



STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION
OF
BLUECROSS BLUESHIELD OF TENNESSEE, INC
(NAIC # 54518)
(NAIC Group # 3498)
CHATTANOOGA, TENNESSEE

AS OF
DECEMBER 31, 2020

TABLE OF CONTENTS

Introduction	1
Scope of Examination	1
Compliance with Previous Examination Findings	3
Company History	3
Management and Control	4
Management	4
Control	9
Organizational Chart	10
Corporate Records	13
Agreements with Parent, Subsidiaries, and Affiliates	13
Territory and Plan of Operation	14
Growth of Company	16
Loss Experience	16
Accounts and Records	16
Market Conduct Activities	17
Subsequent Events	19
Financial Statements	20
Assets	20
Liabilities, Capital and Surplus	21
Statement of Revenue and Expenses	22
Surplus Account	23
Analysis of Changes in Financial Statements	24
Comments and Recommendations	24
Conclusion	26
Affidavit	27
Affidavit	28

Chattanooga, Tennessee
April 19, 2022

Honorable Carter Lawrence
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated (“Tenn. Code Ann.”) § 56-1-408, a full-scope financial examination and market conduct review, as of December 31, 2020, has been made of the conditions and affairs of:

BLUECROSS BLUESHIELD OF TENNESSEE, INC

NAIC # 54518
NAIC Group # 3498
1 Cameron Hill Circle
Chattanooga, Tennessee 37402

hereinafter referred to as the “Company” or “BCBST” and a report thereon is submitted as follows:

INTRODUCTION

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or “Department”). The examination was conducted by duly authorized representatives of the Department. This examination was called through the National Association of Insurance Commissioners (NAIC) Financial Examination Electronic Tracking System (FEETS). The examination was conducted simultaneously with two (2) of the Company’s subsidiaries, Golden Security Insurance Company (GSIC) and SecurityCare of Tennessee, Inc. (SCTN).

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2015. This examination covers the period January 1, 2016, through December 31, 2020, and includes any material transactions and/or events occurring subsequent to the examination date, which were noted during the course of examination.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with practices and procedures promulgated by the NAIC in the *Financial Condition Examiners Handbook* (“Handbook”), as deemed appropriate. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance, by identifying and assessing inherent risks within the Company, and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management’s compliance with statutory accounting principles and annual statement instructions.

All significant risks were considered when planning which key activities and accounts would be examined. The key activities included: Investments; Premium/Underwriting; Reserves/Claims; Related Party; and Capital and Surplus.

The Company’s 2020 annual statement was compared with or reconciled to the corresponding general ledger account balances.

The Company maintains an Internal Audit (IA) Department, which is charged with performing the IA function for all companies within the holding company system. As part of its annual internal audit plan, IA performs Model Audit Rule (MAR) compliance testing. The scope of MAR testing includes the Company’s internal controls over financial reporting. The examiners reviewed the processes tested and requested the workpapers for specific processes identified as significant to the key activities and sub-activities being examined. The workpapers were provided and were utilized, where appropriate.

Independent information technology specialist services, provided by Lewis & Ellis, Inc. were utilized in the examination review of the Company’s information technology general controls (ITGC).

The actuarial firm of Lewis & Ellis, Inc. was utilized in the examination review of the Company’s loss and claims reserves.

The Company’s Certified Public Accountant (CPA) workpapers were reviewed for the 2020 audit and incorporated into the examination, as deemed appropriate.

A separate market conduct review was also performed concurrently with the financial examination. See “Market Conduct Activities” section of this report.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

There were no comments or recommendations noted in the prior examination report as of December 31, 2015.

COMPANY HISTORY

The Company is a mutual benefit nonprofit corporation engaged primarily in providing healthcare programs and financial service products to group health plans and individual customers. Healthcare products consist of preferred provider organizations, health maintenance organizations (HMO), and point-of-service products. The Company provides indemnity health insurance coverage on a fully-insured basis and provides administrative services for self-funded group health plans.

The Company was originally incorporated as the Tennessee Hospital Service Association under a charter dated September 10, 1945. The Company was organized under the authority, terms, and provisions of Chapter 98 of the Public Acts of Tennessee of 1945, which governed the organization and conduct of nonprofit hospital service corporations.

On June 9, 1949, the Company filed an amendment to its charter with the Tennessee Secretary of State (SOS), which added authority to provide medical expense indemnity benefits. This amendment had the effect of bringing the Company under Chapter 234 of the Public Acts of Tennessee of 1949. Provisions of the charter as amended were consistent with this latter statute and were approved by the TDCI.

On November 29, 1968, the Company filed an amendment to its charter with the SOS to have its name changed to BlueCross-BlueShield of Tennessee and later to BlueCross and BlueShield of Tennessee, on April 8, 1974.

On May 10, 1972, the Company filed an amendment with the SOS to expand its services as follows:

To establish and operate a dental service plan under the terms of Section 56-3051 through 56-3532 of the Tennessee Code Annotated, to provide a vision service plan under the terms of Section 56-3071 through 56-3731 of the Tennessee Code Annotated, and to furnish and to administer such other services and plans, either alone or in conjunction with one or more governmental agencies or other organizations, as may from time to time become available, all on a voluntary, nonprofit basis, and thereby to promote more fully the health and welfare of the people of the State of Tennessee.

Effective January 1, 1996, the Company entered into an agreement to affiliate/combine with Memphis Hospital Service and Surgical Association (MHSSA), based in Memphis, Tennessee. Under the terms of the affiliation agreement, a holding company was formed for the purpose of serving as the sole member of the Company and of MHSSA. In connection with the affiliation, the Company changed its name to Chattanooga Hospital and Medical Service Association (CHMSA) and the holding company became BlueCross and BlueShield of Tennessee, Inc.

