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FILED
JUN 24 2011
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.	)	**ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2009**
Idaho Certificate of Authority: 1903 NAIC Company Code: 60131	)	Docket No. 18-2693-11

The Report of Examination as of December 31, 2009 (Report) of *Regence BlueShield of Idaho, Inc.* (Company) was completed by examiners from the Idaho Department of Insurance (Department) and signed the 27th day of May 2011 by the Examiner-in-Charge, Lois Haley, CFE. The verified (attested) copy of the Report was filed with the Department effective May 27, 2011. The original verified Report was transmitted to the Company electronically (PDF file, via secure e-mail) on May 27, 2011, to Mr. David T. Marcantuono,

Assistant Director, Financial Accounting & Reporting of the Company. Another copy of the Report (which included minor revisions and corrections) was subsequently transmitted electronically (PDF file, via secure e-mail) to Mr. Marcantuono on June 22, 2011. The final Report, identical to the modified version sent to the Company on June 22, 2011, and bearing the original May 27, 2011, verification (examiner affidavit), is attached hereto and incorporated herein in full and identified as Exhibit A.

WAIVER

Attached hereto and incorporated herein as Exhibit B is a copy of the original Waiver signed by Mr. Scott Kreiling, President & CEO on June 23, 2011 and received via e-mail on June 23, 2011. Based upon the Waiver/Exhibit B, this is a final order, and the Company has waived its right to examine the report for up to thirty (30) days pursuant to § 41-227(4), Idaho Code.

WRITTEN SUBMISSION

The Company made a written submission from Mr. Kreiling, as provided for under § 41-227(5), Idaho Code, containing responses to the examination report, in the form of a letter dated and hand-delivered to the Department on June 15, 2011. The Company requested that the written submission become a public record of the Department. This written submission is incorporated herein as Exhibit C.

ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto as Exhibit A, and good cause appearing therefor,

IT IS HEREBY ORDERED that the above described report, which includes the findings and conclusions supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department under Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho this 24TH day of June 2011.

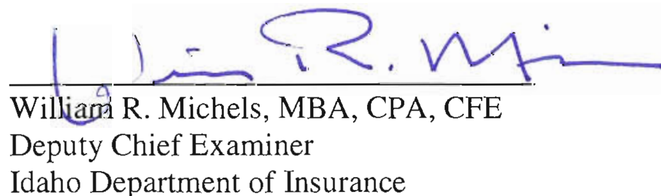
IDAHO DEPARTMENT OF INSURANCE

WILLIAM W. DEAL
Director

CERTIFICATE OF SERVICE

I hereby certify that on this 24TH day of June, 2011, I caused to be served the foregoing document on the following parties in the manner set forth below:

Mr. Scott Kreiling, President & CEO	X	certified mail
Regence BlueShield of Idaho, Inc.		first class mail
1211 W. Myrtle, Ste. 110		hand delivery
Boise, Idaho 83702		facsimile
Scott.Kreiling@Regence.com	X	e-mail
Mr. David T. Marcantouno, CPA		certified mail
Assistant Director, Financial Accounting & Reporting		first class mail
Regence BlueShield of Idaho, Inc.		facsimile
Portland, OR 97201		
David.Marcantuono@Regence.com	X	e-mail
Georgia Siehl, CPA, CFE		certified mail
Bureau Chief / Chief Examiner		first class mail
Idaho Department of Insurance	X	hand delivery
700 W. State St., 3rd Floor		facsimile
Boise, Idaho 83720-0043		
Georgia.Siehl@doi.idaho.gov	X	e-mail



William R. Michels, MBA, CPA, CFE
Deputy Chief Examiner
Idaho Department of Insurance

EXHIBIT A

DEPARTMENT OF INSURANCE

STATE OF IDAHO

REPORT OF EXAMINATION

of

REGENCE BLUESHIELD OF IDAHO, INC.
(a mutual insurance company – NAIC Company Code: 60131)

as of

December 31, 2009

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State of Idaho
DEPARTMENT OF INSURANCE

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WILLIAM W. DEAL
Director

Portland, Oregon
May 27, 2011

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

Joseph Torti III
Deputy Director and Superintendent of Insurance and Banking
Chair – NAIC Financial Condition Committee
Division of Insurance
Department of Business Regulation
State of Rhode Island
1511 Pontiac Avenue, Building #69-2
Cranston, Rhode Island 02920

Dear Director & Deputy 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 an examination as of December 31, 2009, of the financial condition and corporate affairs of:

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

hereinafter referred to as the "Company," at the offices of The Regence Group in Portland, Oregon. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period January 1, 2006, through December 31, 2009. The examination was conducted at the Portland, Oregon and Boise, Idaho offices of the Company by examiners from the State of Idaho. The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, the NAIC *Accounting Practices and Procedures Manual*, and the NAIC *Market Regulation Handbook*.

All accounts and activities of the Company were considered in accordance with the NAIC's risk-focused examination process. The NAIC *Financial Condition Examiners Handbook* requires that we plan and perform the examination to evaluate the financial condition and identify 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. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and NAIC *Annual Statement Instructions* as governed and prescribed by Idaho law.

A Letter of Representation was signed by the Company attesting to its ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities.

The actuarial review of reserves, related liabilities, and other actuarial items was performed by Taylor-Walker & Associates, Inc., consulting actuaries, for the Idaho Department of Insurance. A risk assessment review of the Company's information technology systems and controls was performed by Examination Resources, LLC. There was some reliance placed on the 2009 Certified Public Accountants' statutory audit report and workpapers during the examination of the Company.

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, as well as minor accounting and/or annual statement reporting corrections.

PRIOR EXAMINATION

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 2001 through December 31, 2005.

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 February 23, 1946, and commenced business in the State of Idaho on April 15, 1946, as North Idaho District Medical Service Bureau, Inc. By a resolution dated January 12, 1977, the Board of Directors changed the Company's name to Medical Service Bureau of Idaho, Inc. The Company operated as a hospital and professional service corporation, and in 1994, converted to a nonprofit mutual insurer under Chapter 28, Idaho Code. Effective September 1, 1997, the name of the Company was changed to Regence BlueShield of Idaho, Inc.

During 1961, the Company became a member of the Blue Shield Association, which later became the BlueCross BlueShield Association. The Association serves as a national non-affiliated advisory organization for all BlueCross and BlueShield Plans in the United States.

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

The Caring Foundation, Inc. was established in 1991 for the benefit of children in need of appropriate dental care in Idaho and Utah. The Company, along with Regence BlueCross BlueShield of Utah, is a member of the Foundation.

HealthSense, a health maintenance organization, was formed in 1994 to deliver the Company's managed care line of business.

Prior to the Company's mutualization in 1994, 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 an assessment at the rate of four cents per subscriber contract per month.

Beginning in 1995, the Company's lines of business were no longer exempt from Idaho premium taxes and participation in the Life and Health Guaranty Association. The exception from the Idaho premium tax was HealthSense, which was subject to the assessment of four cents per subscriber contract per month. In addition, the Company's annual statement reporting was changed from a hospital, medical and dental or indemnity form to a life and accident and health form.

Also in 1995, the Company became a member of The Regence Group, formerly known as ENTRUST, and later The Benchmark Group, by entering into a Management and Administrative Services Agreement. The agreement was amended June 1, 1998 and December 10, 2001. Other members of The Regence Group include Regence BlueCross BlueShield of Oregon, Regence BlueShield, and Regence BlueCross BlueShield of Utah, collectively referred to as the Plans.

The Company acquired 100 percent of the capital stock of the Medical Service Life Agency, Inc., an Idaho corporation, from Medical Life Insurance Company, Cleveland, Ohio in October 1996. In consideration of $99,900, the Company received one thousand shares of Medical Service Life Agency common stock.

Effective April 1, 1999, Medical Service Life Agency and several related agencies were merged into Regence Coordinated Services, Inc. Regence Coordinated Services, Inc. is a wholly owned subsidiary of Regence Life and Health Insurance Company. Regence Life and Health Insurance Company, in turn, is owned by the member Plans of The Regence Group.

The Company received 571 shares of Regence Life and Health common stock in exchange for Medical Service Life Agency stock. The shares and value of Medical Service Life Agency stock as a percent of the total transaction were 6.7 percent. After the merger, and at December 31, 2009, the Company owned approximately two percent of Regence Life and Health Insurance Company. Medical Service Life Agency was merged out of The Regence Group effective April 1 1999.

In 1997, The Regence Group and affiliate Plans formed Regence Operating Company, LLC, for the purpose of providing shared services and the funding of capital investments common to The Regence Group and affiliate Plans. Regence Operating Company, LLC was dissolved on January 11, 2007.

Regence Insurance Services of Idaho, Inc. was organized and incorporated by the Company on April 12, 1999. Regence Insurance Services of Idaho, Inc. may own or operate various businesses or conduct activities that were complementary to the Company's business. Regence Insurance Services of Idaho, Inc. was dissolved as of July 7, 2003.

Effective February 4, 2000, the Company withdrew HealthSense's Idaho Certificate of Authority. At the same time, the Idaho Certificate of Authority for the Company was amended to reflect the addition of disability, including managed care. Also effective February 2000, all transactions applicable to HealthSense were reported by the Company. Previous to that, the financial condition and results of HealthSense were reported separately.

An equity grant of $10 million, net of $2 million tax, was made to the Company in 2003. The purpose of the grant was to improve and stabilize the Company's financial position.

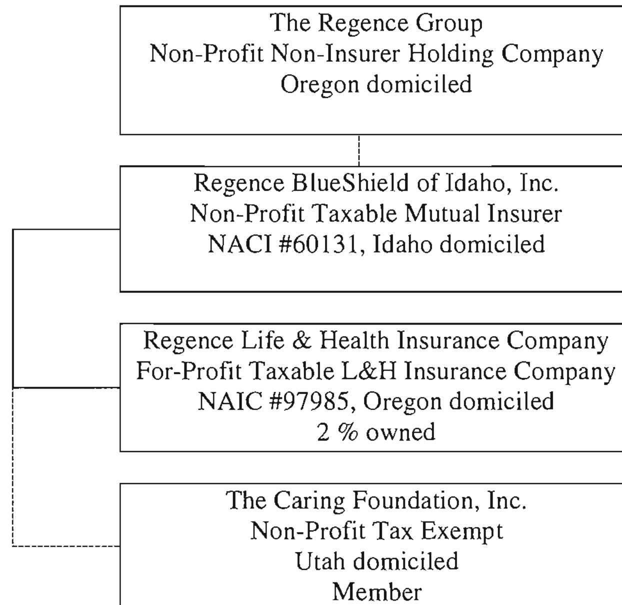
Accounting, actuarial, and investment operations were moved from Lewiston and Boise, Idaho to Portland, Oregon, and Seattle, Washington during 2004.

Effective January 1, 2006, the Company changed its reporting format from the NAIC Life, Accident and Health blank to the Health blank.

MANAGEMENT AND CONTROL

Insurance Holding Company System

The Company is a member of an insurance holding company system. The Regence Group is the ultimate controlling person, as noted in the abridged organizational chart:



The Regence Group

The Regence Group was incorporated as a nonprofit public benefit corporation and is a non-insurer holding company established to administer the Regence holding company system. The Regence Group was initially incorporated on April 17, 1995 as ENTRUST. Its name was changed to The Benchmark Group on May 25, 1995 and to The Regence Group effective April 1, 1997.

The Regence Group was organized without stock and without members and is governed by a self-perpetuating board of directors. Under the terms of affiliation (discussed below) between The Regence Group and its four affiliated health Plans: Regence BlueCross BlueShield of Oregon, Regence BlueShield (Washington), Regence Blue Cross BlueShield of Utah, and the Company, each Plan has contractual rights to representation on The Regence Group's Board of Directors.

