

**REPORT OF  
EXAMINATION**

**OF**

**BLUE CROSS AND BLUE SHIELD OF ALABAMA**

**BIRMINGHAM, ALABAMA**

**AS OF**

**DECEMBER 31, 2022**

## TABLE OF CONTENTS

EXAMINER'S AFFIDAVIT .....	iii
SALUTATION .....	1
SCOPE OF EXAMINATION .....	2
ORGANIZATION AND HISTORY .....	3
MANAGEMENT AND CONTROL .....	5
Board of Directors .....	5
Committees .....	8
<i>Executive Committee</i> .....	8
<i>Hospital Advisory Committee</i> .....	8
Other Committees .....	9
<i>Medical Review Committee</i> .....	9
<i>Audit Committee</i> .....	9
<i>Compensation Committee</i> .....	10
<i>Nominating Committee</i> .....	10
<i>Facility Standards Committee</i> .....	10
Officers .....	10
Conflicts of Interest .....	11
CORPORATE RECORDS .....	12
HOLDING COMPANY AND AFFILIATE MATTERS .....	12
Dividends to Stockholders .....	12
Management and Administrative Services Agreements .....	12
Affiliated Agreements .....	12
<i>Administrative Services Agreement – 450 Ventures LLC</i> .....	12
<i>Administrative Services Agreement – Resolution RS LLC</i> .....	13
<i>Administrative Services Agreement – PA-Logic Solutions, LLC</i> .....	14
<i>Administrative Services Agreement – AlaHealth, Inc</i> .....	14
<i>Master Services Agreement – My Care Alabama, Inc.</i> .....	15
<i>Administrative Agreement – UTIC Insurance Company</i> .....	15
<i>Administrative Services Agreement – Preferred Care Services, Inc.</i> .....	16
<i>Healthcare Network Agreement – Government Management Services, LLC</i> .....	16
<i>Administrative Services Agreement – Healthcare Business Solutions, LLC</i> .....	17
<i>Administrative Services Agreement – The Caring Foundation</i> .....	17
<i>Administrative Services Agreement – Cahaba Government Benefit Administrators, LLC</i> .....	17
Unaffiliated Agreements .....	18
<i>Administrative Services Agreement – New Directions Behavioral Health, LLC</i> .....	18
FIDELITY BONDS AND OTHER INSURANCE .....	19
ORGANIZATIONAL CHART .....	19
EMPLOYEE & AGENT WELFARE .....	22

COMPLIANCE WITH 18 U.S.C. § 1033 .....	22
SCHEDULE OF SPECIAL DEPOSITS.....	23
FINANCIAL CONDITION/GROWTH OF THE COMPANY .....	23
MARKET CONDUCT ACTIVITIES .....	23
Management and Operations .....	23
<i>Territory</i> .....	23
<i>Plan of Operation</i> .....	24
Marketing and Sales .....	24
Policyholder Complaints .....	24
Claims Handling.....	25
<i>Paid Claims</i> .....	25
<i>Closed Without Payment/ Denied Claims</i> .....	25
<i>Closed Litigated Claims</i> .....	25
Compliance with Producer Licensing Requirements .....	26
<i>Producer Appointment</i> .....	26
<i>Producer Terminations</i> .....	26
Underwriting and Rating.....	26
<i>Cancelations</i> .....	27
Privacy Standards .....	27
REINSURANCE .....	27
Reinsurance Assumed.....	27
<i>Specific &amp; Aggregate Medical Benefits Quota Share Treaty – National Health</i> <i>Insurance Company</i> .....	27
Reinsurance Ceded.....	29
<i>100% Reinsurance Agreement – UTIC Insurance Company</i> .....	29
<i>Pool Excess of Loss Reinsurance Agreement – BCS Insurance Company</i> .....	29
<i>Excess of Loss Reinsurance Agreement – Resolution RS</i> .....	30
ACCOUNTS AND RECORDS.....	30
FINANCIAL STATEMENT INDEX.....	32
FINANCIAL STATEMENTS.....	33
NOTES TO FINANCIAL STATEMENTS .....	37
CONTINGENT LIABILITIES AND PENDING LITIGATION .....	37
SUBSEQUENT EVENTS.....	37
COMPLIANCE WITH PREVIOUS RECOMMENDATIONS.....	37
COMMENTS AND RECOMMENDATIONS .....	37
CONCLUSION .....	39

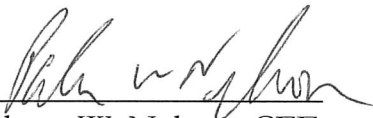
**EXAMINER'S AFFIDAVIT**

**STATE OF ALABAMA  
COUNTY OF JEFFERSON**

Palmer W. Nelson, CFE, being duly sworn, states as follows:

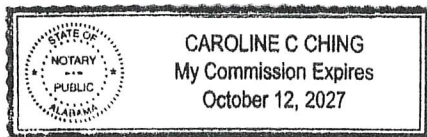
1. I have authority to represent Alabama in the examination of Blue Cross and Blue Shield of Alabama.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Blue Cross and Blue Shield of Alabama was performed in a manner consistent with the standards and procedures required by the State of Alabama.


The affiant says nothing further.

  
Palmer W. Nelson, CFE  
Examiner-in-Charge

Subscribed and sworn before me by Palmer W. Nelson on this 8th day of March 2024.

(Seal)



  
(Signature of Notary Public)

My commission expires October 12, 2027



KAY IVEY  
GOVERNOR

MARK FOWLER  
COMMISSIONER

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DEPARTMENT OF INSURANCE  
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CHIEF EXAMINER  
SHEILA TRAVIS  
STATE FIRE MARSHAL  
SCOTT F. PILGREEN  
GENERAL COUNSEL  
REYN NORMAN

March 8, 2024

Honorable Mark Fowler  
Commissioner of Insurance  
Alabama Department of Insurance  
201 Monroe Street, Suite 502  
Montgomery, Alabama 36104

Dear Commissioner Fowler:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and resolutions adopted by the National Association of Insurance Commissioner, a full scope financial and market conduct examination as of December 31, 2022, has been made of

**Blue Cross and Blue Shield of Alabama  
Birmingham, Alabama**

at its home office at 450 Riverchase Parkway East, Birmingham, AL 35244. The report of examination is submitted herewith. Where the description "Company" or "BCBSAL" appears herein, without qualification, it will be understood to indicate Blue Cross and Blue Shield of Alabama.

## SCOPE OF EXAMINATION

We have performed an examination of Blue Cross and Blue Shield of Alabama (BCBSAL), a single state insurance company. The last examination covered the period of January 1, 2013, through December 31, 2017. The current examination covers the period of January 1, 2018, through December 31, 2022.

The examination was conducted in accordance with applicable statutory requirements of the Code of Alabama, 1975, as amended, the Alabama Insurance Department regulations, bulletins, and directives, and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the *NAIC Financial Condition Examiners Handbook*. The handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Code of Alabama, 1975, as amended and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information systems (IS) was conducted concurrently with the financial examination. The IS examination included a review of management and organizational controls, logical and physical security controls,

changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operation controls, processing controls, e-commerce controls, and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The examination included reviews of the Company's territory, plan of operation, claims handling, advertising, and marketing, policy forms and underwriting, policyholders' complaints, producers' licensing requirements, and privacy standards. See the "Market Conduct Activities" section of this report on page 23 for further discussion.

Ernst & Young, LLP was the Company's certified public accountant (CPA) for all years under examination. The examiners reviewed the CPAs' workpapers, copies of which were incorporated into the examination as deemed appropriate. The workpapers of the Company's internal audit department were used to complete examination work as determined to be appropriate.

## **ORGANIZATION AND HISTORY**

The Company was organized on January 15, 1935, as the Hospital Service Corporation of Alabama, under the laws of the state of Alabama providing for the organization and regulation of nonprofit corporations for the establishment of health service plans. The Certificate of Incorporation was filed for record in the office of the Judge of Probate of Jefferson County, Alabama. An amendment to the Certificate of Incorporation, adopted at the regular annual meeting of the board of directors held on February 20, 1952, changed the Company's name to Blue Cross Blue Shield of Alabama.