Effective January 1, 1999, the operations of MHSSA were merged into CHMSA and the separate existence of MHSSA was discontinued. Simultaneously, the upstream holding company named BlueCross and BlueShield of Tennessee, Inc. was dissolved. CHMSA, the surviving parent entity, was renamed BlueCross BlueShield of Tennessee, Inc.

Effective December 17, 2007, GDRG, LLC merged with and into BCBST. GDRG, formed in 2004, was a limited liability company established by BCBST, whose primary purpose was to acquire, own, hold, maintain, operate, and develop real estate.

Effective April 29, 2018, DJJC, LLC merged into BCBST. DJJC, LLC, was incorporated on October 30, 2015, as a wholly-owned subsidiary of the Company for the purpose of purchasing property located in Johnson City, Tennessee and to build a new office building for the benefit of the Company.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

The administration and governance of the Company is vested in the Board of Directors (“Board”), which shall have charge, control and management of the business, affairs, property, and funds of BCBST, and which has the power and authority to perform all acts and functions consistent with applicable law, its Charter, and its Bylaws. The Board shall be comprised of natural persons (hereinafter “Directors”).

The Company shall be managed by a Board composed of not less than eleven (11), but no more than seventeen (17) directors. The Board shall be at all times composed of the following groups: (1) administrators of hospitals, which have contracted with BCBST to render hospital service to the subscribers; (2) physicians, exclusive of group one (1); and (3) the general public, exclusive of groups one (1) and two (2). In all cases, over fifty percent (50%) of the directors shall be individuals representing group three (3), and the

remaining directors shall be divided equally between individuals representing groups one (1) and two (2).

Each director shall be elected by the Board. The Governance and Nominating Committee shall have the duties, as determined by the Board, to recruit and nominate new directors to fill vacancies due to removal, resignation, retirement, or death, and to nominate for re-election, at the annual meeting of the Board, the director(s) whose term(s) are expiring.

Each director will be elected to serve a three (3) year renewable term. However, if more than one-third (1/3) of the director positions would become vacant as a result of expiring terms at the annual meeting, the Governance and Nominating Committee shall nominate one or more of those individuals to fill such positions and to serve a term with a modified duration, such term to be no less than one (1) year and no more than three (3) years.

Directors may be removed from office at any time, with or without cause, by a two-thirds (2/3) majority vote of the remaining directors of the Board at a meeting of the Board called expressly for that purpose. Any director may resign at any time by giving written notice to the Corporate Secretary. All directors shall have a mandatory retirement age of seventy-five (75). Upon reaching the age of seventy-five (75), a director may hold his or her respective office until the close of the annual meeting of the Board.

Vacancies on the Board caused by death, resignation, removal, or any other cause creating an open position shall be filled by a director elected in accordance with the procedure followed to replace a director whose term has expired.

At least four (4) regular meetings of the Board shall be held during each calendar year. The annual meeting shall be held each year on dates to be fixed by the Board. Special meetings of the Board may be called at any time by the Chairperson, the CEO, or any two (2) or more directors acting jointly, by providing notice to all directors of said special meeting. At all meetings of the Board, a majority of the directors shall be necessary to constitute a quorum for the transaction of business, and the act of the majority of directors present at any meeting at which a quorum is present shall be the act of the Board unless applicable law, the Charter, and the Bylaws require a greater number of votes to take such action.

Notice of meetings shall be given in writing and delivered personally or by mail, telegram, facsimile, email, or similar means to each director. The notice shall specify the date, time, and place of said meeting, and, in the case of a special meeting, general nature of the business to be transacted.

Directors may take any action that is required or permitted by law, without a meeting, by written consent, setting forth the action so taken, signed by all persons entitled to vote thereon.

A Chairperson and Vice Chairperson of the Board shall be nominated by the Governance and Nominating Committee and elected by the Board at the annual Board meeting. The Chairperson and Vice Chairperson shall hold their respective offices for one (1) year or until their earlier death, removal, resignation, or retirement.

The Compensation Committee shall consider what constitutes appropriate compensation and make a recommendation to the Board as to the amount and dates upon which director shall be paid. In addition, the directors of the Company may receive payment for particular services actually rendered, such as legal counsel, medical service, accounting, or other required services, upon specific approval of the Board; provided, however, that no contract for equipment or supplies may be entered into between the Company and one (1) or more directors unless such contract is approved in accordance with the Company's Code of Conduct and applicable law.

The Board shall reimburse a director who is not a corporate officer for any expenses incurred in attending Board or committee meetings.

The following persons were serving as members of the Board, as of December 31, 2020:

<u>Name</u>	<u>Principal Occupation</u>
Marty Glenn Dickens	Chair
Lamar Julian Partridge	Vice Chair
Jason David Hickey M.D.	President & CEO, BCBST
James Buford Baker	Director
Bruce Arnold Bosse	Director
Miles Anderson Burdine	Director
Reginald William Coopwood M.D.	Director
Darrell Sandy Freeman	Director
Herbert Henry Hilliard M.D.	Director
Jack Bass McCallie M.D.	Director
Emily Josephine Reynolds	Director
Lottie Fay Ryans	Director
Martha Swain Wallen	Director

Officers

The officers of the Company shall be elected by the Board at the annual Board meeting and shall hold office for one (1) year or until their death, removal, resignation, or retirement. Vacancies may be filled at any time by appointment by the Board. The

officers shall consist of a Chief Executive Officer (CEO), a President, a Corporate Secretary, and a Treasurer, and such other corporate officers as are appointed by the Board. The President and CEO may be one (1) person, and the Corporate Secretary and Treasurer may be one (1) person. The Board may appoint one (1) or more assistant officers.