The Company became affiliated with The Regence Group holding company system effective June 1, 1995 pursuant to the Plan and Agreement of Affiliation. Regence BlueShield, Regence BlueCross BlueShield of Oregon, The Regence Group and the Company, are parties to this Agreement; Regence BlueCross BlueShield of Utah joined the aforementioned affiliated agreement in 1997. Pursuant to the Plan, the Company and The Regence Group entered into a 20-year Management and Administrative Services Agreement effective June 1, 1995. The Regence Group maintains control of the Company by reason of its continuing contractual rights and powers under the agreement.

The Company participated in the initial capitalization of The Regence Group and in exchange, received a promissory note of $540,000 issued by The Regence Group. The note, dated June 1, 1995, is payable in 20 years with interest compounded annually at a commercial prime rate. The note and accrued interest may be paid any time during the 20-year period. However, in the event of termination of the Management and Administrative Services Agreement (discussed below), the note and accrued interest are due within 20 days after termination. The promissory note is reported in Schedule D – Part 1 and had an NAIC designation "2" at December 31, 2009. The principal balance is included within *Receivables from parent, subsidiaries and affiliates*, on Page 2 of the 2009 Annual Statement.

Regence Life and Health Insurance Company

Medical Service Life Agency, Inc. was merged out of The Regence Group through an exchange of shares with Regence Life and Health Insurance Company effective April 1, 1999. As a result, the Company owns 571 shares of Regence Life and Health's common stock. This represents approximately 2 percent ownership. The book value/fair value of the common stock at December 31, 2009 was $854,976.

TriWest Healthcare Alliance Corp.

TriWest Healthcare Alliance Corp. was incorporated in August of 1995 by 14 stockholders, including the Company, to establish provider networks for the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). The Company's initial investment of $1,015,000 is represented by its 4.06 percent ownership. Additional $1.5 million was required to be on deposit in cash or securities until March 31, 2002. Therefore, the agreement requiring contingent funds expired during the prior examination period. In the future, the stockholders of TriWest may authorize additional capitalization of $2.5 million. At December 31, 2009, the book value/fair value of Triwest common stock was $13,201,903.

The Caring Foundation, Inc.

The Caring Foundation, Inc., a 501(c)(3) (Internal Revenue Code) organization, was formed in 1991 to provide free dental care to uninsured children within Idaho and Utah. In this connection, the Company has an agreement with the Foundation to provide dental care services. The Company raises money from the public and donates administrative services to benefit eligible uninsured children. The Company, along with Regence BlueCross BlueShield of Utah, is a member of the Foundation.

Employee Benefit Plans

The Company participates in the following plans sponsored by The Regence Group:

- Employee retirement plans, including supplemental executive retirement plans.
- Postretirement benefit plan.
- Employees' savings plan.

Affiliated Agreements

A full discussion of affiliated agreements is documented under *MANAGEMENT AND CONTROL: Contracts and Agreements* and *REINSURANCE.*

Revolving Line of Credit

The Company has access to a revolving line of credit through The Regence Group to supplement short-term cash flows. The maximum borrowing available is $20,000,000 for The Regence Group and its subsidiaries and affiliates. The interest rate is based on LIBOR plus 225 basis points for the term of the loan and was 2.49 percent at December 31, 2009. The Company had $0 outstanding on the line of credit at December 31, 2009.

With respect to the line of credit, the Idaho Department of Insurance informed the Company on or about June 7, 2007 to file a Form D Prior Notice of a Transaction as required under Section 41-3807(2)(a)(i), Idaho Code at least 30 days before each draw whenever the amount of the draw or the cumulative amount outstanding equals or exceeds 3 percent of admitted assets shown on the prior year's annual statement.

The Company borrowed $10,000,000 from the revolving line of credit on December 31, 2008 and reported such in Note 11 to the Financial Statements. The outstanding balance was subsequently repaid in January 2009. Based on the calculation below, the $10,000,000 draw exceeded 3 percent of admitted assets reported in the 2007 Annual Statement, or $7,515,298.

Net Admitted Assets per 2007 Annual Statement	Statutory limit percentage, Section 41-3807(2)(a)(i), Idaho Code	Statutory Limit	Draw from revolving line of credit in 2008
$250,509,946	3 percent	$7,515,298	$10,000,000

However, the Company did not file the required Form D notice of this transaction as instructed by the Department or in compliance with Idaho law. In an e-mail to the Department dated May 7, 2009, the Company stated it appeared a Form D was not filed due to an oversight. The Company further indicated the Department's inquiry was forwarded to The Regence Group's legal department to work with them in complying with this requirement. Finally, the Company indicated this information would also be circulated to the appropriate areas so they are aware of the requirement going forward.

Based on the foregoing it is recommend that in the future, the Company should submit Form D filings in compliance with Section 41-3807(2)(a)(i), Idaho Code. It is further recommended the Company monitor its affiliated transactions more closely and implement more robust internal controls surrounding the Form D filing requirements.

Miscellaneous

The Company files a separate Federal income tax return and does not join in the consolidated tax return filed by The Regence Group.

Health Carrier Holding Company System Annual Registration Statement

The 2009 Health Carrier Holding Company System Annual Registration Statement (Form B) was filed with the Department on April 27, 2010. It appears that the Company disclosed all of the information required under Section 41-3806, Idaho Code.

(The rest of this page is intentionally blank.)

Directors
The following persons were the duly elected members of the Board of Directors at December 31, 2009:

Name and Business Address	Principal Occupation
James Russell Blackman, M.D. Middleton, Idaho	Family Practice, Retired
Gregory Lee Charlton Boise, Idaho	Senior Vice President Idaho Independent Bank
Wayne Hollingshead Lewiston, Idaho	General Manager Lewiston Morning Tribune
Marc Craig Johnson Boise, Idaho	President Gallatin Public Affairs
Scott Douglas Kreiling Boise, Idaho	President Regence BlueShield of Idaho, Inc.
Mary Ruth McFarland Phd. R.N. Spokane, Washington	Dean of Professional Studies Gonzaga University
Michael Kay McMurray Eagle, Idaho	Boise Cascade, Retired
Dan Meulenberg, M.D. Sandpoint, Idaho	Family Practice Pinegrove Medical Center
Christopher Al Moreno, M.D. Lewiston, Idaho	General Surgery Majure & Moreno, PA
Jeffery George Nesset Lewiston, Idaho	Vice President, D.A. Davidson & Co.
David Kurt Seppi, M.D. Twin Falls, Idaho	Family Practice Physician's Center
Nancy Kay Vannorsdel Eagle, Idaho	Boise Area Chamber of Commerce, Retired
Richard John White Lewiston, Idaho	Vice President and Owner Ray J. White & Sons

Subsequent to the examination date, J. Anthony Fernandez, M.D., was elected to his first three-year term as Director on April 21, 2010.

Officers:
The following persons were serving as Officers of the Company at December 31, 2009:

Principal Officers	
Scott Douglas Kreiling	President
Michael Kay McMurray	Treasurer/Secretary

Committees:
The following schedule lists the Committees and the Chairperson(s) serving as of the examination date:

Committee	Chairman
Executive	Nancy Vannorsdel
Nominating	David Kurt Seppi, M. D.

Corporate Governance
A review of the Company's corporate governance structure and the "tone at the top" was performed in compliance with the NAIC's risk-focused examination standards. This review included an evaluation of the Company's organizational structure and assessments of the Board of Directors and Company management. Overall, the Company has a sound organizational structure in place. The review determined that the Board of Directors utilized independent judgment and evaluation in their decision making and oversight functions. It appears the Board also met the duty of care and loyalty standards in fulfilling their corporate obligations. An assessment of Company management indicated a competent and experienced management team.

Conflict of Interest
The Company has a conflict of interest policy in place that requires all employees to complete an annual conflict of interest disclosure statement. New employees are requested to complete initial Disclosure Statements within their first sixty days of employment. All Board members must also complete an annual conflict of interest disclosure statement. Beginning in 2008, the conflict of interest disclosure statements completed by the Board included a section on Director independence. Employee and Board member disclosure statements containing affirmative responses are reviewed by the Idaho Ethics and Compliance Officer to determine whether any actual or potential conflicts exist.

The annual conflict of interest disclosure statements completed by the Board of Directors for the period January 1, 2006, through December 31, 2009 appeared to appropriately disclose any actual or potential conflicts of interest.

Contracts and Agreements

The following significant contracts and agreements with affiliated entities were in effect as of the examination date:

Management and Administrative Services Agreement

As previously noted, the Company entered into a Management and Administrative Services Agreement with The Regence Group effective May 25, 1995. Under this agreement, The Regence Group provided management and certain services such as strategic planning, budgeting, actuarial, and regional marketing, among other things. Also under the agreement, various common expenses are shared and spread across the four member Plans. The agreement was originally executed in 1995 and approved by the Department of Insurance on May 17, 1995.

The initial term of the agreement is four, five-year periods totaling twenty years. After the initial term, the agreement renews for one-year periods unless terminated by one of the parties. In the event of termination resulting from material default of the Company, a liquidation fee of $2 million is to be paid to The Regence Group. In the event termination is the result of a material default by The Regence Group, a liquidation fee of $1 million is to be paid to the Company.

Effective June 1, 1998, the agreement was amended to reflect corporate name changes for the Company and The Regence Group and certain changes that occurred in the Bylaws of The Regence Group. Payment for services was also changed under the amendment. All other terms and conditions of the agreement remained unchanged. In a letter to the Company dated July 31, 1998, the amendment was approved by the Department of Insurance upon receipt of the executed agreement.

A second amendment to the Management and Administrative Services Agreement, effective December 10, 2001, was approved by the Board of Directors on April 17, 2002. The amendment recognized that The Regence Group had progressively undertaken more system-wide functions on an integrated basis on behalf of the Company and the member Plans in common, including finance, legal, information technology, human resource, fraud investigation and awareness, planning, actuarial and underwriting services. In this regard, The Regence Group adopted and implemented more refined statistical methodologies to allocate the costs of those services which were provided by The Regence Group in common to the Company and the member Plans.

The second amendment also ratified and approved all methodologies by which costs of the common services and extraordinary services (defined in the agreement) have been allocated by The Regence Group to the Company and paid by the Company to The Regence Group during the current and any and all prior fiscal years. Further, all past actions of the officers of the Company were ratified and approved in implementing the allocation of the costs of the common services and the extraordinary services.

The second amendment to the agreement was filed with the Idaho Department of Insurance on May 29, 2008. In a letter to the Company dated May 29, 2008, the

Department of Insurance indicated that it did not have any objections to the second amendment to the Management and Administrative Services Agreement.

Under the amended agreement, allocation ratios to the Plans are determined based on the statistics, such as claims expense, membership, or employee headcount, among other things, and are fed into a formula (or allocation method) through the PeopleSoft system. For example "gross operating expenses" may be used as a determinant for allocating "executive salaries" to each Plan. The allocation ratios change monthly, because the data, statistics, or activities used in the formula change each month.

The expense allocation is used for corporate liability insurance policies; computer software licenses and hardware leases; licenses to the BlueCross BlueShield trade names and trademarks; and personnel service costs (salaries and benefits). Administrative costs incurred by The Regence Group are also allocated to the Company. Amounts allocated were $36,143,243 for the year ended December 31, 2009, and were included in claims adjustment expenses and general administrative expenses.

The Company pays certain expenses, including occupancy and certain employee benefits on behalf of The Regence Group, its subsidiaries and affiliates. Administrative costs allocated to The Regence Group were $1,924,934 for the year ended December 31, 2009.

The Company's Board of Directors annually reaffirms the Management and Administrative Services Agreement.

A review of The Regence Group's 2009 legal expense allocations was performed during the examination. It was noted that portions of legal expenses attributed to the Oregon and Washington Plans were allocated to the Company.

