

FILED
APR 06 2021
Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

In the Matter of:

REGENCE BLUESHIELD OF IDAHO, INC.

Certificate of Authority No. 1903
NAIC No. 60131

Docket No. 18-3906-21

**ORDER ADOPTING REPORT
OF LIMITED-SCOPE
EXAMINATION AS OF
DECEMBER 31, 2018**

The State of Idaho, Department of Insurance ("Department"), having conducted an examination of the affairs of Regence BlueShield of Idaho, Inc. ("RBSI"), 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-Scope Examination of Regence BlueShield of Idaho, Inc., as of December 31, 2018 ("Report"), as filed.

FINDINGS OF FACT

1. RBSI is an Idaho-domiciled insurance company licensed to transact disability insurance, including managed care, in Idaho under Certificate of Authority No. 1903.
2. The Department completed a limited-scope examination of RBSI pursuant to Idaho Code § 41-219(1) on or about March 2, 2021. 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 March 2, 2021, and a

copy of such verified Report was transmitted to RBSI on the same date. A copy of the verified Report is attached hereto as Exhibit A.

4. Pursuant to Idaho Code § 41-227(4), RBSI had thirty (30) days from March 2, 2021, to make a written submission or rebuttal with respect to any matters contained in the Report. On or about March 22, 2021, RBSI submitted a letter to the Department, responding to the two findings contained in the Report. A copy of RBSI's written submission is attached hereto as Exhibit B.

5. On or about March 22, 2021, the Department received a Waiver signed by Sean Robbins, as president of RBSI. By execution of such Waiver, a copy of which is attached hereto as Exhibit C, RBSI consented to the immediate entry of a final order by the Director of the Department ("Director") adopting the Report without any modifications; waived its right to make further written submissions or rebuttals to the Report; and waived its right to request a hearing and to seek reconsideration or appeal from the Director's final order.

CONCLUSIONS OF LAW

6. 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.

7. Having fully considered the Report as well as RBSI's written submission, the Director concludes that the Report should be adopted.

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Limited-Scope Examination of Regence BlueShield of Idaho, Inc., as of December 31, 2018, 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, RBSI shall file with the Department's 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 April, 2021.

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).

Any such motion for reconsideration shall be served on the Director of the Idaho Department of Insurance, addressed as follows:

Dean L. Cameron, Director
Idaho Department of Insurance
700 W. State Street, 3rd Floor
P.O. Box 83720
Boise, ID 83720-0043

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 6th day of April, 2021, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF LIMITED-SCOPE EXAMINATION AS OF DECEMBER 31, 2018 to be served upon the following by the designated means:

Regence BlueShield of Idaho, Inc.
1602 21st Avenue
Lewiston, ID 83501-4061

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

Eric Fletcher
Chief Examiner, Company Activities Bureau Chief
Idaho Department of Insurance
700 W. State Street, 3rd Floor
P.O. Box 83720
Boise, ID 83720-0043
eric.fletcher@doi.idaho.gov

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

Edith L. Pacillo
Lead Deputy Attorney General
Idaho Department of Insurance
700 W. State Street, 3rd Floor
P.O. Box 83720
Boise, ID 83720-0043
edith.pacillo@doi.idaho.gov

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



DEPARTMENT OF INSURANCE
STATE OF IDAHO



REPORT OF EXAMINATION
(Limited-scope Examination)

Of

REGENCE BLUESHIELD OF IDAHO, INC.
(Mutual Health Insurer)
(NAIC Company Code: 60131)

EXHIBIT

 A

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Boise, Idaho
March 2, 2021

The Honorable Dean L. Cameron
Director of Insurance
700 West State Street
Box 83720
Boise, Idaho 83720-0043

Dear Director:

Pursuant to your instructions, in compliance with Idaho Code Section 41-219(1), we have conducted a limited-scope examination of:

REGENCE BLUESHIELD OF IDAHO, INC.
1602 21st Avenue
Lewiston, Idaho 83501-4061

hereinafter referred to as "RBSI" or the "Company". The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The Idaho Department of Insurance ("Department") conducted a limited-scope examination of RBSI, covering the time period of January 1, 2015, to December 31, 2018, and subsequent. The limited-scope examination was focused on evaluating and identifying the impact of the findings noted in the most recent report of examination of the Company, covering the time period of January 1, 2015, to December 31, 2017, and subsequent, as adopted on June 13, 2019, and the associated management letter and documentation.