To comply with the change required by Act Number 1041 enacted by the regular session of the Alabama Legislature of 1973, the board of directors held a meeting on October 24, 1973, and adopted several amendments to the Certificate of Incorporation and a revised set of By-laws. The board's composition was changed to reflect a majority of public directors.

To comply with the 1973 legislative changes, the objective and purpose of the Company was amended in the Certificate of Incorporation as follows:

To establish, maintain, and operate health care service plans under which health services of all types and forms and other services and commodities incidental thereto may be furnished to such of the public who, under the rules and regulations of the Corporation, make application and are eligible

therefore; and to carry on any other lawful business whatsoever which may seem to the Corporation capable of being carried on in connection with the above, or calculated directly or indirectly to promote the interests of the Corporation or to enhance the value of its properties or the conduct of its business affairs.

No amendments were made to the Company's Certificate of Incorporation during the examination period.

At their regularly scheduled meeting held March 26, 2008, the board of directors amended the By-laws of the Company adopting a new governance policy and committee charters.

BCBSAL is a non-stock not-for-profit corporation organized under ALA. CODE § 10A-20-6.01 (2009), which provides that:

Any nonstock nonprofit corporations organized for the purpose of establishing, maintaining, and operating a health care service plan under which health services are furnished to the public who become subscribers to the plan pursuant to contracts are authorized and shall be governed by the provisions of this article.

The Company owns all the common stock of Alabama Industries Financial Corporation (AIFC). AIFC is the parent of UTIC Insurance Company (UTIC). UTIC was incorporated on January 31, 1964, and commenced business on February 7, 1964. UTIC was acquired by AIFC in 1984, and in 1986 AIFC was acquired by BCBSAL.

The Company has a new captive insurer, Resolution RS, LLC, that was formed on May 6, 2020. Resolution RS, LLC is a 100% owned subsidiary of BCBSAL and is headquartered in Birmingham, Alabama. Resolution RS, LLC was organized as a captive insurer under the Alabama Captive Insurers Act. The Company was formed to insure the risk of its parent company, BCBSAL.

BCBSAL owns 80% of Patrius Health, Inc. with the other 20% owned by Blue Cross & Blue Shield of Mississippi, a Mississippi domesticated insurer. The original articles of incorporation were filed with the Secretary of State of Mississippi on August 5, 2021. Patrius Health, Inc. started accepting applications on October 15, 2022, for initial effective dates of January 1, 2023. Patrius Health, Inc. has only written Medicare Advantage line of business and has no plans to write additional lines of business currently.



The Company has several subsidiary and affiliated non-insurance entities and subsidiaries that administrate health insurance and self-insurance for health coverage. There are other subsidiaries that have no relation to insurance or insurance administration. The non-insurance related subsidiaries hold strategic investments or are non-profit charitable organizations. An Illustration of the subsidiaries and affiliates is included in the organizational chart on page 20.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The enabling statutes generally, and the By-laws specifically, provide that the management and control of the business, property and affairs of the Company shall be vested in the board of directors, which shall have all the powers of the Company. Article I, Section 2 of the By-laws provided that:

The board of directors shall be composed of 27 persons, consisting of the following:

- Fourteen public directors, who shall reflect the social, economic and geographic characteristics of the population served by the Corporation.
- The Chief Executive Officer of the Corporation who shall be a member of the Board during and by virtue of occupancy of the chief executive office and the Corporation, or, when the office of the Chief Executive Officer is vacant, the President of the Corporation who shall be a member of the Board and by virtue of occupancy of the office of President while the office of the Chief Executive Officer remains vacant;
- Six directors who shall be representatives of health care facilities participating as members of the Corporation in accordance with Section 10A-20-6.03 (2009); and six directors who shall be members of the medical profession in the state of Alabama.

No director, except the Chairman of the Board, Chief Executive Officer, and President, who has served for two consecutive three-year terms, is eligible for re-election until he or she has not served on the board for one year.

The composition of the board of directors, described above, complies with ALA. CODE § 10A-20-6.04 (2009), which states in part:

The board shall be composed of not less than 15 nor more than 27 directors... Providers of health care and their representatives may also serve on the board, but in no event may constitute a majority thereof. Persons who derive income from the delivery or administration of health care or services shall not be eligible to serve as public directors.

Board members elected and serving on December 31, 2022, were as follows:

<u>Directors/Residence</u>	<u>Principal Occupation</u>
Martin Raymond Abroms Florence, Alabama	President and Managing Shareholder Abroms & Associates
William Keith Adkins, M.D. Auburn, Alabama	Auburn Gastroenterology
James Malcom Aycock Decatur, Alabama	President and CEO Cook's Pest Control, Inc.
Glen Owen Bailey Jacksonville, Alabama	Chief Executive Officer and Senior Associate Vice President for Medical Affairs USA Health
Marvell Bivins, Jr. Birmingham, Alabama	Chief Audit Officer The University of Alabama System
Lynn Randolph Buckner, M.D. Decatur, Alabama	Surgical Associates of North Alabama
James Edward Clements Cullman, Alabama	Chief Executive Officer Cullman Regional Medical Center
Jeffery Wayne Collins, M.D. Anniston, Alabama	President Ob-Gyn Associates of Anniston, LLC
Wendy Lea Evesque Birmingham, Alabama	Executive Vice President, Chief Human Resources Officer Protective Life Insurance Corporation
Nancy Collat Goedecke Birmingham, Alabama	Chairman of the Board and CEO Mayer Electric Supply Company, Inc.
Leonidas Keith Granger Birmingham, Alabama	Chief Executive Officer Grandview Medical Center
Laura Duke Grill Auburn, Alabama	President and Chief Executive Officer East Alabama Medical Center

Christopher Denson Henry Selma, Alabama	Vice President Henry Brick
Elizabeth Bugg Holloway, Ph.D. Birmingham, Alabama	Vice President for Advancement and Marketing Samford University
Vernon Lewis Johnson Ozark, Alabama	Chief Executive Officer Dale Medical Center
James Michael Kemp, Sr. Pinson, Alabama	President and Chief Executive Officer Kemp Management Solutions
Charles Waldron Lancaster Gadsden, Alabama	President and Chief Executive Officer Lancaster Management, Inc.
Charles Mixson Miller, Jr. Birmingham, Alabama	President and Chief Executive Officer The Barber Companies
William Barry Morton, Jr. Birmingham, Alabama	Chairman and Chief Executive Officer Robins and Morton Group
Paul Michael Nagrodzki, M.D. Mountain Brook, Alabama	Anesthesia Services of Birmingham
Javier Repetto, M.D. Tuscaloosa, Alabama	Medical Director of Neonatology Services DCH Health System
James Michael Segrest Huntsville, Alabama	President and CEO The Spencer Companies, Inc.
John Hayes Sherman, III Birmingham, Alabama	Vice Chairman, Board of Directors Coca-Cola Bottling Company UNITED, Inc
Glenn Chamblee Sisk Columbiana, Alabama	Chief Executive Officer Coosa Valley Medical Center
William Eugene Smith, III Birmingham, Alabama	Director and Strategic Advisor Royal Cup, Inc.
Brooke Roberts, Uptagraft, M.D. Huntsville, Alabama	President Innova Primary Care
Timothy Vines Birmingham, Alabama	President and Chief Executive Officer Blue Cross and Blue Shield of Alabama

## Committees

### Executive Committee

Article I, Section 14 of the By-laws provided that the Company shall have an Executive Committee of the board of directors with authority to act as follows:

During intervals between meetings of the Board of Directors, the Executive Committee shall have subject to the control and direction of the Board, the authority to exercise any and all of the powers and to perform any and all duties of the Board of Directors as may lawfully be exercised and performed by such Committee.