The Board may delegate to the CEO the authority between Board meetings to appoint administrative officers (with the exception of any direct reports to the CEO, Chief Compliance Officer (CCO), and Chief Audit Executive (CAE)), providing that the appointments are reported back to the full Board at the next Board meeting. Additionally, the Board delegates to the Board Chair the authority between Board meetings to appoint the CEO, CCO, CAE, and direct reports to the CEO, providing that the appointments are reported back to the full board at the next Board meeting.

The following persons were serving as officers of the Company, as of December 31, 2020:

<u>Name</u>	<u>Title</u>
Jason David Hickey M.D.	President & CEO
Erbon Dennis Culver	Treasurer
Jill Anne Langston	Corporate Secretary
Mandy Holland Savage	Assistant Treasurer
James Harris Hobbs	Assistant Secretary

Committees

The Board may create standing or special committees, as the Board deems necessary, appropriate, or convenient for the conduct of business. Members of committees may be directors or other natural persons appointed in accordance with Tenn. Code Ann. § 48-58-206, except as otherwise provided in the Company's Bylaws. The majority of persons who serve on any committee shall be independent, with the exception of the Audit, Compensation, and Governance and Nominating Committees, whose membership shall be comprised entirely of independent directors.

The powers and responsibilities of each committee shall be any or all of the powers of the Board that are delegated by the Board to such committee, except those powers that, pursuant to the Company's Charter and Bylaws and applicable laws, may not be so delegated.

On December 31, 2020, the standing committees of the Board and respective committee members were as follows:

Executive Committee

The Executive Committee has the Board's authority to address emergency issues between scheduled meetings of the Board.

Marty Dickens (Chair)	Bruce Bosse
Lamar Partridge (Vice Chair)	James Baker
Emily Reynolds	Miles Burdine
Martha Wallen	

Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibilities for the Company in the areas of financial reporting; overview of Company risk; compliance with legal and regulatory requirements; the corporate control environment; the ethical behavior of employees; and the performance of the internal audit function and the independent auditors.

James Baker (Chair)	Herbert Hilliard
Jack McCallie	Reginald Coopwood

Compensation Committee

The Compensation Committee establishes and oversees the executive compensation philosophy, which includes the basic statement of strategy, policy, and components of compensation and benefits, including applicable incentive programs and implementation of such programs and policies.

Emily Reynolds (Chair)	Miles Burdine
Lottie Ryans	Darrell Freeman

Public Policy Committee

The Public Policy Committee oversees and establishes policies related to the Company's government relations activities and oversight of the BCBST Health Foundation and BCBST Community Trust.

Miles Burdine (Chair)	Martha Wallen
Jack McCallie	Reginald Coopwood

Finance Committee

The Finance Committee assists the Board in fulfilling its duties by exercising effective oversight of finance and investment activities.

Martha Wallen (Chair)
Bruce Bosse

Emily Reynolds
Darrell Freeman

Governance and Nominating Committee

The Governance and Nominating Committee has the duties of overseeing corporate governance, recruitment, and the nomination of new Board directors.