Based upon the Department's sampling tests and the Company's explanation of its expense allocation methodology, it appears that some entity-specific expenses (i.e. specifically identifiable to a separate entity) are being allocated across multiple Regence Plans. Statutory guidance regarding allocation of expenses found in SSAP No. 70, paragraph 9 states that *"expenses that relate solely to the operations of a reporting entity, such as personnel costs associated with the adjusting and paying of claims, must be borne solely by the reporting entity and are not to be apportioned to other entities within a group."*

In summary, it appears that the Company's allocation methodology, at least with respect to legal expenses, does not conform to SSAP No. 70, *Allocation of Expenses*. Furthermore, this practice is not in compliance with **Section IV. – Control of Funds and Insolvency Protection**, Section 4.01, Control of Funds, of the Management and Administrative Services Agreement, which states:

> *...the Funds of MSB-BlueShield* (changed to Regence BlueShield of Idaho, Inc. by amendment to the agreement dated June 1, 1998) *shall not be co-mingled with the Funds of ENTRUST* (changed to The Regence Group by amendment to

the agreement dated June 1, 1998) *or of the Operating Companies* (Regence BlueCross BlueShield of Oregon, Regence BlueShield, and Regence BlueCross BlueShield of Utah), *and the funds of MSB-BlueShield shall not be liable for or used to pay or otherwise satisfy any debts, obligations, or liabilities of ENTRUST or of the Operating Companies.*

Therefore, it is recommended that the Company conform to SSAP No. 70 and to Section IV of the Management and Administrative Services Agreement with respect to its future expense allocations.

Claims Processing

Regence BlueCross BlueShield of Oregon and the Company entered into an agreement whereby the Company processes Medicare supplement or other health plan claims on behalf of the Oregon Plan. The agreement was effective June 1, 1995 and will continue until terminated. Either party may terminate the agreement upon five days notice to the other party or upon mutual consent of both parties.

Federal Employee Program (FEP) Shared System Service and Cost Agreement

The Company, along with Regence BlueShield and Regence BlueCross BlueShield of Oregon, are parties to an FEP Shared System Service and Cost Agreement. The agreement was effective January 1, 1997 with a two year duration. The agreement automatically renews for successive one year terms. The parties may terminate the agreement with cause upon six months prior written notice. Regence BlueCross BlueShield of Utah was added as a party to the agreement via an amendment dated July 1, 1998. The term of the amendment runs concurrently with the original agreement. The Utah Plan is subject to all terms and conditions applicable to the original agreement.

Although the Claims Processing Agreement and the FEP Shared System Service and Cost Agreement and amendment have been continually disclosed in the Health Carrier Holding Company System Annual Registration Statement, service contracts and cost sharing arrangements must be filed prior to use pursuant to Section 41-3807(2)(d), Idaho Code.

Therefore, it is recommended that a Form D filing, along with the Claims Processing and Federal Employee Program (FEP) Shared System Service and Cost Agreement and amendment be filed with the Idaho Department of Insurance.

Service Mark and Trade Name License Agreement

The Company entered into an agreement with The Regence Group effective October 1, 1999 to use and sublicense The Regence Group's service and trade mark. The Company is assessed a license fee under this agreement. The agreement remains in force until terminated by either party with ninety days written notice or for other reasons specified in the agreement.

The Caring Foundation, Inc.
The Company executed an agreement with the Caring Foundation, Inc. effective April 1, 2001 to provide dental care services on behalf of the Foundation. The Company provided administrative services to the Foundation at no cost. Either party may terminate the agreement upon ninety days prior written notice.

The previous examination report incorrectly reported that the Company was not required to file the agreement with the Idaho Department of Insurance. Upon further review, it was determined that prior notice of this administrative service agreement is required under Section 41-3807(2)(d), Idaho Code. Therefore, it is recommended that the Company submit a Form D filing for this agreement in compliance with Idaho law.

CORPORATE RECORDS

Articles of Incorporation and Bylaws
The Company's records indicated that the Restated Articles of Incorporation dated February 1, 1995 were not amended during the period under examination.

The Company's Bylaws were amended three times during the examination period. The Bylaws were amended April 19, 2006 to increase the number of potential directors from thirteen to fifteen. The Board of Directors approved the amendment on April 19, 2006. The number of directors is in compliance with Section 41-2835(1), Idaho Code. The Idaho Department of insurance did not have any objections to this amendment to the Company's Bylaws.

The Board of Directors approved the Bylaws as amended December 12, 2007 at its meeting of the same date. The amendment added the requirement that a majority of the Board meet the corporation's director independence criteria. The amendment also stated that the Nominating Committee would be made up of three directors appointed by the Chair of the Board rather than the President. Other changes included provisions such as all committee members should meet director independence criteria and the director independence criteria would be applied to standing committee members. In a letter to the Company dated December 21, 2007, the Department stated that the amendment to the Bylaws was submitted pursuant to Section 41-2830, Idaho Code. The form and content of the amendment to the Bylaws was approved by the Department on December 20, 2007 as conforming to Idaho law.

On July 25, 2008, the Board of Directors approved an amendment to Article III, Paragraph 4 of the Bylaws to allow a Director to serve a maximum of four consecutive terms. That is unless a Director of the Company's Board is concurrently sitting as a Director of The Regence Group's Board at the expiration of said Director's fourth term. Under this circumstance, the Director shall be eligible to serve as a Director for the Company until the conclusion of his or her service on The Regence Group's Board of Directors. In a letter to the Company dated October 22, 2008, the Department stated that it had no objection to the amendment to the Bylaws.

Minutes of Meetings

A review of the minutes of the meetings of the Members, the Board of Directors, and the various committees for the period January 1, 2006 through December 31, 2009 and subsequent thereto, indicated compliance with the Company's Articles of Incorporation and Bylaws with respect to the election of the Board of Directors and Officers, and the election or appointment of Committee members.

This review of the minutes also indicated that a quorum was present at all Board of Directors' meetings held during the examination period and that significant Company transactions and events were properly authorized.

Investment transactions were approved by The Regence Group Investment Committee in compliance with Section 41-704, Idaho Code. Furthermore, the Company maintained records of its investments in conformity with Section 41-705, Idaho Code.

The external auditors presented the audited financial statements and required communications to the Board of Directors and to The Regence Group's Audit and Compliance Committee as required by IDAPA 18.01.62.021.06.

The Board of Directors certified that they had received a copy of the Company's December 31, 2005 Report of Examination and Order Adopting the Report of Examination.

FIDELITY BOND AND OTHER INSURANCE

The Company, as a member of The Regence Group, was a named insured under a number of policies issued to The Regence Group. Such insurance coverage in force during the examination period included a financial institutional bond. The bond covers losses resulting from dishonesty of employees and by criminal acts of non-employees, forgery, securities, and counterfeit currency up to $10,000,000, with aggregate limits of $20,000,000. The deductible is $100,000 for each loss. The financial institutional bond coverage maintained by The Regence Group met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook.*

Other insurance maintained by The Regence Group during the examination period included director and officers liability; errors and omissions liability; fiduciary liability; employed lawyers' professional liability; computer crime coverage; fitness center general liability; commercial property; business automobile; umbrella excess liability; earth movement, flood, terrorism, and business interruption by communicable disease; network security and privacy liability; and workers compensation and employers liability coverages.

The insurance carriers providing coverages to the Company were licensed or otherwise authorized in the State of Idaho, except for coverages underwritten by Lloyds of London.

Lloyds of London is the insurer on the second excess layer of the errors and omissions coverage and for the network security and privacy liability primary cover.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Physicians' Deferred Compensation Plan

The Company maintains a separate non-qualified deferred compensation plan representing amounts from reserve for redemption of surplus contribution certificates in accordance with a resolution of the Board of Directors of the Company dated October 12, 1966. The reserve represents a percentage of fees withheld from participating physicians based upon years of practice. The funds were frozen by the Company Board action effective May 1, 1976, and accordingly, only earnings on those funds have been contributed to the reserve. As the Company is the owner and named beneficiary of these contracts, in order to reflect policies to pay benefits equal to accumulations, the assets and liabilities under the plans were reported as *Physicians Deferred Comp Plan* and *Amounts withheld or retained for account of others*, respectively. As of December 31, 2009, the reported balance was $51,682.

Executive and Directors Deferred Compensation Plans

The Company offers a Deferred Income Program for Executives and a Deferred Income Program for Directors (collectively, the Programs). The purpose of the Programs is to provide an unfunded, non-qualified deferred compensation arrangement to key employees and eligible directors. The Company facilitated payments totaling $152,062 to the Programs in the year ended December 31, 2009. The assets and liabilities under the Programs were reported as *Employee Deferred Comp Plan* and *Amounts withheld or retained for account of others*, respectively in the amount of $1,651,100 at year-end 2009.

Employee Retirement Plans

The Company participates in a defined-benefit pension plan sponsored by The Regence Group that covers substantially all regular employees having one or more years of service. Benefits are based upon years of service and the employee's final average compensation. The Regence Group froze the defined-benefit pension plan as of December 31, 2009. Beginning in 2010, lump-sum payment calculations will compare the annual GATT (General Agreement on Trade and Tariffs) rate plus 1.5 percent to the Pension Protection Act factors and the greater lump sum amount will be paid. The Company also participates in a supplemental executive retirement plan sponsored by The Regence Group to cover key employees meeting certain eligibility requirements.

The Company's practice is to reimburse The Regence Group for employee retirement plan obligations related to its employees and record such amounts as employment related expenses. Expense is allocated to the Company monthly based on relative salary dollars. Retirement plan expense recognized by the Company in 2009 was $8,000,856. The Company has no legal obligation for benefits under these plans; the obligation is carried by The Regence Group. As sponsor of the plan, however, The Regence Group is legally

required to fund the plans regardless of amounts paid to The Regence Group by the Company.

Postretirement Benefit Plan

The Company participates in a postretirement health and welfare plan sponsored by The Regence Group for retired employees, subject to certain eligibility rules based on age and years of service at retirement date. Employees hired after January 1, 2004 are not eligible for benefits. Coverage for eligible participants who retire on or after January 2, 2010 will terminate the date the participant or beneficiary attains Medicare eligibility. Eligible participants who retire on or after January 2, 2010 and already are eligible for Medicare on the basis of age or disability will not be eligible for benefits. The plan has not been funded by the Company, but has been funded by The Regence Group. The Company has no legal obligation for benefits under this plan; the obligation is carried by The Regence Group. Expense is allocated to the Company monthly, based on relative employee count. The Company's share of net expense for the postretirement benefit plan was $148,867 for 2009.

Employees' Savings Plan

The Company participates in an employee savings plan sponsored by The Regence Group in which the Company will match employee contributions up to 50 percent (100 percent effective January 1, 2010) of the first six percent of salary for each pay period in which the employee makes a contribution. The Company has no legal obligation for benefits under this plan; the obligation is carried by The Regence Group. Expense is allocated to the Company based on the portion of employees' functional activities that relate to the Company. The Company's share of the next expense was $733,559 for 2009.

The Company's postemployment benefits and compensated absences are accrued for in accordance with SSAP No. 11, *Postemployment Benefits and Compensated Absences*.

TERRITORY AND PLAN OF OPERATION

The Company is a mutual insurer licensed in the States of Idaho and Washington. In Idaho, the Company is authorized to write disability, including managed care. In Washington, the Company is authorized to write disability. During the period under examination, the Company's Washington sales were attributable to Asotin and Garfield counties. In addition to the home office located in Lewiston, Idaho, the Company maintains marketing and sales offices in Boise, Coeur d'Alene, Pocatello, and Twin Falls, Idaho.

The Company offers a wide variety of products including medical and dental insurance options for large and small employers and individuals including seniors. Health Savings Account products are also offered. The Company administers Administrative Service Contracts (ASC) for self funded plans. In addition, the Company sponsors and administers The Caring Foundation, Inc., a charitable organization that assists low income children with dental care needs.

The Company also participates in the Non-Medicare government line of business which includes federal, state and local government business. This includes the Federal Employees Program (FEP). The FEP program reimburses the Company for claims and actual cost incurred, less exclusions for "unallowable" costs defined in the federal acquisitions regulations.

In 2006, the Company began offering Medicare Part D coverage. This coverage is underwritten by Regence Life and Health Insurance Company and assumed by the Company under the Medicare Part D reinsurance contract discussed under *REINSURANCE*.