The following directors were serving on the Executive Committee as of December 31, 2022:

James Malcom Aycock, Chairman, ex officio  
William Keith Adkins, M.D.  
Marvell (Chip) Bivins, Jr.  
Christopher Denson Henry  
Elizabeth Bugg Holloway, Ph.D.  
Glenn Chamblee Sisk  
Tim Vines, ex officio

### Hospital Advisory Committee

Article I, Section 13 of the By-laws provided that the board of directors shall establish a Hospital Advisory Committee consisting of five hospital representatives who are not members of the board and are knowledgeable in providing health services. The By-laws states:

The Advisory Committee shall from time to time, as requested by the Board of Directors or any committee thereof, consult and advise with the Board of Directors or any committee or member thereof concerning matters as to which consultation or advice is requested by such Board or committee.

The following persons were serving on the Hospital Advisory Committee as of December 31, 2022:

Jeffrey G. Rains, Chair  
Suzannah C. Campbell  
Kelli S. Powers  
Joe T. Stough, III  
Frank Thomas

### **Other Committees**

Article I, Section 15 of the Company's By-laws states:

The Board of Directors or the Chairman of the Board may appoint such committees from the members of the Board as may be deemed necessary or advisable and may prescribe their respective powers authorities and duties.

These other committees were in addition to the Executive Committee and the Hospital Advisory Committee, both of which were required by the Company's By-laws.

The following committees had been established and existed as of December 31, 2022:

#### *Medical Review Committee*

William Keith Adkins, M.D., Chair  
Lynn Randolph Buckner, M.D.  
Jeffrey Wayne Collins, M.D.  
Paul Michael Nagrodzki, M.D.  
Javier Repetto, M.D.  
Brooke Roberts Uptagrafft, M.D.

#### *Audit Committee*

Marvell (Chip) Bivins, Jr., Chair  
Nancy Collat Goedecke  
Christopher Denson Henry  
Charles Waldron Lancaster  
William Eugene Smith, III

Compensation Committee

James Malcom Aycock, Chair  
Marvell (Chip) Bivins, Jr.  
William Barry Morton, Jr.  
James Michael Segrest  
John Hayes Sherman, III

Nominating Committee

Elizabeth Bugg Holloway, Ph.D., Chair  
Martin Raymond Abroms  
James Michael Kemp, Sr.  
Charles Michael Miller, Jr.  
Paul Mixson Nagrodzki, M.D.  
Glenn Chamblee Sisk

Facility Standards Committee

Christopher Denson Henry, Chair  
Glen Owen Bailey  
James Edward Clements  
Wendy Lea Evesque  
Leonidas Keith Granger  
Laura Duke Grill  
Vernon Lewis Johnson  
Glenn Chamblee Sisk

**Officers**

The following officers were elected by the board of directors and were serving on December 31, 2022:

<b><u>Position</u></b>	<b><u>Name</u></b>
President and Chief Executive Officer	Timothy Vines
Executive Vice President	Dick Dowling Briggs, III, M.D.
Treasurer	Noel Winfred Carden
Secretary	Michael Lenard Patterson
Vice President	John Walter Barth
Vice President	Dorinda Fay Cale
Vice President	Jill Bailey Cullen
Vice President	Charles Brown DeCroes
Vice President	Jennifer Helms DeLawrence
Vice President	Joseph Edward Dunsmore
Senior Vice President	Brian David Edwards
Senior Vice President	Rebekah Elgin-Council
Vice President	Sheila Pennington Herrington
Senior Vice President	James Stanton Hill
Vice President	Edward Andrew Hosp, II
Vice President	Angela Davis Jarrett
Vice President	Kipp Denman Keown
Vice President	Mark Paton Manderson
Senior Vice President	Brian Scott McGlaun
Vice President	Ashley Sargent Mosko
Vice President	Joseph Harold Oaks
Senior Vice President	Robert Reynolds Orr, Jr.
Vice President	David Elmore Platt
Vice President	Michael J. Velezis
Vice President	Brandon Scott Ward
Vice President	Darrel Craig Weaver, M.D.
Vice President	John Tyler Williams

### **Conflicts of Interest**

The Company requires that conflict-of-interest statements be completed annually by all directors, officers, and exempt status employees. In addition, the Company requires every new employee whether they are exempt, non-exempt, full-time, part-time, or contracted to attend a Code of Business Conduct and Compliance Program. The program provides employees with a formal statement of the Company's standards and rules of ethical business. At the end of the program, the employees are required to sign a statement of understanding, which is maintained in the employees' personnel files. The officers, directors, and managers are also required to complete a Code of Ethics Certification on an annual basis. The certification attests their

understanding and agreement to abide by the Company's ethical standards and expectations.

A review was conducted of all conflict-of-interest statements filed by the board of directors and officers during the examination period. No items of disclosure, which may have had the potential of a material or adverse impact on the operations of the Company were noted.

### **CORPORATE RECORDS**

The Certificate of Incorporation, By-laws, and any amendments thereto, were inspected during the course of the examination, and it appears the Company operates in accordance with usual corporate practices, applicable statutes, and regulations.

### **HOLDING COMPANY AND AFFILIATE MATTERS**

The Company is subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1(2022). In connection therewith, the Company is registered with the Alabama Department of Insurance as joint registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made by the Company as joint registrant. A review of the Company's filings during the period under review did not disclose any omissions.

### **Dividends to Stockholders**

The Company is organized as a not-for-profit company and does not pay dividends.

### **Management and Administrative Services Agreements**

The following management and administrative service agreements were in effect during the examination period.

### **Affiliated Agreements**

#### *Administrative Services Agreement – 450 Ventures LLC*

The agreement between 450 Ventures LLC (450) and the Company was effective January 1, 2022. 450 is a wholly owned subsidiary of BCBSAL and provides services in support of the Company's administration of health benefit plans. Under the agreement, BCBSAL agreed to assume and carry out the following administrative responsibilities for 450:



- To assist with the preparation of forms, agreements, and other related legal documents necessary for 450 and its subsidiaries to conduct business.
- To act on behalf of 450 for the purpose of negotiating, coordinating, and servicing activities necessary to implement the agreement.
- To provide data processing, accounting, legal services, personnel staffing, office equipment, and other services reasonably necessary for 450 to conduct business.

Under the terms of the agreement, 450 will reimburse BCBSAL for its costs of provision of services on a non-profit basis. The Company will bill 450 monthly for costs incurred on the latter's behalf during the previous month. The agreement is automatically renewed for successive one-year terms unless written notice to the contrary is given by either party not less than 180 days before the end of any one-year term.

*Administrative Services Agreement – Resolution RS LLC*

The agreement between Resolution RS, LLC (Resolution) and BCBSAL was effective January 1, 2022. Resolution is a wholly owned subsidiary of the Company and provides services in support of BCBSAL's administration of health benefit plans. Under the agreement, BCBSAL agreed to assume and carry out the following administrative responsibilities for Resolution:

- To assist with the preparation of forms, agreements, and other related legal documents necessary for Resolution and its subsidiaries to conduct business.
- To act on behalf of Resolution for the purpose of negotiating, coordinating, and servicing activities necessary to implement the agreement.
- To provide data processing, accounting, legal services, personnel staffing, office equipment, and other services reasonably necessary for Resolution to conduct business.

Under the terms of the agreement, Resolution will reimburse BCBSAL for its costs of provision of services on a non-profit basis. The Company will bill Resolution monthly for costs incurred on the latter's behalf during the previous month. The agreement is automatically renewed for successive one-year terms unless written notice to the contrary is given by either party not less than 180 days before the end of any one-year term.

Administrative Services Agreement – PA-Logic Solutions, LLC

The agreement between PA-Logic Solutions, LLC (PA-Logic) and BCBSAL was effective November 1, 2019. PA-Logic is a wholly owned subsidiary of the Company and provides operational support to administrators of health benefit plans. Under the agreement, BCBSAL agreed to assume and carry out the following administrative responsibilities for PA-Logic:

- To assist with the preparation of forms, agreements, and other related legal documents necessary for PA-Logic to conduct business.
- To act on behalf of PA-Logic for the purpose of negotiating, coordinating, and servicing activities necessary to implement the agreement.
- To provide all necessary support services as described in the agreement for office equipment, computers, furniture, other real property, and other services that are reasonably necessary for the business operations of PA-Logic.