Bruce Bosse (Chair)
Lottie Ryans

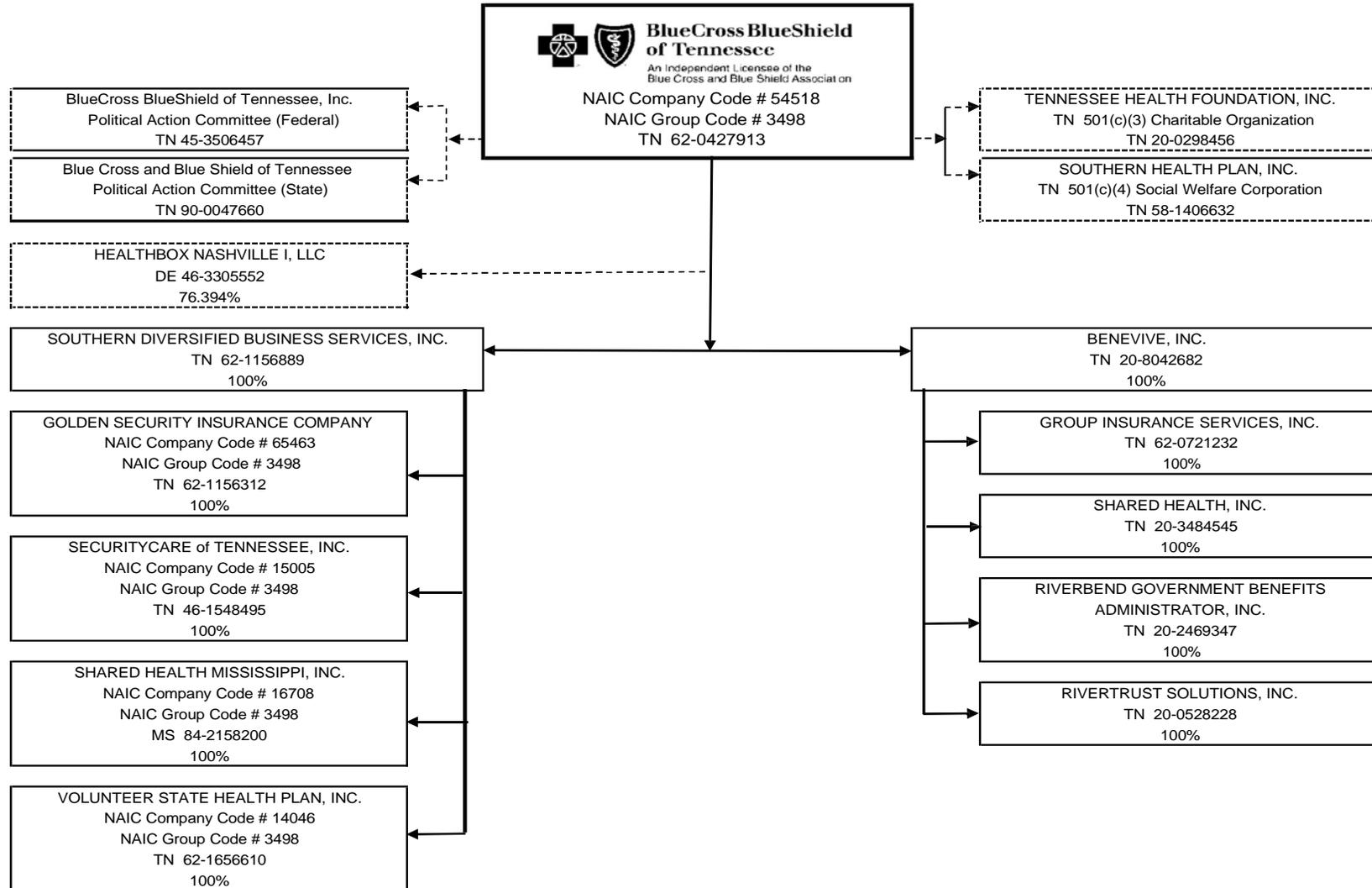
James Baker
Herbert Hilliard

CONTROL

The Company is a mutual benefit nonprofit corporation organized under Title 56, Chapter 29 of the Tennessee statutes. As such, the Company does not have any common or preferred stock and is controlled by its Board. The Company is exempt from filing a Holding Company Registration Statement set forth in Tenn. Code Ann. §§ 56-11-101, *et seq.*

ORGANIZATIONAL CHART

The following organizational chart shows all the insurance companies and their respective domiciliary states within the BCBST Holding Company Group:



The Company has established or acquired subsidiaries as detailed below:

Southern Diversified Business Services, Inc. (SDBS)

SDBS is a wholly-owned, downstream, non-insurance holding company of BCBST that was incorporated on July 9, 1982. SDBS owns hundred percent (100%) of the for-profit corporations Volunteer State Health Plan, Inc. (VSHP), doing business as BlueCare Tennessee; GSIC, doing business as BlueRe of Tennessee; SCTN, doing business as BlueChoice Tennessee; and Shared Health Mississippi, Inc. (SHMS).

Volunteer State Health Plan, Inc. (VSHP)

VSHP is a for-profit wholly-owned subsidiary of SDBS. VSHP was incorporated on July 1, 1996. VSHP focuses on managing care and providing quality health care products, services, and information for government programs. VSHP was organized to participate by contract with the State of Tennessee (the "State") as a managed care organization in TennCare, the State's Medicaid program. VSHP is a licensed Health Maintenance Organization (HMO) subject to regulation by the TDCI, the Division of TennCare, and the Office of the Inspector General. VSHP is an independent licensee of the Blue Cross Blue Shield Association (BCBSA), an association of independent health benefit plans. The Company has a guaranty agreement with VSHP to fund VSHP's Risk Based Capital (RBC) and liquidity ratio requirements.

Golden Security Insurance Company (GSIC)

GSIC is a for-profit wholly owned subsidiary of SDBS. GSIC was incorporated on December 14, 1982. GSIC offers a portfolio of policies for specific and aggregate medical stop-loss coverage for the benefit of Tennessee businesses. GSIC is an independent licensee of the BCBSA. The Company has a guaranty agreement with GSIC to fund all of GSIC's contractual and financial obligations to its customers.

SecurityCare of Tennessee, Inc. (SCTN)

SCTN is a for-profit wholly-owned subsidiary of SDBS. SCTN was incorporated on December 12, 2012. SCTN is an HMO that offers Medicare Advantage products within the State, as authorized by the Centers for Medicare and Medicaid Services. SCTN is an independent licensee of the BCBSA. SCTN did not offer policies for the 2018 and 2019 benefit years, and subsequently re-entered the Medicare market offering Chronic Condition Special Needs Plan policies in 2020. The Company has a guaranty agreement with SCTN to fund all of SCTN's contractual and financial obligations to its customers.

Shared Health Mississippi, Inc. (SHMS)

SHMS is a for-profit wholly-owned subsidiary of SDBS. SHMS was incorporated on June 19, 2019. SHMS is an HMO that began offering a Dual Special Needs Plan for the 2021 benefit year for eligible members in the State of Mississippi who qualify for both Medicare and Medicaid benefits. SHMS was approved for licensure by the Mississippi Insurance Department on January 6, 2020. The Company has a guaranty agreement with SHMS to fund the contractual and financial obligations of SHMS under the laws of the state of Mississippi with regard to capital, surplus, RBC, and liquidity ratios.

BeneVive, Inc. (BeneVive)

BeneVive is a wholly-owned, downstream, non-insurance holding company of the BCBST. BeneVive was incorporated on November 13, 2006. The principal activity of BeneVive is holding stock of Group Insurance Services, Inc. (GIS), Shared Health, Inc. (SH), RiverTrust Solutions, Inc. (RTS), and Riverbend Government Benefits Administrator, Inc. (RGBA).