The Company's sales force consisted of commissioned individually appointed producers in addition to Company employees. There are approximately 1,582 active company appointments. Agents and/or agencies produced business pursuant to agent contracts. The most current agent contract utilized by the Company contained standard agency contract provisions.

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2009, The Company had provided the following deposits in trust for the protection of all its policyholders and/or creditors or for other purposes noted below:

Description	Par Value	Statement Value	Market Value
Deposits for the Benefit of All Policyholders:			
U.S. Treasury Note, 4.25% due 10/15/2010	$1,100,000	$1,098,324	$1,132,912
Special Deposits:			
Certificate of Deposit – Wells Fargo Bank, matures 10/7/2011	17,607	17,607	17,607
Certificate of Deposit – Bank of America, matures 11/19/2011	586,227	586,227	586,227
Totals	$1,703,834	$1,702,158	$1,736,746

The statutory deposit comprised of a U.S. Treasury Note was held for the benefit of all policyholders and met the general requirements and provisions of Sections 41-316A, 41-803 and 41-804, Idaho Code.

The special deposits include certificates of deposit held by Wells Fargo Bank and the Bank of America. The certificate of deposit at Wells Fargo Bank was assigned to the Ada County Highway District and pertains to a guarantee for the construction of street improvements along Parkcenter Boulevard. In 2009, the Company sold its interest in this property and accordingly does not have any remaining obligation for this guarantee. The Company indicated this certificate of deposit will be liquidated at maturity in 2011.

The certificate of deposit at the Bank of America was assigned to the City of Lewiston, Idaho, in 2006 under the terms of a Development Agreement with the City. This agreement pertains to financial guarantees for public improvements related to additions/improvements to the Company's statutory home office. Under terms of the assignment, the funds will be released by July 13, 2011 if not previously released or withdrawn.

GROWTH OF THE COMPANY

The Company's growth for the years indicated, as taken from the prior examination report and its Annual Statements, is shown in the following schedule:

Year	Admitted Assets	Liabilities	Capital & Surplus	Net Income(Loss)
2005*	$196,300,261	$ 92,628,272	$103,671,989	$31,415,591
2006	217,565,124	92,499,476	125,065,648	18,313,841
2007	250,509,946	125,003,894	125,506,052	(902,403)
2008	247,263,554	138,936,185	108,327,369	(10,619,786)
2009*	237,467,584	120,808,862	116,658,719**	(5,093,947)

Assets and surplus increased from 2005 to 2007 due to premium revenue generated from increased enrollment and cash received from termination of the reinsurance contract with Fort Dearborn Life Insurance Company in 2006. Assets decreased in 2008 and 2009 due to valuations arising from economic conditions as fewer funds were available for investment. Liabilities increased in 2007 and 2008 due to increased enrollment, utilization of medical services, and a draw from the Company's line of credit at year-end 2008.

Surplus levels corresponded to changes in assets and liabilities, except in 2009 where continued poor economic conditions led to further declines in membership and falling premium revenues leading to reductions in reserve liabilities. This was off-set by an increase to surplus of $6 million due to the adoption of SSAP No. 10R. The downward trend in net income(loss) was due to medical expense inflation, increased medical utilization, general administrative expense increases, pension charges, and particularly in 2008, a net realized capital loss of $9.2 million due to other than temporary impairments in investments. This trend started to reverse in 2009 with lower net realized capital losses of $2.2 million and favorable tax benefits.

* As determined by Examination.
**Differences due to rounding.

MORTALITY/LOSS EXPERIENCE

The ratios of benefits and expenses to premium shown in the following schedule were derived from amounts reported in the Company's Annual Statements.

Year	Premiums Earned	Claims and Claims Adjustment Expenses Incurred	Other Expenses Incurred	Total Claims, Claims Adjustment Expenses and Other Expenses Incurred	Ratio of Claims, Claims Adjustment Expenses and Other Expenses Incurred to Premiums Earned
2005*	$293,417,092	$212,577,767	$48,516,407	$261,094,174	88.98%
2006	380,390,482	312,217,805	53,783,661	366,001,466	96.22%
2007	423,865,980	368,745,189	62,082,702	430,827,891	101.64%
2008	508,109,619	448,072,520	66,199,486	514,272,006	101.21%
2009*	512,428,053	460,105,277	68,445,554	528,550,831	103.15%

As shown above, the ratio of claims, claims adjustment expenses and other expenses incurred to earned premiums increased over the years under examination, except for a slight decrease in 2008. The ratios for 2007 through 2009 correspond to the underwriting losses and net losses reported by the Company for the same years.

*As determined by Examination.

REINSURANCE

Assumed

The Company entered into a Medicare Part D Stand-Alone Prescription Drug (PDP) Plan reinsurance agreement with affiliate, Regence Life and Health Insurance Company, Portland, Oregon. Regence Life and Health is the contractor with the Centers for Medicare and Medicaid Services (CMS) to provide Part D benefits to Medicare beneficiaries. In this connection, the subject policies are issued by Regence Life and Health to individuals residing in the State of Idaho. The Company then assumes 100 percent of the liability incurred by Regence Life and Health in exchange for 100 percent of the premium attributed to the subject policies. The Company adjusts, settles, or compromises all claims and losses for risks assumed under the contract. Compensation for this service is included in the premiums assumed by the Company. The agreement

was effective January 1, 2006 and is unlimited in duration. The parties may terminate the agreement by thirty days written notice.

The Company submitted a copy of the agreement to the Idaho Department of Insurance on March 22, 2007 as part of Amendment One to The Regence Group 2005 Holding Company System Annual Registration Statement. A Form D notice of prior transaction was not filed because, according to the Company, the transaction was not more than 5 percent of surplus pursuant to Chapter 38, Idaho Code. However, an analysis of reinsurance premiums assumed during the examination period indicated that in 2007, reinsurance premiums assumed exceeded the threshold set forth in Section 41-3807(2)(c), Idaho Code.

Therefore, it is recommended that the Company implement controls to monitor compliance with Idaho law and in the future to submit a Form D filing when it appears that the Section 41-3807(2)(c), Idaho Code limitations will be exceeded for the Medicare Part D Stand-Alone PDP Plan reinsurance agreement.

Ceded

The Company ceded certain premiums and claims for long term care benefits for the individual line of business with MedAmerica, Pittsburg, Pennsylvania under a 100 percent pro rata reinsurance agreement. The agreement, effective September 1, 1997 for an initial term of five years, automatically renews for successive one year terms. The agreement may be terminated by either party by giving at least one hundred eighty days written notice. The reinsurance agreement was amended effective May 17, 1997 to change MedAmerica's state of domicile to Pennsylvania, change all references to Regence Blue Shield of Idaho, expand the policy forms ceded under the agreement and to change the ceding allowances.

A related Administrative Services Agreement was also executed with the same effective date and term. Services provided under the agreement include applicant underwriting, policy issue; premium billing and collection; agent commission payment; policy administration and recordkeeping; policyholder services; claim adjudication and payment; reports to Company; and to provide records and reports within thirty days of the close of each month. Under an amendment effective May 17, 1997, marketing services were added to services provided by MedAmerica.

Effective July 1, 2001, the Company ceded 100 percent of the accidental death benefits included in individual and group medical policies to affiliate, Regence Life and Health Insurance Company, Portland, Oregon. The agreement is unlimited in duration, subject to the insolvency provision therein. Either party may terminate the agreement with ninety days written notice. Under the agreement, Regence Life and Health adjusts and settles claims and losses without compensation. The reinsurance agreement was filed with the Idaho Department of Insurance in compliance with Section 41-3807, Idaho Code.

The Company participated in the Idaho Individual High Risk Reinsurance Pool and the Idaho Small Employer Health Reinsurance Program. Under these programs, a form of reinsurance is provided to the carriers as a means to divide the cost by the participating carriers. Individual risks are either automatically ceded or are eligible for cession to these programs. Business written and claims paid under the State mandated plans were reviewed by the Market Conduct Examiners. For further comments, see *INSURNACE PRODUCTS AND RELATED PRACTICES*.

The Consulting Actuary reviewed the reinsurance agreements to determine if the agreements transferred risk pursuant to Appendix A of Issue Paper No. 74 as contained in the NAIC *Accounting Practices and Procedures Manual*. It is the Consulting Actuary's opinion that the above named reinsurance agreements transferred risk.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

In 2009, the Idaho Department of Insurance gave the Company permission to file a number of large group contracts by January 1, 2010. The Department also informed the Company that contracts must be filed any time a change is made to the contract, for example, at renewal. During the review of policy forms and underwriting practices, it was noted that four large group contracts were renewed by the Company on January 1, 2010. However, the Department had no record that these contracts were filed as of October 2010. Section 41-1812, Idaho Code, requires that insurance policy forms must be filed with the Director.

According to additional information provided by the Company on November 1, 2010, two of the large groups moved to Community Modified status (51-99 size groups) at the 2010 renewal. This move required the groups to take standard benefits on the Innova plan. Therefore, no filing was needed. Another group was rolled over to the standard Innova product without any changes. Again, this did not require a filing. However, the remaining large group contract was not filed with the Department.

Therefore, it is recommended that the Company file its group contracts (insurance policy forms) with the Idaho Department of Insurance in compliance with Section 41-1812, Idaho Code. Subsequent to the examination date, the Company filed the large group contract with the Department in compliance with Section 41-1812, Idaho Code.

New Business Written

Statistical samples, with a 90 percent confidence level, of individual and group business written in 2009 were reviewed. Premiums were re-calculated by the examination with only minor rounding differences noted. The review of individual business indicated compliance with Section 41-5203(13), Idaho Code with respect to use of appropriate index rates. Furthermore, premiums did not vary more than 50 percent of the index rate pursuant to Section 41-5206(a), Idaho Code. This review also verified, as previously reported, that certain policy forms were not filed with the Idaho Department of Insurance.

A review of agent licensure and appointment data in the individual new business sample found that in one case the agent was not appointed with the Company when the application was written. Fifteen applications in the new business sample were not written by an agent but were obtained by the Company by other marketing methods. The information provided by the Company in response to the Department's questions and concerns regarding this issue indicated that sales, solicitation and negotiation of individual contracts was conducted by non-licensed individuals. It does not appear that the exceptions to licensing set forth in Section 41-1005, Idaho Code would not be applicable; consequently, the Company was not in compliance with Section 41-1004, Idaho Code regarding these findings.

Therefore, it is recommended that in the future, all sales, solicitation and negotiation of individual contracts be conducted by licensed individuals in compliance with Section 41-1004, Idaho Code.

Renewal Business

Statistical samples, with a 90 percent confidence level, of individual and group business renewed in 2009 were reviewed. This review indicated that writing producers were properly licensed and/or agents properly appointed. Premiums were re-calculated by the examination with only minor rounding differences noted. The review of renewal business indicated the Company was in compliance with Section 41-4706(1)(c), Idaho Code and IDAPA 18.01.69.036.16.

Declined New Business

A statistical sample, with a 90 percent confidence level, of new business declined in 2009 was reviewed. This review found that the Company was not in compliance with Section 41-5203, Idaho Code whereby nine individuals were denied an individual policy. All denials were based on the individual having "other coverage". In six cases the "other coverage" appeared to have been group coverage that was being terminated, which gave rise to the need for the individual policy. In one case the "other coverage" appeared to have been a limited benefit plan issued by ARRP. In another case, "other coverage" on the application was left blank. In the final case, the Company indicated that Medicaid was available to the individual, however, there was no documentation provided of why or when the individual became eligible for Medicaid, as this individual was insured under a group plan from which such individual was being terminated.

The findings are summarized below:

1. One applicant was denied coverage despite being an eligible individual under Section 41-5203(10)(b), Idaho Code. The application did indicate the applicant was eligible for Medicaid, however, no other documentation of Medicaid eligibility was provided.
2. One applicant was denied coverage despite being an eligible individual under Section 41-5203(10), Idaho Code. The application was taken on approximately February 27, 2009 and the Company confirmed that the group terminated

coverage and their system was updated March 25, 2009. The Company should have been aware of the individual's eligible status and adjusted the coverage date to coincide with the termination of group coverage.