Under the terms of the agreement, PA-Logic will reimburse the Company for its costs of provision of services on a non-profit basis. BCBSAL will bill PA-Logic monthly for a cost incurred on the latter's behalf during the previous month. The agreement is automatically renewed for successive one-year terms unless written notice to the contrary is given by either party not less than 180 days before the end of any one-year term.

Administrative Services Agreement – AlaHealth, Inc.

The agreement between AlaHealth, Inc. (AlaHealth) and the Company was effective April 1, 2018. AlaHealth is a wholly owned subsidiary of Healthcare Business Solutions, LLC, which is a wholly owned subsidiary of BCBSAL. AlaHealth provides administrative services in support of state and government health programs. Under the agreement, BCBSAL agreed to assume and carry out the following administrative responsibilities for AlaHealth:

- To assist with the preparation of forms, agreements, and other related legal documents necessary for AlaHealth to conduct business.
- To act on behalf of AlaHealth for the purpose of negotiating, coordinating, and servicing activities necessary to implement the agreement.

- To provide all necessary support services as described in the agreement for office equipment, computers, furniture, other real property, and other services that are necessary for the business operations of AlaHealth.

Under the terms of the agreement, AlaHealth will reimburse BCBSAL for its costs of provision of services on a non-profit basis. The Company will bill AlaHealth monthly for a cost incurred on the latter's behalf during the previous month.

Master Services Agreement – My Care Alabama, Inc.

The agreement between BCBSAL and My Care Alabama, Inc. (MCA) was effective April 1, 2015. The agreement is a subcontract for the Company to provide MCA certain services for assistance with implementing and administering the contract that MCA was awarded to provide case management services for the Health Home Program. MCA will pay BCBSAL for the services in accordance with the fee schedule set forth in any Task Order which may be amended from time to time by mutual consent of the parties. The agreement automatically renews for successive one-year periods unless notice of non-renewal is given at least 90 days prior to start of any renewal term.

Administrative Agreement – UTIC Insurance Company

The agreement between UTIC Insurance Company (UTIC) and BCBSAL was effective January 1, 2015. Under the agreement, the Company agreed to assume and carry out the following responsibilities for UTIC:

- To act on behalf of UTIC for purpose of servicing activities necessary to implement the agreement.
- Provide all accounting, legal, and auditing services, personnel staffing, and other services as necessary for UTIC to conduct business.

The agreement provides that all direct costs are billed directly to UTIC monthly and indirect costs are invoiced based on the usage of time and materials for functions providing administrative services for UTIC. The agreement is automatically renewed for successive one-year terms unless written notice to the contrary is given by either party not less than 180 days before the end of any one-year term.

Administrative Services Agreement – Preferred Care Services, Inc.

The agreement between Preferred Care Services, Inc. (PCS) and BCBSAL was effective January 1, 2015. PCS is a management company that provides healthcare programs, products, and services. Under the agreement, BCBSAL agreed to assume and carry out the following administrative responsibilities for PCS:

- To assist with the preparation of forms, agreements, and other related legal documents necessary for PCS and its subsidiaries to conduct business
- To act on behalf of PCS for the purpose of negotiating, coordinating, and servicing activities necessary to implement the agreement.
- To provide data processing, accounting, and legal services, personnel staffing, office equipment, and other services necessary for PCS to conduct business.

BCBSAL agreed that its administrative charges shall be established to reimburse the Company for its costs of provision of services on a non-profit basis. BCBSAL will bill PCS monthly for costs incurred on the latter's behalf during the previous month, and all amounts billed shall be paid within 90 days of the billing date. The agreement is automatically renewed for successive one-year terms unless written notice to the contrary is given by either party not less than 180 days before the end of any one-year term.

Healthcare Network Agreement – Government Management Services, LLC

The agreement between Government Management Services, LLC (GMS) and BCBSAL was effective January 3, 2014. The agreement is a subcontract to support the Prime Contract awarded to TriWest Healthcare Alliance (TriWest) by the United States Department of Veteran Affairs (VA) to provide for delivery of purchased care for eligible beneficiaries under the VA Patient-Centered Community Care Program. Under the Agreement, BCBSAL provides assistance in establishing and managing a network of healthcare providers in the state of Alabama to support TriWest's performance of the Prime Contract. The payment methodology is based on the number of individual providers credentialed and included in the program network in accordance with the negotiated contract rate. The agreement remains in force as long as GMS's contract with TriWest remains in effect. The agreement may be terminated by either party with 30 days' written notice.

Administrative Services Agreement – Healthcare Business Solutions, LLC

The agreement between Healthcare Business Solutions, LLC (HBS) and BCBSAL was effective June 1, 2013. HBS is a subsidiary of the Company tasked with providing marketing services and pursuing new business opportunities in government programs on behalf of BCBSAL's companies that perform services for the government. The Company agreed to provide necessary and appropriate administrative support services as defined in the agreement to HBS. HBS agreed to reimburse BCBSAL's incurred direct and indirect costs in providing the services agreed upon. The agreement automatically renews for successive terms of one year and may be terminated by either party with 60 days written notice.

Administrative Services Agreement – The Caring Foundation

The agreement between The Caring Foundation (TCF) and BCBSAL was effective May 31, 2010. TCF is a non-profit corporation which was founded to promote and foster maintenance and improvement of health care generally and for children in the community and to broaden the availability of health care to impecunious Alabama citizens. BCBSAL agreed to assume and carry out the following administrative responsibilities for TCF:

- To prepare forms of the Internal Revenue Service and other legal documents necessary for the establishment and maintenance of TCF and its purposes.
- To prepare and maintain accounting records of TCF.
- To act on behalf of TCF for the purpose of negotiating, coordinating, and servicing activities necessary to implement the agreement.
- To provide all data processing, legal services, personnel staffing, office equipment, and other services reasonably necessary for the conduct of TCF's operations and purposes.

The agreement does not provide for billing or payments for administrative charges. The agreement is automatically renewed for successive one-year terms unless written notice to the contrary is given by either party not less than 180 days before the end of any one-year term.

Administrative Services Agreement – Cahaba Government Benefit Administrators, LLC

The agreement between Cahaba Government Benefit Administrators, LLC (GBA) and BCBSAL was effective April 1, 2006.

GBA operates to assume the responsibilities of BCBSAL as Medicare fiscal intermediary and carrier responsibilities for Parts A and B of the Medicare Program under contracts with CMS. Under the agreement, GBA will manage the Medicare Part B contract and Part A subcontract, while BCBSAL will:

- Prepare and forward billings to and collect fees from GBA,
- Perform consultative functions requested by GBA associated with bidding on Medicare Administrator Contractor (MAC) contracts and Other Medicare Work,
- Act on behalf of GBA for the purpose of negotiating, coordination, and servicing activities,
- Provide all necessary support services,
- Supply office equipment, and
- Provide other administrative and professional services reasonably necessary for the business operations of GBA.

The administrative charges consist of fully loaded labor rates and are established to reimburse BCBSAL for its costs of provision of such services on a non-profit basis. BCBSAL will bill GBA monthly for costs incurred on the latter's behalf during the previous month. The agreement is automatically renewed for successive terms of one year and may be terminated by written notice by either party not less than 180 days before the end of any one-year term.