Group Insurance Services, Inc. (GIS)

GIS is a for-profit wholly-owned subsidiary of BeneVive. GIS was incorporated on January 9, 1964. GIS operates as an insurance broker for the Company providing a full range of ancillary coverage to complement employer sponsored health plans, stand-alone insurance products, combined group medical-hospitalization insurance, group processing services and group life insurance.

Tennessee Health Foundation, Inc. (THF)

THF, doing business as BlueCross BlueShield of Tennessee Foundation, is an affiliate of the Company and is licensed by the BCBSA. THF was incorporated on September 25, 2003. THF and the Company share a common board of directors. THF is a public benefit nonprofit Tennessee corporation that supports the philanthropic mission of the Company. Specifically, THF seeks to improve the health and quality of life of all Tennesseans. THF is a tax-exempt entity operating under Internal Revenue Code § 501(c)(3).

Southern Health Plan, Inc. (SHP)

Southern Health Plan, Inc., doing business as BlueCross BlueShield of Tennessee Community Trust (the "Trust"), is an affiliate of the Company through the Company's appointment of the Trust's Board of Directors. The Trust is also licensed by BCBSA. The Trust, incorporated on January 30, 1980, is a nonprofit Tennessee corporation created for the purpose of improving the quality of health in Tennessee, primarily through contributions to other tax-exempt organizations. The Trust has been granted an Internal Revenue Code § 501(c)(4) tax exemption by the Internal Revenue Service.

CORPORATE RECORDS

The minutes of meetings of the Company's Board and committees were reviewed for the period under examination. The minutes were complete as to necessary detail and appear to adequately reflect the acts of the respective bodies. The review of the minutes indicates that all investment transactions were approved by the Board pursuant to Tenn. Code Ann. § 56-3-408(b)(1).

Charter

The Company's Charter was amended and restated as of December 17, 2009. No amendments or restatements were made to the Company's Charter during the period of examination.

Bylaws

The Bylaws in effect as of December 31, 2020, are the Company's Amended and Restated Bylaws, which were adopted by the Board on September 28, 2017. The Company went through a revision process which amended and restated each section of its Bylaws. There were no other changes to the Bylaws during the period of examination.

The Bylaws are such as generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, and the Board.

AGREEMENTS WITH PARENT, SUBSIDIARIES, AND AFFILIATES

The Company had the following significant agreements with its affiliated companies in effect, as of December 31, 2020:

Management and Service Agreements

The Company maintains administrative services agreements with GIS, GSIC, SCTN, SHP, VSHP, and BCBST Credit Union. For the administrative services agreements with GIS, VSHP, and BCBST Credit Union, certain administrative services are provided by the Company. Each entity reimburses the Company for the direct costs incurred. Indirect and allocated costs are distributed via a calculated fee.

Under the administrative services agreements with SHP, GSIC, and SCTN, the Company supervises and manages the day-to-day operations which include the administrative services of each entity. GSIC and SCTN reimburse the Company as described above. The Company is reimbursed by SHP for the fully-allocated service costs calculated by the Company.

The Agreements were determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1) which sets standards for which intercompany agreements must adhere.

Tax Allocation Agreement

Effective January 27, 2020, the Company and its subsidiaries amended and restated an existing Tax Allocation Agreement signed December 31, 2005. Under the agreement, the Company will make payments on the consolidated tax liability for each taxable period, including the payment of estimated tax installments, and each subsidiary will pay its share of each payment within ninety (90) days of receiving notice. Each entity's portion of the tax liability is an amount equal to the tax liability of the group multiplied by a fraction, the numerator being the Company's separate tax return liability and the denominator being the sum of the separate return tax liabilities of all members within the BCBST Group.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1) which sets standards for which intercompany agreements must adhere.

TERRITORY AND PLAN OF OPERATION

The Company is an independent mutual benefit nonprofit corporation headquartered in Tennessee and is a licensee of the BCBSA, an association of independent BlueCross and BlueShield plans.

TERRITORY

The Company is licensed in the State of Tennessee and operates in all counties. The Company is headquartered in Chattanooga, with regional offices in Jackson, Johnson City, Knoxville, Memphis, and Nashville. On December 17, 2020, the Company received its Certificate of Authority to be licensed to write in the State of Georgia. The certificates of authority issued by the State of Tennessee and the State of Georgia were inspected and found to be in force, both at the date of examination and inspection.

Premium tax records were reviewed for the Company, and no exceptions were noted.

Schedule T - Premiums

<u>State</u>	<u>Licensed (Yes or No)</u>	<u>Accident & Health</u>	<u>Medicare Title XVIII</u>	<u>Federal Employees Health Benefits Plan</u>	<u>Total Premiums</u>
TN	Yes	\$3,026,435,921	\$1,584,881,852	\$790,277,075	\$5,401,594,848
GA	Yes	\$0	\$0	\$0	\$0

PLAN OF OPERATION

Funds received and disbursed by the Company are primarily divided between Insured Products and Self-Funded Products. The major segments of these products are discussed as follows under those appropriate headings.

Insured Products

The Company issues health coverage on an individual and group basis. Members covered under individual and group policies are enrolled by Company employee account sales and account executives and by independent brokers. Each individual policyholder is issued a policy, which may cover the individual and his/her dependents, as applicable. In group coverage, the policy is issued to the group health plan and underwriting, and collection of premiums is on a group basis for all employee participants in the group health plan and their dependents, as applicable. When a group member loses eligibility, he or she may be eligible for conversion to individual coverage.

The Company contracts with hospitals, physicians, and other medical providers (called network providers) to provide services to the Company's members. Each member is issued an identification card, recognized by doctors, hospitals, and other providers nationwide. Services are covered as specified by the member's individual policy or group policy.