3. One applicant was denied coverage despite being an eligible individual under Section 41-5203(10), Idaho Code. The Company should have adjusted the coverage date to coincide with the termination of group coverage. The other coverage was group coverage that was being terminated.
4. One applicant was denied coverage despite being an eligible individual under Section 41-5203(10), Idaho Code. The application indicates the applicant was eligible for other coverage but no documentation of what that coverage was or by what company. It appears the other coverage was group coverage that was being terminated.
5. One applicant was denied coverage despite being an eligible individual under Section 41-5203(10), Idaho Code. The application indicated the applicant was eligible for other coverage but no documentation of what the other coverage was or by what company. "Other coverage" on the application was left blank.
6. One applicant was denied coverage despite being an eligible individual under Section 41-5203(10), Idaho Code. The Company should have adjusted the coverage date to coincide with the termination of group coverage. The other coverage was group coverage that was being terminated.
7. One applicant was denied coverage despite being an eligible individual under Section 41-5203(10), Idaho Code. An AARP Hospital Plan that was indicated in the application as other coverage would appear to be a limited benefit plan which does not meet the criteria of a "health benefit plan" according to Section 41-5203(12), Idaho Code.
8. One applicant was denied coverage despite being an eligible individual under Section 41-5203(10), Idaho Code. The application indicates the applicant was eligible for other coverage but documentation of what the coverage was or by what company was not provided. It would appear that coverage was the group coverage that was terminating on December 31, 2009. The applicant did request an effective date of January 1, 2010.
9. One applicant was denied coverage despite being an eligible individual under Section 41-5203(10), Idaho Code. The application indicated the applicant was eligible for other coverage but documentation of what the coverage was or by what company was not provided. It would appear that coverage was the group coverage that was terminating on November 30, 2009. The applicant did request an effective date of January 1, 2010.

It is recommended that in the future, the Company comply with Section 41-5203, Idaho Code.

Cancelled/Non-Renewed Policies

Six of the groups sampled for cancelled/non-renewed policies were retroactively cancelled by several months and the Company provided the Certificates of Health Plan Coverage to the group members after the HIPAA 63 day period had expired. This left the members of these terminated groups subject to pre-existing conditions and denial of

benefits for services that were obtained prior to learning that the group plan and been terminated. This matter is the subject of a prior Department inquiry and is still being addressed and will be handled, in part, separately from the exam.
It is recommended that the Company comply with the directions/instructions previously communicated by the Department of Insurance which stated that regarding businesses and groups who presently, or in the future may, have outstanding premiums due and where the Company extends the time for payment of delinquent premiums, the Company should back date the cancellation no more than thirty (30) days to give members of the canceled group timely notice of creditable coverage as required by HIPAA 29 U.S.C. 1181(e)(1)(A)(i). A similar finding was noted during the review of claims closed/denied without payment which is discussed below.

Treatment of Policyholders

Claims
A statistical sample, with a 90 percent confidence level, of claims incurred and paid during 2009 was reviewed. This review indicated that claims, in general, were settled promptly and in accordance with policy terms. No exceptions were noted as to the requirements of Section 41-1329, Idaho Code, Unfair Claim Settlement Practices or Section 41-5602, Prompt Payment of Claims.

Claims Denied, Closed Without Payment
During the review of claims denied, closed without payment, four of the sampled claims indicated the following:

- two claims were denied inappropriately in violation of Section 41-1329(4), Idaho Code. The Company indicates that the claims have or will be re-processed.
- one claim payable to the State of Idaho Department of Health and Welfare was denied as "“NON-COVERED CONTRACT EXCLUSION." This is a violation of Section 41-5602(5), Idaho Code. The Company indicated this is a known issue. They are working with the system configuration team to change the Medicaid denial codes to reflect a more appropriate denial reason.
- one claim was denied due to a retro cancellation. This issue is the same as discussed in the sub-caption, *Cancelled/Non-Renewed Policies.*

Based on the findings noted above, it is recommended that in the future, the Company handle its claims in compliance with Sections 41-1329(4) and 5602(5), Idaho Code.

Complaint Registers
The Company maintains three complaint logs. One log is maintained for complaints filed with the Idaho Department of Insurance. Two additional complaint/grievance logs are maintained for complaints not originated by the Department of Insurance: Quality of Care Issues and Quality of Service Issues.

Section 41-1330, Idaho Code requires every authorized insurer to maintain a complete record of all complaints which it has received since the date of the last examination, or

December 31, 2005. This record shall include, on a state by state basis, the total number of complaints, their classification by line of insurance, the nature of the complaint, the disposition of these complaints and the time it took to process the complaint. The Company's complaint log(s) do not appear to contain a resolution of the complaint as the resolution date is the date the Company acknowledged the complaint. In three of the four files reviewed, the acknowledgement letter stated that the Company does not provide the complainant the results of the review. There was no evidence in the files of any follow up by the Company other than forwarding the complaint to the provider of the service or the responsible section within the Company. The Company does not include appeals of claim denials or payment amounts in the complaint log(s). Appeals should be maintained as a complaint under Section 41-1330, Idaho Code, if such are received by the Company in writing.

Therefore, it is recommended that in the future, the Company maintain its complaint records in compliance with Section 41-1330, Idaho Code, including appeals of claim denials or payment amounts if such are in writing.

Advertising and Sales Material

The Company maintained an advertising file in accordance with IDAPA 18.01.24.024. The advertisements consisted of sellover brochures and flyers, benefit summaries, plan highlights, print advertisements and direct mail letters. The Company filed its advertising materials with the Department in accordance with IDAPA 18.01.24.025.

Information about the Company is available to members, producers, medical providers, and to the general public on the Company's website at http://www.id.regence.com.

The review of the Company's advertising indicated that the Company was in compliance with Section 41-1304, Idaho Code and Idaho Rules IDAPA 18.01.24.024 and IDAPA 18.01.24.025.

ACCOUNTS AND RECORDS

General Accounting

The Company uses PeopleSoft for general accounting and internal financial reporting. The system's inputs are generated by manual journal entries and interfaces from peripheral systems for payroll, accounts payable, asset management, claims disbursement system (CDS), cash management (miscellaneous cash), and Facets, the claims, membership and billing system. The Company's premium and claims data warehouse is known as the Rewards Data Warehouse.

The general ledger and supporting accounting records are maintained on a GAAP basis and then adjusted to a Statutory basis of accounting through adjusting journal entries. The Annual Statements were compiled using AS 2000 Annual Statement Preparation System software package developed by FIServ, the NAIC *Annual Statement Instructions*, and the NAIC *Accounting Practices and Procedures Manual*. In 2010, the Company

began using "Efreedom Annual Statement" preparation software developed by StoneRiver in place of the AS 2000 package.

The Regence Group is currently transitioning substantially all business to the Facets platform to allow for a common system to be used across all state Plans. This conversion is expected to be substantially complete in 2011.

The Company has two current practices prescribed by the Idaho Department of Insurance that differ from NAIC Statutory Accounting Principles. The prescribed practices relate to amortization periods for cost of electronic and mechanical machines set forth under Section 41-601(11), Idaho Code and Section 41-601(12), Idaho Code, which permits office equipment, office furniture, and private passenger automobiles as admitted assets.

Independent Accountants
The annual independent audits of the Company for the years 2006 through 2009 were performed by Deloitte & Touche LLP, Portland, Oregon. The financial statements in each report were on a statutory basis. There was some reliance on the 2009 audit report and workpapers in this examination of the Company.

Actuarial Opinion
The 2009 loss reserves, actuarial liabilities and related items were calculated by the Company and reviewed by Steven J. Gaspar, FSA, MAAA, the Company's Appointed Actuary. Previous to 2009, David O. Thoen, FSA, MAAA of Deloitte Consulting, LLP rendered the actuarial opinions as the qualified health actuary for the Company. The Company notified the Department of Mr. Gaspar's appointment in a letter dated December 18, 2009. The NAIC Health Annual Statement Instructions prior to 2009 did not contain a requirement for disagreements between the qualified health actuary and the Company to be reported to DOI. However, in the spirit of the 2009 Health Annual Statement Instructions (revised), the Company notified the Department (in a letter dated March 25, 2010) that there were no disagreements with Mr. Thoen regarding the content of his prior opinions.

The December 31, 2009 statement of actuarial opinion stated that the amounts carried in the balance sheet:

A. Are in accordance with accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles,

B. Are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the statement was prepared,

C. Meet the requirements of the laws of Idaho, and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed,

D. Make good and sufficient provision for all unpaid claims and other actuarial liabilities of the organization under the terms of its contracts and agreements,

E. Are computed on the basis of assumptions and methods consistent with those used in computing the corresponding items in the annual statement of the preceding year-end,

F. Include appropriate provision for all actuarial items that ought to be established.

The actuarial items in the 2009 Annual Statement are as follows:

Claims unpaid (Page 3, Line 1)	$60,693,732
Accrued medical incentive pool and bonus payments (Page 3 Line 2)	254,827
Unpaid claims adjustment expenses (Page 3, Line 3)	2,180,091
Aggregate health policy reserves, (Page 3, Line 4) including unearned premium reserves and additional policy reserves from the Underwriting and Investment Exhibit – Part 2D	17,203,959
Aggregate life policy reserves (Page 3, Line 5)	0
Property/casualty unearned premium reserves (Page 3, Line 6)	0
Aggregate health claim reserves (Page 3, Line 7)	0
Any actuarial reserves or liabilities not included in the items above	0

The actuarial review of reserves, related liabilities, and other actuarial items was performed by Taylor-Walker & Associates, Inc., consulting actuary, for the Idaho Department of Insurance.

See the "NOTES TO FINANCIAL STATEMENTS" section, later in this report, for further discussion regarding the Department's consulting actuary's review and analysis.

INFORMATION SYSTEMS REVIEW

The Company's information systems were reviewed by Information System Specialist, Jenny L. Jeffers, CISA, AES, on behalf of Examination Resources, LLC. The procedures were performed in accordance with the guidelines and procedures set forth in the Exhibit C, Evaluation of Controls in Information Systems Questionnaire (ISQ) contained in the NAIC *Financial Condition Examiners Handbook.* In summary, the functional areas reviewed by the Information System Specialist included the following:

- Section A – Management and Organizational Controls
- Section B – Logical and Physical Security
- Section C – Changes to Applications
- Section D – System and Program Development
- Section E – Contingency Planning
- Section F – Service Provider Controls

- Section G – Operations
- Section H – Processing Controls
- Section I – E-Commerce Controls
- Section J – Network and Internet Controls

The Information System Specialist's findings were presented to the Company in the Management Letter.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet as of December 31, 2009

Statement of Revenue and Expenses, Year 2009

Capital and Surplus Account, Year 2009

Reconciliation of Capital and Surplus Account, December 31, 2005, through December 31, 2009.