### **Unaffiliated Agreements**

#### *Administrative Services Agreement – New Directions Behavioral Health, LLC*

The agreement between BCBSAL and New Directions Behavioral Health, LLC (NDBH) was effective January 1, 2014. NDBH agreed to provide access to a provider network, member management, utilization review and physician review services for behavioral health and substance use inpatient treatment, outpatient treatment, partial hospitalization, intensive outpatient program treatment, residential treatment, and other services referenced in the agreement for BCBSAL's members. The Company agreed to compensate NDBH on either a fee for service or capitated basis depending on the member's BCBSAL coverage as set forth in the agreement. The agreement automatically renews for one-year periods. The agreement has special termination provisions. Either party may terminate the agreement without cause upon providing 180 days written notice.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company had a fidelity bond issued by Travelers Indemnity Company for an aggregate amount, which met the suggested minimum requirements of the *NAIC Financial Condition Examiners Handbook*. In addition to this coverage, the Company also had insurance coverage for the following:

- Auto coverage provided by Travelers Property and Casualty Company
- Flood insurance policy provided by Selective Insurance Company of the Southeast
- Blanket coverage provided by Travelers Indemnity Company which included:
  - Building and personal property
  - Personal property on each premises and in-transit valuable papers
  - Accounts receivables on premises and in-transit
  - Newly constructed or acquired building utility service
- Commercial excess liability umbrella insurance provided by Travelers Property Casualty Company
- Private company directors' and officers' liability provided by Travelers Bond & Specialty Insurance
- Managed care errors and omissions provided by National Fire & Marine Insurance Company
- Crimes and fidelity provided by Travelers Casualty and Surety Company of America
- Cyber insurance policy provided by Aspen Specialty Insurance Company

The Company was shown as the insured on all policies. Each policy included all subsidiaries as a group or by named entity.

## **ORGANIZATIONAL CHART**

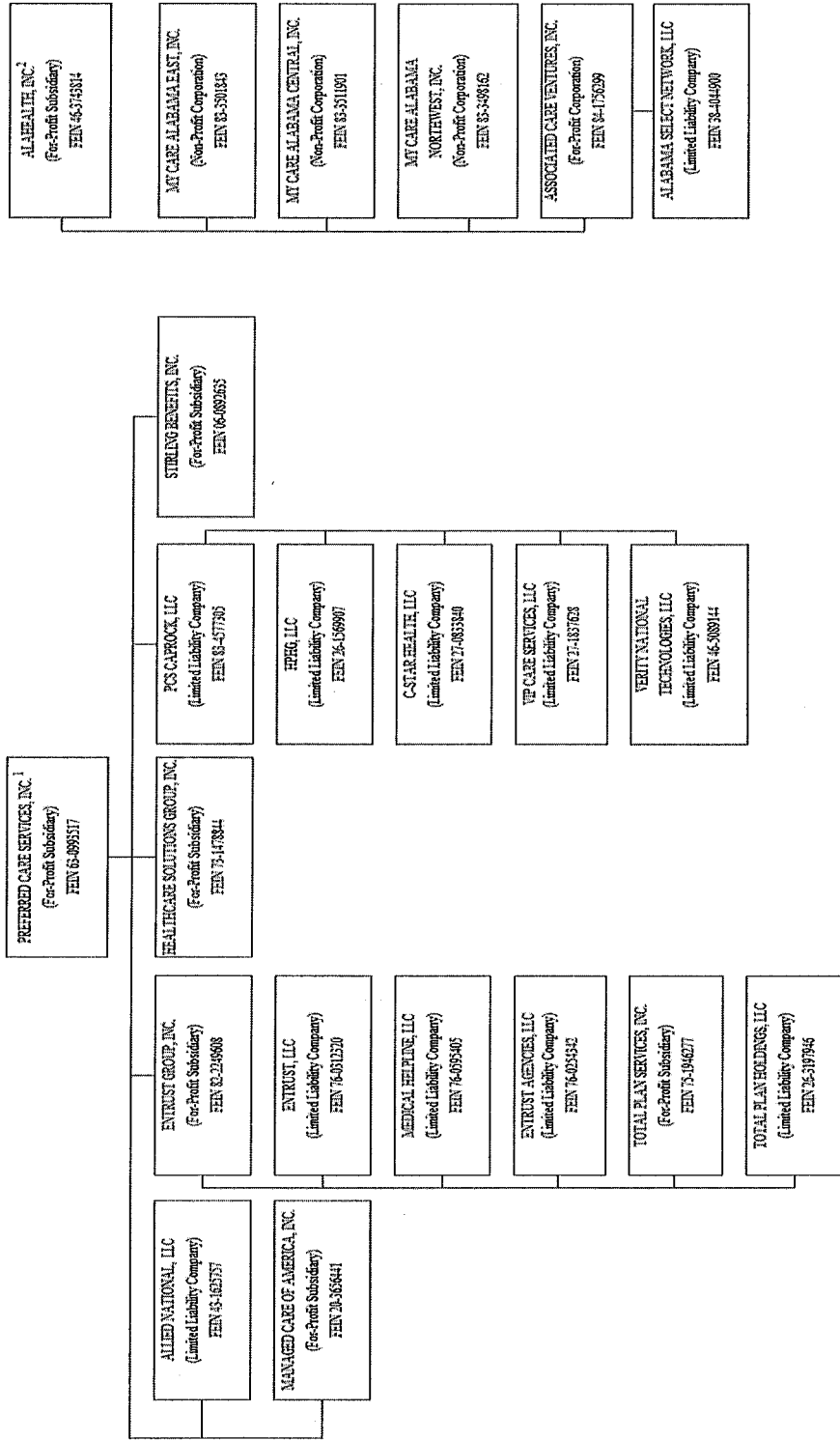
The following chart presents the affiliations of the entities affiliated with the Company.

# ORGANIZATIONAL CHART



1 See page 2 for additional affiliates of companies.  
2 See page 2 for additional affiliates of companies.





## **EMPLOYEE & AGENT WELFARE**

The Company has employees, and all of their benefits are provided by the Company. The Company has internal exclusive agents as well as an exclusive agreement with Alfa agents. The following benefits were provided to full-time employees during the examination period.

- Health, dental, and vision insurance
- Spousal carve-out policy
- Holidays
- Employee Assistance Program
- Paid time off
- Medical leave bank
- Family Medical Leave
- Bright Horizons at Riverchase Child Development Center
- The Caring Corner
- 401k plan and non-discretionary contributions
- Tuition reimbursement
- Internal job postings
- Training and development
- Career coaching
- BeWell Program
- Group term and Supplemental life insurance
- Group travel insurance
- Long term and short-term disability
- Dependent Care Assistance Plan
- Voluntary accident insurance

## **COMPLIANCE WITH 18 U.S.C. § 1033**

18 U.S.C. § 1033(e)(1)(A) and ALA. ADMIN. CODE 482-1-146-.11 (2009) prohibits individuals who have been convicted of specified criminal activity from engaging in the business of insurance without written consent from the Commissioner of Insurance. The Company as part of its hiring procedures requires potential employees and contractors to disclose and explain any criminal convictions. Criminal background checks are performed on all new hires, and criminal background re-investigations of existing employees are conducted every five years. The Company

also requires all employees to sign a conflict-of-interest statement yearly stating that they have not been convicted of a felony since becoming an associate of the Company.

A review was conducted on the background checks performed for new employees hired during the examination period and the re-investigations performed for existing employees. The review did not identify any instances of non-compliance.

### **SCHEDULE OF SPECIAL DEPOSITS**

The Company maintained the following deposit with the respective statutory authority on December 31, 2022, as required or permitted by law.

<u>State</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Alabama	\$30,000	\$30,000

### **FINANCIAL CONDITION / GROWTH OF THE COMPANY**

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Premium Income</u>
2022	\$5,386,603,469	\$2,287,094,994	\$3,099,508,475	\$7,620,664,369
2021	\$5,371,194,450	\$2,476,295,754	\$2,894,898,696	\$7,070,789,497
2020	\$5,091,337,557	\$2,401,674,074	\$2,689,663,483	\$6,575,649,114
2019	\$4,567,230,661	\$2,210,722,027	\$2,356,508,634	\$6,105,991,939
2018	\$3,959,993,680	\$1,958,324,829	\$2,001,668,851	\$6,035,871,287

### **MARKET CONDUCT ACTIVITIES**

#### **Management and Operations**

##### *Territory*

The Company's certificate of authority was issued by the State of Alabama's Department of Insurance with an effective date of June 1, 1991, and remains in effect until suspended, cancelled, or revoked, as long as fees and taxes are paid.