Beginning in 2014 through 2016, a number of federal premium stabilization programs were implemented in accordance with the Affordable Care Act (ACA), including the transitional risk corridor program, risk adjustment program, and transitional reinsurance program. It is noted that the risk adjustment program is the only program that remained in place as of December 31, 2020.

Self-Funded Products

Self-funded clients are group health plans that contract with the Company for administration of health, dental, or other benefits offered by the group health plan. The client retains the financial risk for claims paid on behalf of the group's members and pays the Company a fee for administrative services provided.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to the examination, according to its annual statements, as filed with the TDCI:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Premium Income</u>
2020	\$4,976,475,397	\$1,136,820,203	\$3,839,655,194	\$5,401,594,848
2019	\$4,674,111,395	\$1,046,053,795	\$3,628,057,600	\$5,205,541,851
2018	\$3,995,908,300	\$856,621,183	\$3,139,287,117	\$5,429,731,869
2017	\$2,927,112,380	\$787,178,345	\$2,139,934,035	\$4,631,843,714
2016	\$2,556,713,287	\$823,200,783	\$1,733,512,504	\$4,739,622,580

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements, the ratios of losses incurred to direct premiums earned, for the period subject to the examination were as follows:

<u>Year</u>	<u>Medical Losses Incurred</u>	<u>Earned Premium</u>	<u>Loss Ratio</u>
2020	\$4,365,528,323	\$5,430,597,915	80.4%
2019	\$4,317,112,852	\$5,130,678,380	84.1%
2018	\$4,039,842,541	\$5,411,313,699	74.7%
2017	\$3,639,616,903	\$4,631,738,958	78.6%
2016	\$4,038,148,648	\$4,739,891,443	85.2%

ACCOUNTS AND RECORDS

During the course of the examination, certain balances were tested, and amounts were traced from the Company's trial balance to the annual statement. Minor differences were noted in the Company's financial statements attributable to rounding. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed. These test checks and reviews revealed no material discrepancies.

The Company's books and records are located in Chattanooga, Tennessee.

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company as of December 31, 2020, in conjunction with the examination. The following items were addressed:

Operations and Management Standards

Company antifraud initiatives were examined and found to outline all specific procedures required per Tenn. Code Ann. § 56-53-111. The Company's privacy notice was found to not properly include all of the information required per Tenn. Comp. R. & Regs. 0780-1-72-.07. See the "Comments and Recommendations" section later in this report.

Complaint Handling Practices

During the examination, the Company's complaint handling procedures and the complaints it received, were reviewed. The complaints received were reviewed to ensure the Company takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language. There were several instances noted where the Company did not meet the turnaround time for responding as documented in Tenn. Code Ann. §§ 56-61-107 and 56-61-108. See the "Comments and Recommendations" section later in this report.

Marketing and Sales Standards

The Company's advertising was reviewed with no exceptions noted. The Company utilizes many forms of advertisement such as radio, TV, print, social media, email, direct mail, and others. In addition, the Company maintains a website where Company product descriptions and forms are located. The advertising complies with Tenn. Code Ann. § 56-8-104.

Producer Licensing Standards

Tenn. Code Ann. §§ 56-6-101, *et seq.*, requires the Company to sell its products and services through producers who are properly licensed and appointed by the Company. In the examination of producer licensing, a random sample of producers was selected, and their state-issued licensure and appointment by the Company were verified. Tenn. Code Ann. § 56-6-115(a) states that the insurance producer shall not act as an agent of an insurer unless the insurance producer becomes an appointed agent of that insurer. Tenn. Code Ann. § 56-6-115(c) requires a notice of appointment within fifteen (15) days from the date the agency contract is executed, or the first insurance application is submitted.

In the sample of producers examined, four (4) instances were found where the Company appointed a producer without filing a notice of appointment in a timely manner. See "Comments and Recommendations" section later in this report.

Policyholder Services Standards

The Company's timeliness of policy issuance, premium billing, response to policyholder requests, provision of adequate disclosures, and compliance with applicable statutes and rules were examined. The Company was found to be in compliance with the relevant market conduct standards set forth within the NAIC *Market Regulation Handbook* and Tenn. Code Ann. § 56-8-104.

Underwriting and Rating Standards

A sample of the policy forms and rates that the Company used during the period of examination were reviewed. The rates and forms were noted, without exception, as having been filed with the TDCI prior to use, in accordance with Tenn. Code Ann. § 56-26-102. The filings are consistent in form and included appropriate documentation.

Tenn. Code Ann. § 56-7-2810(c)(1) requires that in the case in which an issuer decides to discontinue offering a particular type of health insurance coverage offered in the individual market, coverage may only be discontinued if the issuer provides notice to each covered individual at least ninety (90) days prior to the date of the discontinuation of the coverage. The Company discontinued service in three (3) areas in Tennessee effective January 1, 2017. As such, a sample of notices were reviewed for compliance with Tenn. Code Ann. § 56-7-2810(c)(1). There were instances noted where notices provided to policyholders did not meet the 90-day requirement. There were other instances noted where the Company was unable to provide the notifications that were sent to policyholders. See "Comments and Recommendations" section later in this report.

Claims Handling Standards

In the examination of claims handling practices, the Company's efficiency of claim handling, accuracy of payment, adherence to contract provisions, and compliance with applicable statutes and rules were examined. In conducting the examination, random samples were selected from claims approved and claims denied by the Company. No exceptions were identified regarding prompt settlements upon receipt of proper evidence of the Company's liability.