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Balance Sheet
As of December 31, 2009

ASSETS

	Assets	Nonadmitted Assets	Net Admitted
Bonds	$146,470,799	$ 0	$146,470,799
Stocks			
Preferred stocks	20,888	0	20,888
Common stocks	33,892,863	0	33,892,863
Real estate, properties occupied by the company (less $18,646,844 encumbrances)	6,290,881	0	6,290,881
Cash ($5,431,249), cash equivalents ($0) and short-term investments ($2,566,350)	7,997,599	0	7,997,599
Receivables for securities	1	0	1
Other invested assets			
Investment income due and accrued	2,387,424	0	2,387,424
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	16,099,909	987,407	15,112,502
Accrued retrospective premium	946,589	0	946,589
Amounts recoverable from reinsurers	554,519	0	554,519
Amounts receivable relating to uninsured plans	6,948,670	203,847	6,744,823
Current federal and foreign income tax recoverable and interest thereon	3,514,060	0	3,514,060
Net deferred tax asset	7,934,031	0	7,934,031
Electronic data processing equipment and software	17,139,526	17,139,526	0
Furniture and equipment, including health care delivery assets	3,553,292	1,626,592	1,926,700
Receivables from parent, subsidiaries and affiliates	865,745	33,606	832,139
Health care ($1,138,984) and other amounts receivable	2,381,599	1,242,615	1,138,984
Aggregate write-ins for other than invested assets:			
Employee Deferred Comp Plan	1,651,100	0	1,651,100
Physicians Deferred Comp Plan	51,682	0	51,682
Totals	$258,701,177	$21,233,593	$237,467,584

Balance Sheet
As of December 31, 2009 (continued)

LIABILITIES, CAPITAL AND SURPLUS

	Covered	Uncovered	Total
Claims unpaid (less $713,139 reinsurance ceded) (Note 1)	$ 60,693,732	$ 0	$ 60,693,732
Accrued medical incentive pool and bonus amounts (Note 1)	254,827	0	254,827
Unpaid claims adjustment expenses (Note 1)	2,180,091	0	2,180,091
Aggregate health policy reserves (Note 1)	17,203,959	0	17,203,959
Premiums received in advance	8,301,120	0	8,301,120
General expenses due or accrued	4,149,717	0	4,149,717
Current federal and foreign income tax payable and interest thereon (including $1,140,275 on realized capital gains (losses))	1,219,991	0	1,219,991
Ceded reinsurance premiums payable	11,153	0	11,153
Amounts withheld or retained for the account of others	1,777,349	0	1,777,349
Remittance and items not allocated	8,544,590	0	8,544,590
Amounts due to parent, subsidiaries and affiliates	11,275,925	0	11,275,925
Liability for amounts held under uninsured plans	4,174,280	0	4,174,280
Unclaimed Property	1,022,128	0	1,022,128
Total liabilities	$120,808,862	$ 0	$120,808,862
Impact of adopting SSAP No. 10R			$ 6,047,734
Unassigned funds (surplus)			110,610,986
Rounding			(1)
Total capital and surplus			$116,658,719
Rounding			3
Total Liabilities, capital and surplus			$237,467,584

STATEMENT OF REVENUE AND EXPENSES

For the Year Ending December 31, 2009

	Per Examination and Per Company
Net premium income	$513,573,064
Change in unearned premium reserves and reserve for rate credits	(1,145,011)
Total revenues	$512,428,053
Hospital and Medical:	
Hospital/medical benefits	$229,844,262
Other professional services	129,055,688
Outside referrals	2,913,264
Emergency room and out-of-area	14,218,631
Prescription drugs	50,211,256
Incentive pool, withhold adjustments and bonus amounts	8,147
Subtotal	$426,251,248
Less:	
Net reinsurance recoveries	$ 1,792,454
Claims adjustment expenses, including $9,456,495 cost containment expenses	33,854,029
General administrative expenses	68,445,554
Total underwriting deductions	$ 526,758,377
Net underwriting loss	$(14,330,324)
Net investment income earned	$ 8,408,125
Net realized capital losses, less capital gains tax of $(1,140,275)	(2,213,476)
Net investment gains	$ 6,194,649
Net loss from agents' or premium balances charged off	(91,035)
Aggregate write-ins for other income or expenses	
Other Income	1,112,234
Other Expense	(736,895)
Net loss before federal income taxes	$ (7,851,371)
Federal and foreign income taxes incurred	(2,757,424)
Net loss	$ (5,093,947)

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2009

	Per Company	Examination Changes	Per Examination
Capital and surplus, December 31, 2008	$108,327,369	$ 0	$108,327,369
GAINS AND (LOSSES) IN SURPLUS			
Net loss	$ (5,093,947)	$ 0	$ (5,093,947)
Change in net unrealized capital gains	9,064,766	0	9,064,766
Change in net unrealized foreign exchange capital gain	116,711	0	116,711
Change in net deferred income tax	(7,805,568)	0	(7,805,568)
Change in nonadmitted assets	6,001,654	0	6,001,654
Impact of adopting SSAP No. 10R	6,047,734	0	6,047,734
Net change in capital and surplus	$ 8,331,350	$ 0	$ 8,331,350
Capital and surplus, December 31, 2009	$116,658,719	$ 0	$116,658,719

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT

December 31, 2005 Through December 31, 2009

	2006	2007	2008	2009
Capital and surplus, December 31, previous year	$103,671,989	$125,065,648	$125,506,052	$108,327,369
Net income or (loss)	18,313,841	(902,403)	(10,619,786)	$ (5,093,947)
Change in net unrealized capital gains (losses)	2,604,565	1,291,237	(3,257,144)	9,064,766
Change in net unrealized foreign exchange capital gain	0	0	0	116,711
Change in net deferred income tax	3,930,392	1,974,309	3,403,092	(7,805,568)
Change in nonadmitted assets	(3,455,139)	(1,922,739)	(6,704,845)	6,001,654
Impact of adopting SSAP No. 10R	0	0	0	6,047,734
Net change in capital and surplus	$ 21,393,659	$ 440,404	$(17,178,683)	$ 8,331,350
Capital and surplus, December 31, current year	$125,065,648	$125,506,052	$108,327,369	$116,658,719

NOTES TO THE FINANCIAL STATEMENTS

Note (1) Claims unpaid (less $713,139 reinsurance ceded)	$60,693,732
Accrued medical incentive pool and bonus amounts	254,827
Unpaid claims adjustment expenses	2,180,091
Aggregate health policy reserves	17,203,959

Scott Garduno, FSA, MAAA, of Taylor-Walker and Associates, Inc., was retained by the Department to perform the actuarial portion of the examination. The scope of Taylor-Walker's duties included issuing an opinion as to the adequacy of certain amounts reported by the Company as of December 31, 2009, which is noted above. Taylor-Walker also reviewed the reinsurance agreements between the Company and MedAmerica and Regence Life and Health Insurance Company for transfer of risk. See *REINSURANCE* for further discussion.

Based on records and information provided by the Company, Taylor-Walker concluded that the Company's financial position was fairly and adequately represented with respect to the actuarial liabilities noted above.

However, it was noted that the Company reported losses in its uninsured and partially uninsured line of business starting in 2007 up through year-end 2009. In this connection, Taylor-Walker reviewed the Company's projections of 2010 profitability on the uninsured block of business that were performed in conjunction with the Company's analysis of a Premium Deficiency Reserve on its insured block. As of December 31, 2009, the Company was projecting a 2010 loss on its uninsured business.

The NAIC *Health Reserves Guidance Manual* states that:

> *"In certain circumstances, SSAP No. 5 requires a liability similar to Premium Deficiency Reserves. For example, with Administrative Services Only (ASO) business, when the administrative fees are not sufficient to cover expenses for the remainder of the contract period, the liability should be calculated using the same procedures as outlined for premium deficiency reserves. The calculation would apply to the Administrative Services Contract (ASC) line of business as well as ASO business."*

The Company has not historically reported such a reserve for fee deficiency. Based on its 2010 projections, the Company should have reported a Fee Deficiency Reserve in the 2009 Annual Statement. Therefore, it is recommended that in future years the Company analyze the need to establish a fee deficiency reserve and establish one as appropriate pursuant to SSAP No. 5, *Liabilities, Contingencies and Impairments of Assets* and the NAIC *Health Reserves Guidance Manual.* It was noted that the Company intends to comply with this requirement beginning with the 2010 Annual Statement.

Minor reporting issues identified during the course of Taylor-Walker's review were communicated to the Company in the Management Letter.

SUBSEQUENT EVENTS

Subsequent to the examination date, the Company discovered that in 2009, the data used to support the statutory claims expense break-out by claims type excluded the Federal Employees Program (FEP) prescription drug claims and did not properly adjust for outside referrals. While these items did not have an impact on total incurred claims or surplus, this did impact the break-out of claims expenses by claims type. The Annual Statement lines affected include *Hospital and medical benefits, Other professional services, Outside referrals, Emergency room and out-of area services,* and *Prescription drugs.* The Company corrected the error before filing the 2010 Annual Statement. It was determined that the 2009 Annual Statement did not need to be amended to reflect the correction. Therefore, the above balances reported in the 2009 and 2010 Annual Statements will not be comparable with the 2009 balances reported in the 2010 audited statutory financial statements. The 2009 reclassified balances were not examined by the Department; therefore, this Report of Examination as of December 31, 2009 has not incorporated the reclassification(s) into the Report's financial statements and accordingly does not express an opinion on such.

The Patient Protection and Affordable Care Act was signed into law on March 23, 2010. A review of prospective risks arising from the Act indicated that the Company is taking appropriate measures to be in compliance with the federal statute.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of December 31, 2009, the Company had admitted assets of $237,467,584, liabilities of $120,808,862, and unassigned funds of $116,658,719. Therefore, the Company's total capital and surplus exceeded the $2,000,000 minimum prescribed by Section 41-313, Idaho Code.

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Comments and Recommendations

Page

7 It is recommend that in the future, the Company submit Form D filings in compliance with Section 41-3807(2)(a)(i), Idaho Code. It is further recommended the Company monitor its affiliated transactions more closely and implement more robust internal controls surrounding the Form D filing requirements.

13 It is recommended that the Company conform to SSAP No. 70 and Section IV of the Management and Administrative Services Agreement with respect to its future expense allocations.

13 It is recommended that a Form D filing, along with the Claims Processing and Federal Employee Program (FEP) Shared System Service and Cost Agreement and amendment be filed with the Idaho Department of Insurance.

14 It is recommended that the Company submit a Form D filing for the agreement with the Caring Foundation, Inc. in compliance with Idaho law.

21 It is recommended that the Company implement controls to monitor compliance with Idaho law and in the future to submit a Form D filing when it appears that the Section 41-3807(2)(c), Idaho Code limitations will be exceeded for the Medicare Part D Stand-Alone PDP Plan reinsurance agreement.

22 It is recommended that the Company file its group contracts (insurance policy forms) with the Idaho Department of Insurance in compliance with Section 41-1812, Idaho Code. Subsequent to the examination date, the Company filed the large group contract with the Department in compliance with Section 41-1812, Idaho Code.

23 It is recommended that in the future, all sales, solicitation and negotiation of individual contracts be conducted by licensed individuals in compliance with Section 41-1004, Idaho Code.

24 It is recommended that in the future, the Company comply with Section 41-5203, Idaho Code.

25 It is recommended that the Company comply with the directions from the Idaho Department of Insurance to the Company stating that regarding businesses and groups who presently, or in the future may, have outstanding premiums due and where the Company extends the time for payment of delinquent premiums, the Company should back date the cancellation no more than thirty (30) days to give members of the canceled group timely notice of creditable coverage as required by HIPAA 29 U.S.C. 1181(e)(1)(A)(i). A similar finding was noted during the review of claims closed/denied without payment.

25 It is recommended that in the future, the Company handle its claims in compliance with Sections 41-1329 and 5602, Idaho Code.

26 It is recommended that in the future, the Company maintain its complaint records in compliance with Section 41-1330, Idaho Code.

35 It is recommended that in future years the Company analyze the need to establish a fee deficiency reserve and establish one as appropriate pursuant to SSAP No. 5, *Liabilities, Contingencies and Impairments of Assets* and the NAIC *Health Reserves Guidance Manual.* It was noted that the Company intends to comply with this requirement beginning with the 2010 Annual Statement.

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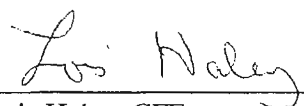
CONCLUSION

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, MBA, CIE; and Arlene Barrie of the Idaho Department of Insurance, participated in the examination. Scott Garduno, FSA, MAAA, of Taylor-Walker and Associates, Inc. conducted the actuarial portion of the examination. The Company's information systems were reviewed by Information System Specialist, Jenny L. Jeffers, CISA, AES, on behalf of Examination Resources, LLC.