The Company markets its products in all 67 counties in the state of Alabama. BCBSAL writes health, dental, and pharmacy policies for the commercial market and health and pharmacy policies for the Medicare market. The Company is only licensed in Alabama to write and issue health, comprehensive (hospital and medical),

Medicare supplement, dental, federal employees health benefit plan, and title XVIII Medicare.

### Plan of Operation

The Company is a non-stock, not-for-profit Company, which maintains and operates health care plans under which services are offered to the public. The Company utilizes account executives, district account representatives, and district sales representatives for the employer group market. Insurance advisors sell to the individual consumers and small groups with less than 50 employees. In addition, the consumers and small groups with less than 50 employees can purchase coverage on the Company's website. The Company is headquartered in Birmingham, Alabama, with service and satellite offices throughout the state of Alabama.

### Marketing and Sales

The Company's advertising and marketing strategy was delivered through a variety of mediums including televisions, direct mail, radio, print, online display, and social media sites. The Company's marketing focus is limited to the state of Alabama residents. All the advertising materials are coordinated through the Company's marketing department. A sample of 84 marketing items was randomly selected from a population of 266. The examiners determined that the advertisements did not reference a specific policy and that the majority of the Company's advertising was brand advertisements.

### Policyholder Complaints

The Company recorded all of its complaints both consumer direct and Department of Insurance in its complaints register in the required format. The Company had adequate complaint procedures in place for the distribution of complaints and obtaining and recording responses to the complaints. A sample of 113 complaints were selected from a population of 649 consumer direct and Department of Insurance complaints that were received during the examination period. The review of the sample indicated that the complaints were responded to timely and addressed the issues raised.

## Claims Handling

### Paid Claims

A sample of 120 Alabama paid claims were selected from a total population of 23,553,903 transactions from the final two years of the examination period (2021-2022). The sample was 20 transactions from six different months for a total of 120 paid claims. The sample was reviewed for compliance with the Company's policy provisions, timeliness of payments, and adequacy of documentation. The examination found that the claims were paid in compliance with ALA. CODE § 27-1-17(a)(2003), which states:

Each insurer, health service corporation, and health benefit plan that issues or renews any policy of accident or health insurance providing benefits for medical or hospital expenses for its insured persons shall pay for services rendered by Alabama health care providers within 45 calendar days upon receipt of a clean written claim or 30 calendar days upon receipt of a clean electronic claim. If the insurer, health service corporation, or health benefit plan is denying or pending the claim, the insurer, health service corporation, or health benefit plan shall, within 45 calendar days for a written claim and 30 calendar days for an electronic claim, notify the health care provider or certificate holder of the reason for denying or pending the claim and what, if any, additional information is required to process the claim. Any undisputed portion of the claim shall be paid in accordance with the foregoing schedule.

No discrepancies were found.

### Closed Without Payment/Denied Claims

A sample of Alabama 116 denied and closed without payment claims was selected from a population of 160,375 denials for the examination period. The sample was reviewed for compliance with the Company's policy provisions and adequacy of documentation. No discrepancies were found.

### Closed Litigated Claims

The population of closed litigated claims were reviewed during the examination period. No problematic claim handling practices were noted during the review.

## **Compliance with Producer Licensing Requirements**

### *Producer Appointment*

The examiners reviewed a sample of incentive transactions during the examination period. The examiners selected a sample of 120 new business transactions from a population of 11,974,990 transactions during the examination period. The examiners used the NAIC's State Based System to verify that the producers were appropriately licensed and appointed by the Company prior to writing the business.

### *Producer Terminations*

A sample of 113 producer terminations was selected from 959 producers that were terminated during the examination period. The examiners determined that the Company did send the required termination notifications as required by ALA. CODE § 27-7-30 (e) (2001) and ALA. CODE § 27-7-30.1 (a) (2001).

Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

## **Underwriting and Rating**

A sample of 120 premium transactions was selected from the written premiums data provided by the Company for the period under examination. The sample was used to verify the rates in use during the exam period for the following Health Plans: 1) Individual, 2) Small Employers (1-50), and 3) Large Employers (51+).

The review indicated that the rates were filed and approved by the Alabama Department of Insurance in accordance with ALA. CODE § 10A-20-6.10 (2009), which states:

The rates, charges, fees, and dues to be paid by the public for benefits under a health service plan and for contracts or certificates covering same shall not be unreasonably high or excessive, shall be adequate to meet the liability assumed under the contracts and all expenses in connection

therewith, shall be adequate for the safeness and soundness of the corporation, and shall take into account past and prospective loss experience. A health care service corporation shall file with the Commissioner of Insurance any change in its rates, charges, fees, and dues, and, as soon as reasonably possible after the filing has been made the commissioner shall, in writing, approve or disapprove the same, provided that, unless disapproved within 30 days after filing, the changed rates, charges, fees, or dues shall be deemed to be approved...

### Cancelations

A sample of 116 cancelations were selected from a population of 577,040 cancelations that occurred during the examination period. The sample was reviewed to make the determination of whether the policies were canceled in accordance with the policy provisions. It was determined that each policy in the sample was properly canceled in accordance with the policy provisions.

### Privacy Standards

The Company's HIPAA Privacy Notice described how the medical information about the customers may be used to disclose and how customers may gain access to the information. The Privacy Statement detailed the privacy objectives regarding Security Practices, Use of Email, Cookies, Surveys and Forms, Updates to the Statement and Confidentiality. The Company did not disclose nonpublic personal financial information that it received from nonaffiliated financial institutions. The Company had reasonable administrative, technical, and physical safeguards in place to secure the privacy of Protected Health Information (PHI). The Company complied with the privacy requirements of ALA. ADMIN. CODE 482-1-122 (2001).

## REINSURANCE

### Reinsurance Assumed

#### Specific and Aggregate Medical Benefits Quota Share Treaty – National Health Insurance Company

The reinsurance agreement in effect as of the December 31, 2022, examination date was a specific and aggregate medical benefits quota share treaty, entered into with National Health Insurance Company (NHIC) on September 1, 2020. The agreement is automatically renewed on an annual basis. The agreement contained insolvency, arbitration, and errors and omissions clauses.

With respect to specific stop loss coverage, NHIC's retention is \$5,000. The Company is subject to a maximum limit of 25% of up to \$2,500,000 per person. With respect to aggregate stop loss coverage, NHIC's retention is \$5,000. The Company is subject to 25% of up to \$Unlimited per group with a minimum attachment point of 110% of expected claims costs.

Layer 1: Up to \$1,500,000 per person per policy period with respect to specific excess stop loss coverage and up to \$Unlimited per group per policy period with respect to aggregate stop loss coverage.

Layer 2: Up to \$1,000,000 per person per policy period with respect to specific excess stop loss coverage in excess of \$1,500,000 per person per policy period.

A review of the Company's assumed reinsurance indicated the Company did not report the proper \$324,254 liability in connection with treaty number WTB-368-20X in the 2022 annual statement. It was determined that the Company did not include all its assumed reserves in its determination of the net unpaid claim reserves in accordance with the *NAIC Annual Statement Instructions*, which states: "Column 3 should equal the amount reported in the Underwriting and Investment Exhibit, Part 2A, column 1, line 4.4."

The examination indicated that the Company did not report any reinsurance assumed in the 2022 Schedule S – Part 1 – Section 2. It was determined that the Company did not properly report the assumed reserves in the reinsurance Schedule S – Part 1 – Section 2 in accordance with the *NAIC Annual Statement Instructions*, which states:

If a reporting entity has any detail lines reported for any of the following required groups, categories, or sub-categories it shall report the subtotal amount of the corresponding group, category, or sub-category, with the specified subtotal line number appearing in the same manner and location as the pre-printed total line and number.