This report is a limited-scope examination, and is not intended to communicate all matters of importance for an understanding of the company's financial condition

The Department obtained 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. The limited-scope examination also assessed the accounting principles used and significant estimates made by management in calculating administration fees, and evaluated management's compliance with Statutory Accounting Principles and the Annual Statement Instructions when applicable. Additionally, the limited-scope examination reviewed the events subsequent to the examination period that may have influenced or further impacted the concerns expressed in the limited-scope examination report, management letter, and other written correspondence sent to the Company in the course of the limited-scope examination.

HISTORY OF ISSUE

The last full-scope financial examination of RBSI as of December 31, 2017, was performed as part of a multi-state, coordinated examination of Cambia Health Solutions, Inc. to which RBSI is an affiliate through a long-term management agreement. The examination report adopted on June 13, 2019, made the following significant findings:

1. RBSI paid administrative fees to Cambia Health Solutions, Inc. ("Cambia") that were not in accordance with the non-disapproved Management and Administrative Services Agreement. Since the administrative fees were not in accordance with the agreement, the fees may not meet the fair and reasonable standards and appear to be out of compliance with Idaho Code § 41-3810(2).
2. Member months that are to be used in calculating the fixed per member per month administrative fee are not reported accurately in the annual statement filed with the Department, in violation of Idaho Code § 41-335(1).

The full-scope financial examination noted that Cambia manages RBSI under the terms of a long-term Management and Administrative Services Agreement ("MASA"). The original MASA was effective May 25, 1995. The fifth amendment to the MASA was non-disapproved on March 8, 2016, with a retroactive date effective January 1, 2016, upon the condition that modifications would be made to meet the requirements under Chapter 38, Title 41 of the Idaho Code and IDAPA 18.07.01 no later than June 30, 2016. The modification was later non-disapproved by the Department as the sixth amendment to the MASA.

The examination further noted that pursuant to the MASA, management and certain services such as strategic planning, budgeting, actuarial, underwriting, marketing, finance, legal, information technology and human resources are provided to RBSI. Under the MASA, RBSI pays Cambia the lesser of (1) a fixed per member per month fee, or (2) its proportionate share of the cost of providing services under the Management and Administrative Services Agreement, as determined annually. These terms for payment from the MASA were not complied with as Cambia charged a total flat fee calculated using an industry benchmark with estimated enrollment figures instead of the lesser of (1) a fixed per member per month fee or (2) its proportionate share of the cost of providing services under the MASA. Additionally, the fixed fee schedule provided to the Department was based on Generally Accepted Accounting Principles (GAAP) instead of the Statutory Accounting Principles (SAP), as prescribed by IDAPA 18.07.01.

DESCRIPTION OF TESTS PERFORMED

The following tests were performed by the examiners during the course of the limited-scope examination:

1. Reviewed all notices of transactions within the holding company system made by the Company to the Department pursuant to Idaho Code § 41-3810, hereafter referred to as "Form D" filings. Form D filings were reviewed to determine if the Company had filed all executed agreements subject to the Form D requirements with the Department within

30-days of the receipt of a Form D non-disapproval letter.

2. Reviewed the Company's calculation of the method for the portion of the administrative service fees charged to RBSI's uninsured business whose member months were not reported by the Company to the NAIC or the Department on the annual or quarterly statements during the period under examination; reviewed the proportionate share reimbursement methods for compliance with the NAIC Accounting Practices and Procedures Manual; and reviewed the proportionate share reimbursement calculation provided to the Department together with the fixed fee statement as part of the Company's justification for determination if amounts were fair and reasonable.
3. Verified that expenses incurred by Cambia were properly allocated to RBSI and that the allocated expenses were not less than the fixed-fee amount presented in the MASA; reviewed the 1) summary listing of all expenses incurred by Cambia by account broken down by company within the Cambia group, and 2) the summary of expenses allocated to RBSI by account by month.
4. Reviewed the completeness and accuracy of the in-force listing received from the Company through a sample selection of 40 policies.
5. Reviewed the calculation of RBSI member-months done by Cambia to determine if they appeared reasonable and produced an appropriate PMPM for use in the calculation as expressed in the MASA.