Respectfully submitted,

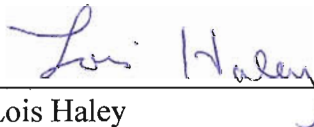


Lois Haley, CFE
Senior Insurance Examiner
State of Idaho
Department of Insurance

AFFIDAVIT OF EXAMINER

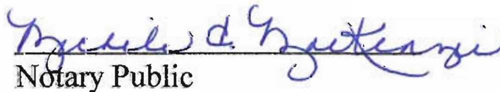
State of Idaho
County of Ada

Lois Haley, 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 and financial condition of Regence BlueShield of Idaho, Inc. for the period from January 1, 2006, through December 31, 2009, that the information obtained 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 this report are based on the facts disclosed in the examination.



Lois Haley
Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 27th day of May, 2011 at Meridian, Idaho.



Notary Public

My Commission Expires: 02-22-2014

EXHIBIT B

State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

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

WILLIAM W. DEAL
Director

WAIVER

In the Matter of the Report of Examination as of December 31, 2009, of:

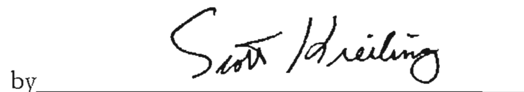
REGENCE BLUESHIELD OF IDAHO, INC.
1602 21ST AVENUE
LEWISTON, IDAHO 83501

By executing this Waiver, the Company hereby acknowledges receipt of the examination report, verified as of the 27th day of May 2011, (including a modified/corrected version of the report forwarded to the Company on June 22, 2011) and by this Waiver hereby consents to the immediate entry of a Final Order by the Director of the Idaho Department of Insurance adopting said report without any further modification.

By executing this Waiver, the Company hereby waives its right to examine the report for up to thirty (30) days (see § 41-227(4), Idaho Code). Further, the Company acknowledges that it has, along with executing this Waiver, provided the Department with a written submission and rebuttal regarding the report as prescribed under § 41-227(4) and (5), Idaho Code; and in this regard, the Company requests that the written submission be treated as a public document.

Dated this 23rd day of June, 2011.

REGENCE BLUESHIELD OF IDAHO, INC.



by____________________________

Name: Scott Kreiling

Its: President

EXHIBIT C

Regence BlueShield of Idaho is an Independent
Licensee of the Blue Cross and Blue Shield Association

June 15, 2011

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720

Re: Regence BlueShield of Idaho, Inc. – Report of Examination as of December 31, 2009

Dear Mr. Deal,

Please find below, for your consideration, our responses to be included in the final Report of Examination for Regence BlueShield of Idaho, Inc. We ask that these responses be part of the public record of the examination. We appreciate the opportunity to respond and comment on the Report.

Finding: Revolving Line of Credit

The Company has access to a revolving line of credit through The Regence Group to supplement short-term cash flows. The maximum borrowing available is $20,000,000 for The Regence Group and its subsidiaries and affiliates. The interest rate is based on LIBOR plus 225 basis points for the term of the loan and was 2.49 percent at December 31, 2009. The Company had $0 outstanding on the line of credit at December 31, 2009.

With respect to the line of credit, the Idaho Department of Insurance informed the Company on or about June 7, 2007 to file a Form D Prior Notice of a Transaction as required under Section 41-3807(2)(a)(i), Idaho Code at least 30 days before each draw whenever the amount of the draw or the cumulative amount outstanding equals or exceeds 3 percent of admitted assets show on the prior year's annual statement.

The Company borrowed $10,000,000 from the revolving line of credit on December 31, 2008 and reported such in Note 11 to the Financial Statements. The outstanding balance was subsequently repaid in January 2009. Based on the calculation below, the $10,000,000 draw exceeded 3 percent of admitted assets reported in the 2007 Annual Statement, or $7,515,298.

Net Admitted Assets per 2007 Annual Statement	Statutory Limit Percentage, Section 41-3807(2)(a)(i), Idaho Code	Statutory Limit	Draw from revolving Line of credit in 2008
$250,509,946	3 percent	$7,515,298	10,000,000

However, the Company did not file the required Form D notice of this transaction as earlier instructed by the Department or in compliance with Idaho law. In an e-mail to the Department dated May 7, 2009, the Company stated it appeared a Form D was not filed due to an oversight. The Company further indicated the Department's inquiry was forwarded to The Regence Group's legal department to work with them in complying with this requirement. Finally, the Company indicated this information would also be circulated to the appropriate areas so they are aware of the requirement going forward.

Based on the foregoing it is recommend that in the future, the Company submit Form D filings in compliance with Section 41-3807(2)(a)(i), Idaho Code. It is further recommended the Company monitor its affiliated transactions more closely and implement more robust internal controls surrounding the Form D filing requirements.

Company Response:
Regence will file a Form D for the line of credit arrangement

Finding: Affiliated Company Agreements

1. *Management and Administrative Services Agreement - A review of The Regence Group's 2009 legal expense allocations was performed during the examination. It was noted that portions of legal expenses attributed to the Oregon and Washington Plans were allocated to the Company. It appears that the Company's allocation methodology, at least with respect to legal expenses, does not conform to SSAP No. 70. Furthermore, the allocation methodology is not in compliance with Section IV. – Control of Funds and Insolvency Protection, section 4.01, Control of Funds, of the Management and Administrative Services Agreement.*

   Therefore, it is recommended that the Company conform to SSAP No. 70 and to Section IV of the Management and Administrative Services Agreement with respect to its future expense allocations.

2. *Claims Processing and FEP Shared System Service and Cost Agreements – Although the Claims Processing Agreement and the FEP Shared System Service and Cost Agreement and amendment have been continually disclosed in the Health Carrier Holding Company System Annual Registration Statement, service contracts and cost sharing arrangements must be filed prior to use pursuant to Section 41-3807(2)(d), Idaho Code.*

   Therefore, it is recommended that a Form D filing, along with the Claims Processing and the Federal Employee Program (FEP) Shared System Service and Cost Agreement and amendment be filed with the Idaho Department of Insurance.

3. *The Caring Foundation, Inc. – The Company executed an agreement with the Caring Foundation, Inc. effective April 1, 2001 to provide dental care services on behalf of the Foundation. The Company provided administrative services to the Foundation at no cost. Either Company may terminate the agreement upon ninety days prior written notice.*

   The previous examination report incorrectly reported that the Company was not required to file the agreement with the Idaho Department of Insurance. Upon further review, it was determined that prior notice of this administrative service agreement is required under Section 41-3807(2)(d), Idaho Code. Therefore, it is recommended that the Company submit a Form D filing for this agreement in compliance with Idaho law.

4. *Medicare Part D Plan Reinsurance Agreement – The Company entered into a Medicare Part D Stand-Alone Prescription Drug (PDP) Plan reinsurance agreement with affiliate, Regence Life and Health Insurance Company, Portland, Oregon. The Company submitted a copy of the agreement to the Idaho Department of Insurance on March 22, 2007 as part of Amendment One to The Regence Group 2005 Holding Company System Annual Registration Statement. A Form D notice of prior transaction was not filed because, according to the Company, the transaction was not more than 5 percent of surplus pursuant to Chapter 38, Idaho Code. However, an analysis of reinsurance premiums assumed during the examination period indicated that in 2007, reinsurance premiums assumed exceeded the threshold set forth in Section 41-3807(2)(c), Idaho Code.*

   Therefore, it is recommended that the Company implement controls to monitor compliance with Idaho law and in the future to submit a Form D filing when it appears that the Section 41-3807(2)(c), Idaho Code limitations will be exceeded for the Medicare Part D Stand-Alone PDP Plan reinsurance agreement.

Company Response:

1: The Company continues to believe that its expense allocation methodology is reasonable, taking into account that each of the Regence entities generally benefits from legal work done on any one legal issue, regardless of which entity is directly involved, as the learnings on any one issue are leveraged to the benefit of the other Regence entities. This helps to reduce future legal expenses across all Regence entities and ultimately lowers costs to the member. In light of the fact that each entity ultimately benefits from the work, the Company believes it reasonable that the associated costs would be shared by all entities.

However, in response to the recommendation to conform to SSAP No. 70 and to Section IV of the Management and Administrative Services Agreement, the Company has adjusted the coding process for legal invoices such that legal expenses will be charged as entity-specific when such expenses are limited to a specific Regence entity. When the expense is not entity-specific, these expenses will be attributed to the holding company and allocated on a "gross plan operating expense" basis.

2 – 3: For expediency and to resolve this finding, the Company will prepare and file a Form D for each of these contracts. Regence is, in part, agreeing to this action because, in fact, a Form D was required for these agreements under the Idaho holding company statute. However, although Regence did not file a Form D on the two agreements noted in this finding, it has provided copies of the agreements to the Department over several financial exams and has reported the agreements on its annual holding company statement (Form B).

4: The Company respectfully disagrees with this finding because it appropriately did not file a Form D at the point the reinsurance agreement was entered into. Form D filings, required for certain intercompany transactions by IC § 41-3807(2), are intended to provide the Idaho Department of Insurance prior notice of certain transactions. In particular, a Form D is required for any intercompany reinsurance agreements if "the reinsurance premium or a change in the insurer's liabilities equals or exceeds five percent (5%) of the insurer's surplus as regards policyholders, as of the 31st day of December next preceding." IC § 41-3807(2)(c). The determination of whether to file a Form D is made at the point immediately *before* a contract is entered into. The statute states that such a contract "may not be entered into" unless notice is given of the carrier's "intention to enter into such transaction at least thirty day (30) days *prior* thereto." IC § 41-3807(2). Regence had to analyze the Form D "trigger" requirement by estimating the change in its liability to determine whether the filing threshold was triggered. As shown in the data included with the finding, Regence's estimate was accurate in that it did not initially exceed more than a 5% change in its liability.

Once a contract is entered into, the Form D requirement no longer applies (absent a contract amendment). Neither IC § 41-3807(2) nor IDAPA 18.01.23 impose a continuing year-by-year review of existing contracts to see if a Form D, although not required when the contract was entered into, has somehow been triggered. However, there still is transparency with the regulator for such agreements because (even if a Form D was not triggered), the contracts are reported on the Form B. The agreement at issue was provided to the Department and also was properly included on Regence's annual holding company statement (Form B).

The Company cannot agree to this finding, which would establish a precedent of applying the Form D requirements to contracts in place, even though the contracts were properly entered into without a Form D. Such an interpretation and application of the Form D requirements is inconsistent with both the law and the policy underlying the requirement.

Finding: Failure to File Required Contracts With the DOI

In 2009, the Idaho Department of Insurance gave the Company permission to file a number of large group contracts by January 1, 2010. The Department also informed the Company that contracts must be filed any time a change is made to the contract, for example, at renewal. During the review of policy forms and underwriting practices, it was noted that four large group contracts were renewed by the company on January 1, 2010. However, the Department had no record that these contracts were filed as of October 2010. Section 41-1812, Idaho Code, requires that insurance policy forms must be filed with the Director.

According to additional information provided by the company on November 1, 2010, two of the large groups moved to Community Modified status (51-99 size groups) at the 2010 renewal. This move required the groups to take standard benefits on the Innova plan. Therefore, no filing was needed. Another group was rolled over to the standard Innova product without any changes. Again, this did not require a filing. However, the remaining large group contract was not filed with the Department.

Therefore, it is recommended that the Company file its group contracts (insurance policy forms) with the Idaho Department of Insurance in compliance with Section 41-182, Idaho Code. Subsequent to the examination date, the company filed the large group contract with the Department in compliance with Section 41-1812, Idaho Code.

Company Response:
As noted above, Regence completed the required filing upon notification from the Department.

Finding: Agent Licensure and Appointment

A review of agent licensure and appointment data in the individual new business sample found that in one case the agent was not appointed with the Company when the application was written. Fifteen applications in the new business sample were not written by an agent but were obtained by the Company by other marketing methods. The information provided by the Company in response to Department questions and concerns regarding this issue indicates that sales, solicitation and negotiation of individual contracts was conducted by non-licensed individuals. It does not appear that the exceptions to licensing set forth in Section 41-1005, Idaho Code would not be applicable; consequently, the Company was not in compliance with Section 41-1004, Idaho Code regarding these findings.