A review of the Company's assumed reinsurance contracts indicated that the Company did not have a signed copy to Amendment One of treaty number WTB-368-20X. It was determined the Company was not in compliance with ALA. CODE § 27-27-29(a) (2012), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state complete



records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

### **Reinsurance Ceded**

#### *100% Reinsurance Agreement – UTIC Insurance Company*

On February 9, 2011, management informed the Department of Insurance that the Company would transfer 100% of the risk associated with its long-term care (LTC) policies to UTIC Insurance Company (UTIC), a wholly owned subsidiary. The Company had discontinued writing new LTC business in 2010. This risk transfer was effective January 1, 2011, and all LTC policies remained on BCBSAL paper. The Company financially guaranteed the obligations assumed by UTIC in a risk transfer agreement signed in June 2011 and effective January 1, 2011, and also funded the reserve liability on January 1, 2011. At the request of the Department of Insurance, the Company also executed a 100% quota share reinsurance agreement that was retroactively effective on January 1, 2011. This reinsurance agreement was executed and signed by the parties in August 2013. The agreement contained insolvency, arbitration, and errors and omissions clauses.

#### *Pool Excess of Loss Reinsurance Agreement – BCS Insurance Company*

The reinsurance agreement in effect as of the December 31, 2022, examination date was a pool excess of loss reinsurance agreement that the Company entered into with BCS Insurance Company on January 1, 2022. The agreement succeeded an agreement for a one-year term, and the agreement was succeeded by another reinsurance agreement for a one-year term. The agreement contained insolvency, arbitration, and errors and omissions clauses.

The agreement covered losses from any one qualifying loss in excess of \$5 million. There is no limit under the contract.

The agreement has a pool gain sharing endorsement. The endorsement has provisions that allow all participating ceding insurers, consisting of multiple states' Blue Cross and Blue Shield Association companies to receive a portion of the gains, if any, from the ceded reinsurance of all participants in the pool.

Excess of Loss Reinsurance Agreement – Resolution RS

The reinsurance agreement in effect as of the December 31, 2022, examination date was a specific excess of loss reinsurance agreement entered into with Resolution RS on January 1, 2022. The agreement ended on January 1, 2023. The agreement covered 100% of losses from any one qualifying loss in excess of \$2,800,000 and up to \$5,000,000.

A review of the Company's 2022 Form B filing indicated the Company did not properly disclose its affiliated reinsurance agreement with Resolution RS, LLC. It was determined the effective date of the agreement was January 1, 2022, and in-force as of the filing of the Form B. It was further determined the Company was not in compliance with ALA. CODE § 27-29-4 (b)(3)(f) (2022), which states:

Every insurer subject to registration shall file a registration statement on a form prescribed by the commissioner by rule which shall contain the following current information:

(3) The following agreements in force, and transactions currently outstanding or which have occurred during the last calendar year between such insurer and its affiliates:

f. Reinsurance agreements.

**ACCOUNTS AND RECORDS**

The Company has redundant computer systems to mitigate risks associated with business functions and data security. The Company's two IBM mainframes ensure near real-time system redundancy. Both the Pope Technology Center and the Riverchase building computer rooms were secured using biometric scanners and were continually monitored by security personnel.

As of December 31, 2022, the Company had three permitted practices. A letter dated December 3, 2009, permits the Company to expense internally developed software expenses as they are incurred rather than capitalize a portion of the cost. Another letter dated February 5, 2018, permits the Company to account for taxes and fees associated with the Affordable Care Act in a manner stipulated by the Department. This permitted practice affected the 2018, 2019, and 2020 financial

statements. Lastly, a letter dated May 3, 2018, permits the Company to delay recognition of their Alternative Minimum Tax Credits until they are utilized by the Company or refunded in cash. This permitted practice affected the 2018, 2019, 2020, 2021, and 2022 financial statements.

A review of the Company's Medicare Supplement policies indicated the Company did not maintain its original enrollment applications for all policies that maintain the active life reserve. A sample of 40 Medicare Supplement policies was selected in order to verify the accuracy of the reserve determinants. Per the Company's response, the Company was unable to provide the original application for fifteen policies. It was determined the Company was not in compliance with its records retention policy which states structured data is to be archived ten years after contract cancellation and deleted one year after being archived.

Ernst & Young LLP, Certified Public Accountants, Birmingham, Alabama, audited the Company for the five year examination period. Audit workpapers, reports, and management letters for 2018 - 2022 were reviewed and utilized in the examination to the extent deemed appropriate.

The Company's opining actuary for the last year of the examination period was Jill B. Cullen, FSA, MAAA that succeeded Noel Winfred Carden, FSA, MAAA, Senior Vice President and Chief Financial Officer that was the opining actuary for the earlier annual periods.

## FINANCIAL STATEMENT INDEX

The following financial statements are based on the statutory financial statements filed by the Company with the Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2022. The accompanying comments on the financial statement reflect any examination adjustments to the amount reported in the annual statement and should be an integral part of the financial statements.

Statement of Assets, Liabilities, Surplus, and Other Funds (Assets)	33
Statement of Assets, Liabilities, Surplus, and Other Funds (Liabilities and Capital and Surplus)	34
Statement of Revenue and Expenses	35
Capital and Surplus	36

**Blue Cross and Blue Shield of Alabama**  
**Statement of Assets, Liabilities, Surplus, and Other Funds**  
**(Assets)**  
**For the Year Ended December 31, 2022**

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 2,600,704,507		\$ 2,600,704,507
Preferred Stock	718,950		718,950
Common stocks	984,858,866		984,858,866
Real Estate	116,626,047	\$ 13,061,198	103,564,849
Cash, cash equivalents, and short-term investments	263,174,143		263,174,143
Other invested assets (Schedule BA)	<u>336,331,656</u>	<u>574,074</u>	<u>335,757,582</u>
Subtotals, cash and invested assets	<u>4,302,414,169</u>	<u>13,635,272</u>	<u>4,288,778,897</u>
Investment income due and accrued	19,158,882		19,158,882
Premiums and Considerations: Uncollected premiums and agents' balances in the course of collection	378,045,451	2,490,590	375,554,861
Accrued retrospective premiums and contracts subject to redetermination	55,943,877		55,943,877
Reinsurance: Amounts receivable relating to uninsured plans	310,459,164	8,724,578	301,734,586
Current federal and foreign income tax recoverable and interest thereon	3,169,899		3,169,899
Net deferred tax asset	109,079,428	60,712,567	48,366,861
Electronic data processing equipment and software	19,695,518	16,840,920	2,854,598
Furniture and equipment, including health care delivery assets	4,608,228	4,608,228	0
Receivables from parent, subsidiaries, and affiliates	15,702,132	2,329,814	13,372,318
Health care and other amounts receivable	303,247,935	25,810,436	277,437,499
Aggregate write-ins for other-than-invested assets	<u>87,106,018</u>	<u>86,874,827</u>	<u>231,191</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 5,608,630,701</b></u>	<u><b>\$ 222,027,232</b></u>	<u><b>\$5,386,603,469</b></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

**Blue Cross and Blue Shield of Alabama**  
**Statement of Assets, Liabilities, Surplus and Other Funds**  
**(Liabilities and Capital and Surplus)**  
**For the Year Ended December 31, 2022**

<u>LIABILITIES</u>	
Claims unpaid	\$ 717,094,785
Accrued medical incentive pool and bonus amounts	2,344,000
Unpaid claims adjustment expenses	15,440,406
Aggregate health policy reserves, including the liability for medical loss ratio rebate per the Public Health Service Act	367,940,597
Premiums received in advance	69,495,756
General expenses due or accrued	556,040,072
Current federal foreign income tax payable an interest thereon	165,982,622
Ceded reinsurance premiums payable	1,249,198
Amounts withheld or retained for the account of others	84,211,240
Amounts due to parent, subsidiaries, and affiliates	411,159
Liability for amounts held under uninsured plans	300,538,869
Aggregate write-ins for other liabilities	<u>6,346,290</u>
Total Liabilities	<u>\$ 2,287,094,994</u>
<u>CAPITAL AND SURPLUS</u>	
Unassigned funds (surplus)	<u>3,099,508,475</u>
Total Capital and Surplus	<u>\$ 3,099,508,475</u>
Total Liabilities, Capital, and Surplus	<u>\$ 5,386,603,469</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

**Blue Cross and Blue Shield of Alabama**  
**Statement of Revenue and Expenses**  
**For The Years Ended December 31, 2022, 2021, 2020, 2019 & 2018**