Mental Health Parity

The Company's identification of the independent standards that were used to define mental health conditions, substance use disorders, and medical/surgical conditions were determined to be in compliance with Tenn. Code Ann. § 56-7-2360. The Company's comparative analysis of the design and application of non-quantitative treatment limitations was reviewed and found to be in accordance with 42 U.S.C. § 300gg-26(a)(8)(A).

SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed. No events were noted that required additional disclosure in the examination report. Management stated in its Letter of Representation that they were not aware of any events subsequent to December 31, 2020, that could have a material effect on the Company's financial condition. Our review confirmed the Company's disclosures in its 2020 Annual Statement and in its Letter of Representation.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the TDCI and present the financial condition of the Company for the period ending December 31, 2020.

ASSETS

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$2,145,215,735		\$2,145,215,735
Stocks			
Preferred Stocks	85,496,740	\$5,000,004	80,496,736
Common Stocks	1,291,716,562	23,417,775	1,268,298,787
Real estate			
Properties occupied by the company	49,189,367		49,189,367
Properties held for sale	123,784		123,784
Cash, cash equivalents, and short-term investments	531,118,126		531,118,126
Other invested assets	211,626,478	1,068,349	210,558,129
Receivables for securities	1,633,389		1,633,389
Investment income due or accrued	15,595,890		15,595,890
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	15,653,947	311,707	15,342,240
Deferred premiums, agents' balances and installments booked but deferred and not yet due	86,953,538		86,953,538
Accrued retrospective premiums and contracts subject to redetermination	77,251,354		77,251,354
Amounts receivable relating to uninsured plan	296,107,079	49,063,522	247,043,557
FIT recoverable	43,197,812		43,197,812
Net deferred tax asset	38,565,249		38,565,249
Guaranty funds receivable	15,690,494		15,690,494
EDP equipment and software	69,626,498	56,073,396	13,553,102
Furniture and equipment	52,257,070	52,257,070	0
Receivables from parent, subsidiaries, and affiliates	34,335,996		34,335,996
Health care and other amounts receivable	185,279,246	83,290,815	101,988,431
Aggregate write-ins for other than invested assets	<u>89,547,361</u>	<u>89,223,680</u>	<u>323,681</u>
Totals	<u>\$5,336,181,715</u>	<u>\$359,706,318</u>	<u>\$4,976,475,397</u>

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$444,958,331
Accrued medical incentive pool and bonus amounts	31,242,848
Unpaid claims adjustment expenses	9,331,062
Aggregate health policy reserves	77,661,540
Premiums received in advance	49,394,469
General expenses due or accrued	219,410,851
Amounts withheld or retained for the account of others	287,580
Remittances and items not allocated	69,891
Borrowed money and interest thereon	907,801
Payable for securities	13,660,343
Liability for amounts held under uninsured plans	121,111,692
Aggregate write-ins for other liabilities	<u>168,783,795</u>
 Total Liabilities	 1,136,820,203
 Aggregate write-ins for other than special surplus funds	 2,032,812,132
Unassigned funds (surplus)	<u>1,806,843,062</u>
 Total Capital and Surplus	 3,839,655,194
 Totals	 <u>\$4,976,475,397</u>

STATEMENT OF REVENUE AND EXPENSES

Member Months		<u>21,162,335</u>
Net premium income	\$5,401,594,848	
Change in unearned premium reserves and reserve for rate credits	29,003,067	
Total Revenues		<u>\$5,430,597,915</u>
Hospital and Medical		
Hospital/medical benefits	2,852,550,479	
Other professional services	345,955,837	
Emergency room and out-of-area	310,262,215	
Prescription drugs	824,545,082	
Incentive pool, withhold adjustments and bonus amounts	<u>32,214,710</u>	
Total Hospital and Medical		<u>4,365,528,323</u>
Claims adjustment expenses, including cost containment expenses	266,578,050	
General administrative expenses	<u>449,392,582</u>	
Total Underwriting Deductions		<u>5,081,498,955</u>
Net underwriting gain or (loss)		349,098,960
Net investment income earned	73,283,866	
Net realized capital gains (losses) less capital gains tax	<u>(31,033,641)</u>	
Net investment gains (losses)		<u>42,250,225</u>
Aggregate write-ins for other income or expenses		<u>(70,000,000)</u>
Net income or (loss) after capital gains tax and before all other federal income taxes		321,349,185
Federal and foreign income taxes incurred		<u>(75,807,635)</u>
Net Income (loss)		<u>\$245,541,550</u>

SURPLUS ACCOUNT

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Capital and surplus, December 31, previous year	<u>\$3,628,057,600</u>	<u>\$3,139,287,117</u>	<u>\$2,139,934,035</u>	<u>\$1,733,512,504</u>	<u>\$1,678,592,546</u>
Net income or (loss)	245,541,550	227,543,917	679,210,467	322,377,856	2,395,568
Change in net unrealized capital gains or (losses)	105,079,619	222,687,895	(164,766,681)	157,146,888	145,560,585
Change in net deferred income tax	27,215,924	18,275,504	5,099,712	(51,258,099)	(10,671,604)
Change in non-admitted assets	(71,568,085)	206,813	491,619,425	(75,781,068)	(83,310,316)
Aggregate write-ins for gains and losses in surplus	<u>(94,671,414)</u>	<u>20,056,354</u>	<u>(11,809,841)</u>	<u>53,935,954</u>	<u>945,725</u>
Net change in capital and surplus for the year	<u>211,597,594</u>	<u>488,770,483</u>	<u>999,353,082</u>	<u>406,421,531</u>	<u>54,919,958</u>
Capital and surplus, December 31, current year	<u>\$3,839,655,194</u>	<u>\$3,628,057,600</u>	<u>\$3,139,287,117</u>	<u>\$2,139,934,035</u>	<u>\$1,733,512,504</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus

\$3,839,655,194

Total capital and surplus, as established by this examination, is the same as reported by the Company in its 2020 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2020.