Company Response:
We do not agree with this finding. Regence BlueShield of Idaho requires all internal Sales Specialist positions maintain a current license. Thus, all sales, solicitation and negotiation of individual contracts are conducted by licensed individuals.

Finding: Declined New Business

A statistical sample, with a 90 percent confidence level of individual and group business renewed in 2009 was reviewed. This review found that the Company was not in compliance with Section 41-5203, Idaho Code whereby nine individuals were denied an individual policy. All denials were based on the individual having "other coverage". In six cases the "other coverage" appeared to have been group coverage that was being terminated, which gave rise to need for the individual policy. In one case the "other coverage" appeared to have been a limited benefit plan issued by AARP. In another case, "other coverage" on the application was left blank. In the final case, the Company indicated that Medicaid was available to the individual, however, there was no documentation provided of why or when the individual became eligible for Medicaid as this individual was insured under a group plan from which such individual was being terminated.

The findings are summarized below:

1. *One applicant was denied coverage despite being eligible individual under I.C. Section 41-5203(10)(b), Idaho Code. The application did indicate the applicant was eligible for Medicaid, however, no other documentation of Medicaid eligibility provided.*
2. *One applicant was denied coverage despite being an eligible individual under I.C. Section 41-5203(10), Idaho Code. The application was taken on approximately February 27, 2009 and the Company confirmed group termed coverage and their system was updated March 25, 2009. The Company should have been aware of eligible individual status and adjusted coverage date to coincide with termination of group coverage.*
3. *One applicant was denied coverage despite being an eligible individual under I.C. Section 41-5203(10), Idaho Code. The Company should have adjusted coverage date to coincide with termination of group coverage. The other coverage was group coverage that was being terminated.*

4. *One applicant was denied coverage despite being eligible individual under I.C. Section 41-5203(10), Idaho Code. The application indicates the applicant was eligible for other coverage but no documentation of what coverage is or by what company. Appears other coverage was group coverage that was being terminated.*
5. *One applicant was denied coverage despite being eligible individual under I.C. Section 41-5203(10), Idaho Code. The application indicated the applicant was eligible for other coverage but no documentation of what coverage was or by what company. "Other coverage" on the application was blank.*
6. *One applicant was denied coverage despite being eligible individual under I.C. Section 41-5203(10), Idaho Code. The Company should have adjusted coverage date to coincide with termination of group coverage. The other coverage was group coverage that was being terminated.*
7. *One applicant was denied coverage despite being eligible individual under I.C. Section 41-5203(10), Idaho Code. An AARP Hospital Plan that was indicated in application as other coverage would appear to be a limited benefit plan which does not meet the criteria of a "health benefit plan" according to Section 41-5203(12), Idaho Code.*
8. *One applicant was denied coverage despite being eligible individual under I.C. Section 41-5203(10), Idaho Code. The application indicated the applicant was eligible for other coverage but documentation of what coverage was or by what company was not provided. It would appear that coverage was the group coverage that was terminating on December 31, 2009. The applicant did request an effective date of January 1, 2010.*
9. *One applicant was denied coverage despite being eligible individual under I.C. Section 41-5203(10), Idaho Code. The application indicated the applicant was eligible for other coverage but documentation of what coverage was or by what company was not provided. It would appear that coverage was the group coverage that was terminating on November 30, 2009. The applicant did request an effective date of January 1, 2010.*

Company Response:

1. We do not agree with this finding. The applicant indicated on the application that they were eligible for Medicaid and signed the application containing the Affirmation which states, "I affirm the answers given in this "Idaho Individual Application" are complete and correct." Carriers rely on these answers to make their determinations of eligibility. We also cannot find reference in the statutes indicating an applicant must provide documentation that they are not eligible for a particular coverage or that a carrier must request such documentation.
2. We do not agree with this finding. At the time of application, the applicant was still active on the group coverage. Regence does not know when a member is cancelling off a group until the group submits a cancellation. Legal issues are likely if Regence attempts to contact the group and inquire if the applicant is still employed (the employee may not have notified their employer at the time of application). The letter we send lists the reason for declination and also a number to call with questions. Had Regence received a call indicating the coverage was cancelling, we would have re-opened the application.
3. We do not agree with this finding. The applicant requested an effective date that was prior to her group coverage cancellation and did not indicate a date of cancellation on the application. We cannot guess the date of cancellation. Had the applicant come back to us with a date, we would have re-opened the application.
4. We do not agree with this finding. The applicant indicated on the application that they were eligible for other coverage and signed the application containing the Affirmation which states, "I affirm the answers given in this "Idaho Individual Application" are complete and correct." Carriers rely on these answers to make their determinations of eligibility. We also cannot find reference in the statutes indicating an applicant must provide documentation that they are not eligible for a particular coverage or that a carrier must request such documentation.
5. We do not agree with this finding. The applicant indicated on the application that they were eligible for other coverage and signed the application containing the Affirmation which states, "I affirm the answers given in this "Idaho Individual Application" are complete and correct." Carriers rely on these answers to make their determinations of eligibility. We also cannot find reference in the statutes indicating an applicant must provide documentation that they are not eligible for a particular coverage or that a carrier must request such documentation.
6. We do not agree with this finding. The applicant requested an effective date that was prior to their group coverage cancellation and indicated a date of cancellation of group coverage on the application that was

after the date the application was valid. Had the applicant come back to us with an earlier date of cancellation, we would have re-opened the application.

7. We do not agree with this finding. Regence does not have the wherewithal to investigate the benefit structure of all possible plans an applicant lists on their application. In the past, applicants have called to question a denial because they were on a limited benefit plan and we have re-opened their application upon receipt of the additional policy information.
8. We do not agree with this finding. The applicant indicated on the application that they were eligible for other coverage and signed the application containing the Affirmation which states, "I affirm the answers given in this "Idaho Individual Application" are complete and correct." Carriers rely on these answers to make their determinations of eligibility. We also cannot find reference in the statutes indicating an applicant must provide documentation that they are not eligible for a particular coverage or that a carrier must request such documentation.
9. We do not agree with this finding. The applicant indicated on the application that they were eligible for other coverage and signed the application containing the Affirmation which states, "I affirm the answers given in this "Idaho Individual Application" are complete and correct." Carriers rely on these answers to make their determinations of eligibility. We also cannot find reference in the statutes indicating an applicant must provide documentation that they are not eligible for a particular coverage or that a carrier must request such documentation.

Finding: Cancelled/Non-Renewed Policies

Six of the groups sampled for cancelled/non-renewed policies were retroactively cancelled by several months and the Company provided the Certificates of Health Plan Coverage to the group members after the HIPAA 63 day period had expired. This left the members of these terminated groups subject to pre-existing conditions and denial of benefits for services that were obtained prior to learning that the group plan and been terminated. This matter is the subject of prior Department inquiry and is still being addressed and will be handled, in part, separately from the exam.

It is recommended that the Company comply with the directions/instructions previously communicated by the Department of Insurance which stated that regarding businesses and groups who presently, or in the future may, have outstanding premiums due and where the Company extends the time for payment of delinquent premiums, the Company should back date the cancellation no more than thirty (30) days to give members of the canceled group timely notice of creditable coverage as required by HIPAA 29 U.S.C. 1181(e)(1)(A)(i). A similar finding was noted during the review of claims closed/denied without payment.

Company Response:
We agree with this recommendation. Regence is in the process of finalizing a clear policy to ensure coverage is no longer retroactively canceled beyond thirty (30) days.

Finding: Claims Denied or Closed Without Payment Violations

During the review of claims denied, closed without payment, four of the sampled claims indicated the following:

1. *Two claims were denied inappropriately in violation of Section 41-1329(4), Idaho Code. The Company indicates that the claims have or will be re-processed.*
2. *One claim payable to the State of Idaho Department of Health and Welfare was denied as ""NON-COVERED CONTRACT EXCLUSION." This is a violation of Section 41-5602(5), Idaho Code. The Company indicated this is a known issue. They are working with the system configuration team to change the Medicaid denial codes to reflect a more appropriate denial reason.*
3. *One claim was denied due to a retro cancellation. This issue is the same as discussed in the sub-caption, Cancelled/Non-Renewed Policies.*

Based on the findings noted above, it is recommended that in the future, the Company handle its claims in compliance with Sections 41-1329(4) and 5602(5), Idaho Code.

Company Response:

1. The claims in question have or will be re-processed.
2. This is a known issue. Member Services is working with the system configuration team to change the Medicaid denial codes to reflect a more appropriate denial reason.
3. Regence is aware of this issue, and we are in the process of finalizing a clear policy to ensure coverage is no longer retroactively canceled beyond thirty (30) days.

Finding: Complaint Register and Grievance Log Procedures

The Company maintains three complaint logs. One log is maintained for complaints filed with the Idaho Department of Insurance. Two additional complaint/grievance logs are maintained for complaints not originated by the Department of Insurance: Quality of Care Issues and Quality of Service Issues.

Section 41-1330, Idaho Code requires every authorized insurer to maintain a complete record of all complaints which it has received since the date of the last examination, or December 31, 2005. This record shall include, on a state by state basis, the total number of complaints, their classification by line of insurance, the nature of the complaint, the disposition of these complaints and the time it took to process the complaint. The Company's complaint log(s) do not appear to contain a resolution of the complaint as the resolution date is the date the Company acknowledged the complaint. In three of the four files reviewed, the acknowledgement letter stated that the Company does not provide the complainant the results of the review. There was no evidence in the files of any follow up by the Company other than forwarding the complaint to the provider of the service or the responsible section within the Company. The Company does not include appeals of claim denials or payment amounts in the complaint log(s). Appeals should be maintained as a complaint under Section 41-1330, Idaho Code, if such are received by the Company in writing.

Therefore, it is recommended that in the future, the Company maintain its complaint records in compliance with Section 41-1330, Idaho Code, including appeals of claim denials or payment amounts if such are in writing.

Company Response:

We agree with this recommendation. As required by Idaho Code, Section 41-1330, Regence BlueShield of Idaho will immediately begin documenting the resolution phase within the QOS and QOC complaint logs (the DOI complaint logs are in compliance), for all complaints received in our office. Additionally, we will immediately begin tracking written appeals concerning claim denials or payment amounts.

Finding: Fee Deficiency Reserves

It was noted that the Company reported losses in its uninsured and partially uninsured line of business starting in 2007 up through year-end 2009. In this connection, Taylor-Walker reviewed the Company's projections of 2010 profitability on the uninsured block of business that were performed in conjunction with the Company's analysis of a Premium Deficiency Reserve on its insured block. As of December 31, 2009, the company was projecting a 2010 loss on its uninsured business.

The NAIC Health Reserves Guidance Manual states that: "In certain circumstances, SSAP No. 5 requires a liability similar to Premium Deficiency Reserves. For example, with Administrative Services Only (ASO) business, when the administrative fees are not sufficient to cover expenses for the remainder of the contract period, the liability should be calculated using the same procedures as outlined for premium deficiency reserves. The calculation would apply to the Administrative Services Contract (ASC) line of business as well as ASO business."

The Company has not historically reported such a reserve for fee deficiency. Based on the 2010 projections, the Company should have reported a Fee Deficiency Reserve in the 2009 Annual Statement.

Therefore, it is recommend that in future years the Company analyze the need to establish a fee deficiency reserve and establish one as appropriate pursuant to SSAP No. 5, Liabilities, Contingencies and

Impairments of Assets and the NAIC's Health Reserves Guidance Manual. It was noted that the Company intends to comply with this requirement beginning with the 2010 Annual Statement

Company Response:
The Company agrees that it should have reported a Fee Deficiency Reserve in its 2009 Annual Statement. Based on the information known at the time of the 2009 filing, we estimate a reserve of $1,600,000 should have been booked.

Sincerely,

Scott Kreiling
President and Chief Executive Officer
Regence BlueShield of Idaho, Inc.