SUMMARY OF FINDINGS

The following issues were found by examiners:

A. The RBSI Board Does Not Appoint or Monitor the External Auditor

Idaho Code §§ 41-335 and 41-336 establish the requirements for the Annual Statement and the Review of Annual Statement – Additional Information, respectively. This includes but is not limited to requiring an annual audit by an independent certified public accountant. IDAPA rule 18.07.04 supplements the statute regarding Annual Financial Reporting. The rule includes but is not limited to the requirements of the audit committee, with Section 021 stipulating:

01. **Responsibility.** The audit committee will be directly responsible for the appointment, compensation and oversight of the work of any accountant (including resolution of disagreements between management and the accountant regarding financial reporting) for the purpose of preparing or issuing the audited financial report or related work pursuant to this chapter. Each accountant will report directly to the Audit committee.

RBSI does not appoint an external auditor. Instead, the Company relies on the audit committee of Cambia. While RBSI is administered by Cambia, it is still a separate mutual company wholly owned by its policyholders, and therefore Cambia's audit committee may not be deemed or appointed to be the audit committee for RBSI. RBSI Board Minutes and responses from Cambia

to our information requests further demonstrated that RBSI does not monitor, review or appoint the external auditors for the Company. By delegating this responsibility to Cambia, the RBSI Board is not able to fulfill its duty to directly oversee the work and performance of the external auditor or demonstrate the necessary independence in appointing the auditor; the Company may unintentionally be acting in not the best interest of the policyholders.

It is recommended the Company come into compliance with the requirement of IDAPA 18.07.04.021 regarding an audit committee and appointing an external auditor.

The Company has responded that they will expand the RBSI Board of Directors' external auditor approval process that meets the requirements of the referenced rule, and implement it for the 2020 audited financial statements.

B. Management and Administrative Services Agreement Includes Terms Requiring Amendment

Idaho Code § 41-3810 establishes the Form D filing standards for management of an insurer within an insurance holding company system. This includes but is not limited to the standards under section (1), requiring that a transaction within an insurance holding company system be subject to the following:

- (a) The terms shall be fair and reasonable;
- (b) Agreements for cost-sharing services and management shall include such provisions as required by rule promulgated by the director;
- (c) Charges or fees for services performed shall be reasonable;
- (d) Expenses incurred and payment received shall be allocated to the insurer in conformity with customary insurance accounting practices consistently applied;
- (e) The books, accounts and records of each party to all such transactions shall be so maintained as to clearly and accurately disclose the precise nature and details of the transactions, including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties; [...]

IDAPA 18.07.01 supplements the statute for insurance holding company systems.

The MASA is a transaction subject to filing prior notification and receiving non-disapproval from the Director pursuant to Idaho Code § 41-3810(2)(d). In reviewing such Form D filings, Idaho Code § 41-3810(4) stipulates:

The director, in reviewing transactions pursuant to subsection (2) of this section, shall consider whether the transactions comply with the standards set forth in subsection (1) of this section and whether they may adversely affect the interests of policyholders.

Review of the MASA noted terms that appeared to not meet the fair and reasonable standards pursuant to Idaho Code § 41-3810(1)(a) and IDAPA 18.07.01, or that appeared to adversely affect the interests of policyholders. The examiners discussed each of the issues with the Company at length during the examination. Due to the nature of the concerns, only some of the findings are included in summary form herein. The findings are further detailed in separate examination workpaper correspondence to the Company.

In summary, the examination found that, as RBSI is a separate company wholly owned by its policyholders, the terms of the MASA should not directly or indirectly transfer control or ownership of RBSI to Cambia. Any such terms of the MASA should be amended to remain an arm's length service agreement. In addition, it is not fair or reasonable for any terms of the agreement to limit RBSI's ability to independently conduct business, when needed, as a separate company. Operationally, the RBSI Board should maintain an adequate governance structure to oversee all services provided to RBSI by Cambia and ensure they are fair and reasonable to their policyholders.

It is recommended that RBSI amend the MASA to meet the fair and reasonable standards pursuant to Idaho Code § 41-3810(1) and IDAPA 18.07.01.

Regarding the concerns that gave rise to the limited-scope examination, which affect the MASA, and are the significant findings as adopted in the examination report on June 13, 2019, being:

1. RBSI paid administrative fees to Cambia Health Solutions, Inc. ("Cambia") that were not in accordance with the non-disapproved Management and Administrative Services Agreement. Since the administrative fees were not in accordance with the agreement, the fees may not meet the fair and reasonable standards and appear to be out of compliance with Idaho Code § 41-3810(2).
2. Member months that are to be used in calculating the fixed per member per month administrative fee are not reported accurately in the annual statement filed with the Department, in violation of Idaho Code § 41-335(1).

The Company has responded to each, respectfully:

1. The Company has proposed an exhibit that will enhance the level of detail disclosed for the cost allocation calculations under the MASA. It appears the exhibit will more clearly and accurately disclose the nature of the transaction and in turn the administrative fees to be paid by RBSI to Cambia. The exhibit will be implemented as part of an amendment to the MASA.
2. The Company has adjusted their reporting of member months. Member months now appear to be accurately reported in the annual statement.

It is further recommended that the proposed exhibit be included with all other recommended amendments to the MASA.

These findings of the limited-scope examination do not require any adjustments to the financial statements of the Company as reported to date.

CONCLUSION

It is recommended that the Company continue to work with the Department to remedy the findings and issues noted in this report, the management letter, and other written correspondence sent to the Company in the course of the examination. Any findings or issues not remedied or adequately in the process of remediation are potentially subject to reevaluation at the Company's next full-scope examination as part of the multi-state, coordinated examination of Cambia Health Solutions, Inc.

ACKNOWLEDGEMENT

The undersigned acknowledge the assistance and cooperation extended during the course of the examination by officers and employees of the Company.

Respectfully submitted,

Richard B. Foster, CFE
Examiner-in-Charge
The INS Companies
Representing the Idaho Department of Insurance

A handwritten signature in black ink, appearing to read "Eric Fletcher".

Eric Fletcher, CFE
Bureau Chief/Chief Examiner
Idaho Department of Insurance

AFFIDAVIT OF EXAMINER

State of _____ County of _____

Richard B. Foster, CFE being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made a limited-scope examination of Regence BlueShield of Idaho, Inc., 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 this report are based on the facts disclosed in the information.

Examiner-in-Charge
The INS Companies
Representing the Idaho Department of Insurance

Subscribed and sworn to before me the _____ day of _____ (month), 2021, at
_____ (City), _____ (State).

Notary Requirement Waived by Department of Insurance Due to COVID-19 Limitations

Notary Public

My Commission Expires: _____



Regence |

1211 West Myrtle, Suite 200
Boise, ID 83702

March 22, 2021

Eric Fletcher, CFE
Bureau Chief/Chief Examiner
Idaho Department of Insurance

Re: Regence Blue Shield of Idaho, Inc. (NAIC Company Code: 60131)
Report of Examination, Limited-Scope Examination
For January 1, 2015 – December 31, 2018 and subsequent

Dear Mr. Fletcher:

Regence Blue Shield of Idaho ("RBSI") and its Board of Directors have reviewed the Report of Examination from the Limited-Scope examination. We plan to work with the Idaho Department of Insurance (the "Department") to ensure issues in the Report are addressed. Please see our responses below to the two findings.

Finding A. The RBSI Board Does Not Appoint or Monitor the External Auditor

Response:

The Company has implemented a formal process for the RBSI Board to monitor and appoint the external auditor each year, beginning with the appointment of the auditors who will issue the 2020 audited statutory financial statements (the RBSI Board appointed the auditors at its July 2020 Board meeting). The external auditors will attend a minimum of two RBSI Board meetings a year.

Please note that the full RBSI Board is designated as RBSI's audit committee and will perform applicable audit committee duties in compliance with the requirements of IDAPA 18.07.04.021.

Finding B. Management and Administrative Services Agreement Includes Terms Requiring Amendment

Response:

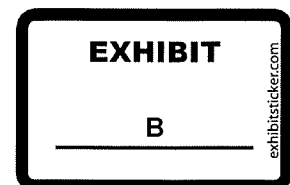
The Company will revise the Management and Administrative Services Agreement (MASA) to address the issues identified. We will work with the Department throughout the process to prepare amendments that are satisfactory to the Department as well as to each of the two parties to the MASA.

We appreciate the Department working with us to understand the issues raised and look forward to working together to achieve resolution in the near term.

Sincerely,

DocuSigned by:

Anjie Vannoy
VP Finance and Controller



BRAD LITTLE
Governor

State of Idaho
DEPARTMENT OF INSURANCE

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

DEAN L. CAMERON
Director

WAIVER

In the matter of the Report of Examination as of December 31, 2018 of the:

Regence BlueShield of Idaho, Inc.

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 2nd day of March 2021, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right, after the date of this waiver, to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 22 day of March, 2021

Regence BlueShield of Idaho, Inc.

Sean Robbins

Name (print)

DocuSigned by:
Sean Robbins
00BA4107CFCE43E...

Name (signature)

President

Title

EXHIBIT

C

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