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

Comments

1. As noted in the “Underwriting and Rating” section of this report, the Company was unable to provide the notifications that were sent to the policyholders for five (5) policies selected for testing.

It is suggested that the Company maintain all notifications provided to policyholders for the current calendar year and the two preceding years, or the completion of the next examination, whichever comes later.

Recommendations

1. As noted in the “Operations and Management” section of this report, it was found that the Company’s Notice of Privacy Practices did not contain all the requirements within all sections of Tenn. Comp. R. & Regs. 0780-1-72-.07.

It is recommended that the Company update its privacy notice to include all requirements in order to comply with the regulation.

2. As noted in the “Complaint Handling Standards” section of this report, it was found that some of the Company’s complaints were not handled in a timely manner, as required by Tenn. Code Ann. §§ 56-61-107 and 56-61-108.

It is recommended that the Company comply with applicable standards, rules and regulations for the documentation of complaints, grievances, and appeals, and to ensure that complaints, grievances, and appeals are handled timely and in compliance with Tenn. Code Ann. §§ 56-61-107 and 56-61-108.

3. As noted in the “Producer Licensing” section, there were four (4) instances where the Company’s agent listing did not contain all agents that were appointed per records

with the Department. Upon further inspection, it was noted that the agents were not properly appointed in accordance with Tenn. Code Ann. § 56-6-115.

It is recommended that the Company comply with applicable standards, rules and regulations for the appointment of producers and regarding notification to the producer, if applicable, and to the state of a producer's appointment. In accordance with Tenn. Code Ann. § 56-6-115, the Company should provide a notice of appointment, in a format approved by the Commissioner, within fifteen (15) days from the date the agency contract is executed, or the first insurance application is submitted.

4. As noted in the "Underwriting and Rating" section, there were instances noted where the Company did not send out notification letters to policyholders at least ninety (90) days prior to the date of discontinuation of coverage in accordance with Tenn. Code Ann. § 56-7-2810.

It is recommended that the Company provide notifications to policyholders that comply with the time requirements set forth in Tenn. Code Ann. § 56-7-2810.

CONCLUSION

Rules and procedures as prescribed by the statutes of the State of Tennessee and guidance from the NAIC Handbook, as deemed appropriate, have been followed in connection with the verification and valuation of assets and the determination of liabilities of BlueCross BlueShield of Tennessee, Inc.

In such manner, it was found that as of December 31, 2020, the Company had admitted assets of \$4,976,475,397 and liabilities, exclusive of capital and surplus, of \$1,136,820,203. Thus, there existed for the protection of the policyholders, the amount of \$3,839,655,194 in the form of aggregate write-ins for other than special surplus funds, and unassigned funds. Tenn. Code Ann. §§ 56-2-114 and 56-2-115 require an insurer of this Company's type to maintain a minimum surplus of \$2,000,000. Additionally, Tenn. Code Ann. § 56-29-111 requires an insurer of this Company's type and premium volume to maintain a contingency or epidemic reserve that shall be accumulated annually at a rate not less than two and one half percent (2.5%) of net premium income. The contingency or epidemic reserve amount reported was \$2,032,812,132 as of the examination date. For this examination, as of December 31, 2020, the Company maintains surplus and contingency or epidemic reserve amounts sufficient to satisfy those requirements.

The courteous cooperation of the officers and employees of the Company, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Dustin Rice; Jody Fox; Rhonda Bowling-Black, CFE, ARe, MCM, Insurance Examiners from the State of Tennessee; Jessica Lynch, CFE, MCM; Lindsey Pittman, CFE, CISA, AES, CPA, MCM, and Mike Mayberry, FSA, MAAA, of the firm Lewis & Ellis, Inc., participated in the work of this examination.

Respectfully submitted,



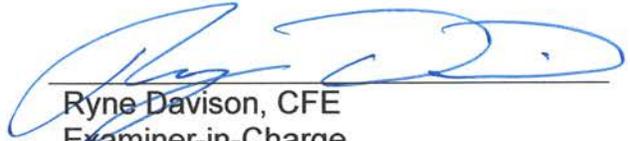
Ryne Davison, CFE
Examiner-in-Charge
Lewis & Ellis, Inc.
Representing the State of Tennessee



A. Jay Uselton, CFE
Department Designee
Tennessee Department of Commerce and Insurance

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of BlueCross BlueShield of Tennessee, Inc. located in Chattanooga, Tennessee, dated April 19, 2022, and made as of December 31, 2020, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.



Ryne Davison, CFE
Examiner-in-Charge
Lewis & Ellis, Inc.
Representing the State of Tennessee

State Alabama

County Baldwin

Subscribed to and sworn before me

this 10 day of June, 2022

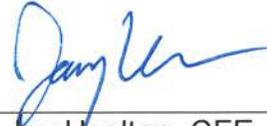

(NOTARY)

My Commission Expires: 8-7-2023



AFFIDAVIT

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A. Jay Uselton, CFE
Department Designee
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 13th day of June, 2022

Linda Merriweather
(NOTARY)

My Commission Expires: 3-15-2025



EXHIBIT B



June 16, 2022

E. Joy Little
Director of Financial Examinations/Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243-1135

RE: Report of Examination – BlueCross BlueShield of Tennessee, Inc.

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for **BlueCross BlueShield of Tennessee, Inc.**, made as of December 31, 2020.

By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

John Giblin
Executive Vice President & Chief Financial Officer