	2022	2021	2020	2019	2018
Net premium income	\$7,620,664,369	\$7,070,789,497	\$6,575,649,114	\$6,105,991,939	\$6,035,871,287
Change in unearned premium reserves and reserve for rate credits	10,656,752	43,503,042	444,733	(6,969,113)	(9,857,306)
Aggregate write-ins for other health care related revenues	15,828,928	14,205,302	9,182,503	9,016,219	466,410
Aggregate write-ins for other non-health revenues	-	-	-	-	905,178
Total revenues	\$7,647,150,049	\$7,128,497,841	\$6,585,276,350	\$6,108,039,045	\$6,027,385,569
Hospital and Medical:					
Hospital/medical benefits	3,381,784,573	3,378,672,523	2,939,220,395	2,840,037,026	2,661,013,138
Other professional services	1,078,076,952	993,355,518	827,047,763	800,475,877	722,732,293
Emergency room and out-of-area	838,761,671	753,686,277	614,002,705	582,645,670	541,239,509
Prescription drugs	1,466,458,898	1,443,378,200	1,360,614,761	1,266,327,854	1,179,084,355
Incentive pool, withhold adjustments and bonus amounts	1,973,463	(1,029,021)	4,648,635	1,792,872	1,463,259
Subtotal	6,767,055,557	6,568,063,497	5,745,534,259	5,491,279,299	5,105,532,554
Less:					
Net reinsurance recoveries	4,204,081	6,989,533	2,963,600	1,886,477	5,356,432
Total hospital and medical	\$6,762,851,476	\$6,561,073,964	\$5,742,570,659	\$5,489,392,822	\$5,100,176,122
Claims adjustment expenses	247,408,670	237,463,251	242,897,298	218,353,845	187,013,078
General administrative expenses	424,163,866	396,081,754	507,157,041	340,230,921	423,201,290
Total underwriting deductions	\$7,434,424,012	\$7,194,618,969	\$6,492,624,998	\$6,047,977,588	\$5,710,390,490
Net underwriting gain or (loss)	212,726,037	(66,121,128)	92,651,352	60,061,457	316,995,079
Net investment income earned	91,491,658	87,031,707	76,488,192	86,984,649	68,773,748
Net realized capital gains	19,066,691	66,910,387	28,200,686	26,726,221	17,466,606
Net investment gains (losses)	110,558,349	153,942,094	104,688,878	113,710,870	86,240,354
Net income or (loss) after capital gains tax and before all other federal income taxes	323,284,386	87,820,966	197,340,230	173,772,327	403,235,433
Federal and foreign income taxes incurred	88,902,727	24,579,741	(105,398,663)	(229,345,955)	9,779
Net income (loss)	<u>\$234,381,659</u>	<u>\$63,241,225</u>	<u>\$302,738,893</u>	<u>\$403,118,282</u>	<u>\$403,225,654</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

**Blue Cross and Blue Shield of Alabama**  
**Capital and Surplus**  
**For The Years Ended December 31, 2022, 2021, 2020, 2019 & 2018**

	2022	2021	2020	2019	2018
Capital and surplus prior reporting year	\$2,894,898,696	\$2,689,663,483	\$2,356,508,634	\$2,001,668,851	\$1,881,689,974
Net income or (loss)	234,381,659	63,241,225	302,738,893	403,118,282	403,225,654
Change in net unrealized capital gains (losses)	(198,320,863)	83,402,142	85,230,204	106,658,683	(84,058,856)
Change in net deferred income tax	9,564,720	(23,492,584)	(169,781,627)	(265,665,493)	(76,539,401)
Change in nonadmitted assets	(45,120,770)	18,407,560	185,547,850	235,996,917	(170,900,289)
Aggregate write-ins for gains or (losses) in surplus	204,105,033	63,676,870	(70,580,471)	(125,268,606)	48,251,769
Net change in capital and surplus	204,609,779	205,235,213	333,154,849	354,839,783	119,978,877
Capital and surplus end of reporting year	<u>\$3,099,508,475</u>	<u>\$2,894,898,696</u>	<u>\$2,689,663,483</u>	<u>\$2,356,508,634</u>	<u>\$2,001,668,851</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.



## **NOTES TO FINANCIAL STATEMENTS**

### **Analysis of Changes to Surplus**

No adjustments were made to surplus as a result of the examination.

### **CONTINGENT LIABILITIES AND PENDING LITIGATION**

The examination for contingent liabilities and pending litigation included a review of the Company's annual statement disclosures, minutes of the corporate governing bodies, pending claims, and the usual examination of the accounts for unrecorded items. The examination of contingent liabilities and pending litigation did not identify any material deficiencies in the recorded liabilities or undisclosed material contingencies.

The Company's Chief Executive Officer and its Chief Financial Officer executed a letter of representation, attesting to the non-existence of unreported liabilities and contingencies as of December 31, 2022.

### **SUBSEQUENT EVENTS**

A review of events subsequent to the December 31, 2022, examination date was performed. No significant subsequent events were identified.

### **COMPLIANCE WITH PREVIOUS RECOMMENDATIONS**

A review was conducted during the current examination to determine whether the Company complied with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with the recommendations in the previous report of examination.

### **COMMENTS AND RECOMMENDATIONS**

#### **Reinsurance Assumed – Page 27**

**It is recommended** that the Company include all its assumed reserves in its determination of the net unpaid claim reserves in accordance with the *NAIC Annual Statement Instructions*, which states: "Column 3 should equal the amount reported in the Underwriting and Investment Exhibit, Part 2A, Column 1, Line 4.4."

**It is recommended** that the Company properly report its assumed reserves in the reinsurance Schedule S – Part 1 – Section 2 in accordance with the *NAIC Annual Statement Instructions*, which states: “If a reporting entity has any detail lines reported for any of the following required groups, categories, or sub-categories it shall report the subtotal amount of the corresponding group, category, or sub-category, with the specified subtotal line number appearing in the same manner and location as the pre-printed total line and number.”

**It is recommended** that the Company retain evidence of its signed amendments to reinsurance agreements in accordance with ALA. CODE § 27-27-29(a) (2012), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

### **Reinsurance Ceded – Page 29**

**It is recommended** that the Company disclose all reinsurance agreements entered into with affiliates in accordance with ALA. CODE § 27-29-4 (b)(3)(f) (2022), which states:

Every insurer subject to registration shall file a registration statement on a form prescribed by the commissioner by rule which shall contain the following current information:

- (3) The following agreements in force, and transactions currently outstanding or which have occurred during the last calendar year between such insurer and its affiliates:

f. Reinsurance agreements.

### **Accounts and Records – Page 30**

**It is recommended** that the Company maintain its original enrollment applications for its Medicare Supplement policies in accordance with its record retention policy which states structured data is to be archived ten years after contract cancellation and deleted one year after being archived.

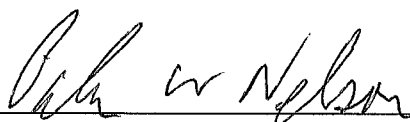
## CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers of Blue Cross and Blue Shield of Alabama during the course of this examination.

The customary insurance examination procedures, as recommended by the NAIC, have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, David Abbott, Theo Goodin, AIE, ALMI, MCM, Jackson Goodwin, Jacob Grissett, CFE (Fraud), Cristi Owen, CPA, CFE, AMCM, CPM, Andarius Vincent examiners for the Alabama Department of Insurance, and Harland A. Dyer, ASA, MAAA, consulting actuary from Latta, Langston & Dyer, John Albertini, CISA, CISM, CISSP, CDFE, MBA and Dave Gordon, CISA, CIA, CFE (Certified Fraud Examiner), CDFE, MBA, consulting IT specialists from INS Services, Inc. represented the Alabama Department of Insurance and participated in the examination of Blue Cross and Blue Shield of Alabama.

Respectfully submitted,



Palmer W. Nelson, CFE  
Examiner-in-Charge  
State of Alabama  
Department of Insurance