noted and discussed with the company.

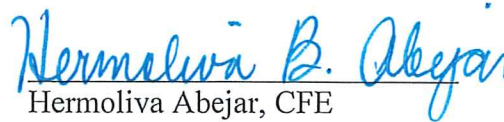
ACKNOWLEDGEMENTS

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

Respectfully submitted,



October Nickel, AIE, AIRC, APIR
Market Conduct Examiner-in-Charge
State of Idaho
Department of Insurance



Hermoliva Abejar, CFE
Chief Deputy Examiner
Market Conduct – Supervising Examiner
State of Idaho
Department of Insurance

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

October Nickel, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs of Blue Cross of Idaho Health Service, Inc. for the period from January 1, 2013 through December 31, 2017, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.

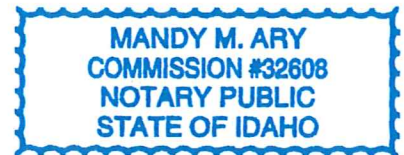
October Nickel

October Nickel, AIE
Market Conduct Examiner-in-Charge
State of Idaho
Department of Insurance

Subscribed and sworn to before me the 5th day of August, 2019 at Boise, Idaho

Mandy M. Ary

Notary Public



7/24/24

My commission expires: