



MISSISSIPPI INSURANCE DEPARTMENT

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JACKSON, MISSISSIPPI 39201  
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MIKE CHANEY  
Commissioner of Insurance  
State Fire Marshal

MARK HAIRE  
Deputy Commissioner of Insurance

RICKY DAVIS  
State Chief Deputy Fire Marshal

June 21, 2019

**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

Ms. Carol Pigott, President & CEO  
Blue Cross & Blue Shield of Mississippi,  
A Mutual Insurance Company  
3545 Lakeland Drive  
Flowood, MS 39232

**RE: Report of Examination as of December 31, 2017**

Dear Ms. Pigott:

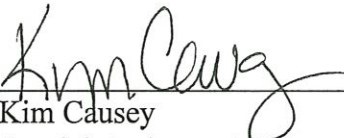
In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY  
COMMISSIONER OF INSURANCE

BY   
Kim Causey  
Special Assistant Attorney General

MC/KC/bs  
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE  
OF THE STATE OF MISSISSIPPI**

**IN RE:   REPORT OF EXAMINATION OF  
          BLUE CROSS & BLUE SHIELD OF MISSISSIPPI,  
          A MUTUAL INSURANCE COMPANY**

**CAUSE NO. 19-7436**

**ORDER**

**THIS CAUSE** came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

**JURISDICTION**

**I.**

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011).

**II.**

That Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, is a Mississippi-domiciled company licensed to write Accident and Health coverages.

## FINDINGS OF FACT

### III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), called for an examination of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, and appointed Kimberly Strong, Examiner-In-Charge, to conduct said examination.

### IV.

That on or about May 28, 2019, the draft Report of Examination concerning Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, for the period of January 1, 2013 through December 31, 2017, was submitted to the Department by the Examiner-In-Charge, Kimberly Strong.

### V.

That on or about May 30, 2019, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), the Department forwarded to the Company a copy of the draft report and allowed the Company a 15-day period to submit any rebuttal to the draft report. On or about June 7, 2019, the Company responded by email.

## CONCLUSIONS OF LAW

### VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

**IT IS, THEREFORE, ORDERED**, after reviewing the Report of Examination, the Company's rebuttal, and all relevant examiner work papers, that the Report of Examination of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

**IT IS FURTHER ORDERED** that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

**IT IS FURTHER ORDERED** that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), that within thirty (30) days of the issuance of the adopted report, Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

**IT IS FURTHER ORDERED** that Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

**SO ORDERED**, this the 21<sup>st</sup> day of June 2019.




*J. Mark Haire*  
\_\_\_\_\_  
MARK HAIRE  
DEPUTY COMMISSIONER OF INSURANCE  
STATE OF MISSISSIPPI



**CERTIFICATE OF MAILING**

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 21st day of June 2019, to:

**Ms. Carol Pigott, President & CEO  
Blue Cross & Blue Shield of Mississippi,  
A Mutual Insurance Company  
3545 Lakeland Drive  
Flowood, MS 39232**

  
\_\_\_\_\_  
Kim Causey  
Special Assistant Attorney General

Kim Causey  
Special Assistant Attorney General  
Counsel for the Mississippi Department of Insurance  
Post Office Box 79  
Jackson, MS 39205-0079  
(601) 359-3577  
Miss. Bar No. 10816



**MISSISSIPPI INSURANCE DEPARTMENT**

**Report of Examination**

**of**

**Blue Cross & Blue Shield of Mississippi, A Mutual  
Insurance Company**

**as of**

**December 31, 2017**

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**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND  
PROCEDURES USED IN AN EXAMINATION**

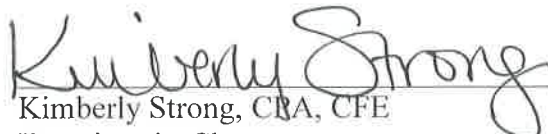
State of Mississippi,

County of Madison,

Kimberly Strong, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company as of December 31, 2017.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

The affiant says nothing further.

  
Kimberly Strong, CRA, CFE  
Examiner-in-Charge

Subscribed and sworn before me by Kimberly Strong on this 19<sup>th</sup> day of

June  
  
(SEAL)

Mollie H. Corulla  
Notary Public

My commission expires October 29, 2021 [date].



**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

**MARK HAIRE**  
Deputy Commissioner of  
Insurance

**MISSISSIPPI INSURANCE DEPARTMENT**

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June 14, 2019

Honorable Mike Chaney  
Commissioner of Insurance  
Mississippi Insurance Department  
1001 Woolfolk Building  
501 North West Street  
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2017, of the affairs and financial condition of:

**BLUE CROSS & BLUE SHIELD OF MISSISSIPPI, A MUTUAL INSURANCE  
COMPANY**

3545 Lakeland Drive  
Flowood, MS 39232

License #	NAIC Group #	NAIC #	FEETS#	MATS
7700147	1126	60111	60111-MS-2017-7	MS-MS099-16

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 *et seq.* and was performed in Flowood, Mississippi, at the statutory home office of the Company. The report of examination is herewith submitted.

## **SCOPE OF EXAMINATION**

We have performed our single-state examination of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company ("Company" or "BCBSMS"). The last exam was completed as of December 31, 2012. This examination covers the period January 1, 2013 through December 31, 2017.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## **COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION**

There were no comments or recommendations contained within the examination report as of December 31, 2012.

## **HISTORY OF THE COMPANY**

On November 13, 1947, the Company was formed under the laws of the State of Mississippi as Mississippi Hospital and Medical Service for the primary purpose of engaging in the business of a hospital and surgical service corporation. The following items include the amendments to the Company's Articles of Incorporation that were deemed noteworthy for examination purposes.

- On October 19, 1948, the Company was converted to a non-profit hospital, medical and surgical service membership corporation with a perpetual existence.
- On March 30, 1973, the Company changed its name from Mississippi Hospital and Medical Service to Blue Cross & Blue Shield of Mississippi, Inc.
- On January 1, 1996, the Company converted from a non-profit membership corporation to a mutual insurance company, and the name of the Company was changed to its current title, Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company.

## **CORPORATE RECORDS**

The minutes of the meetings of the policyholders and Board, prepared during the period under examination, were reviewed and appeared to be complete with regard to the matters brought up at the meetings for deliberation, which included approval of the Company's investment portfolio and actions of the Company's officers.

## **MANAGEMENT AND CONTROL**

### **Ownership**

The Company is a mutual insurance company and is owned by its policyholders. No dividends were paid to policyholders during the examination period. Additionally, the Company has available lines of credit with commercial banks totaling \$15,000,000. Amounts drawn under these agreements will bear interest at no more than the related banks' prime rate and will be due on demand. No amounts were borrowed under these agreements during the examination period.

### **Board of Directors**

The Articles of Association and Bylaws vest the management and control of the Company's business affairs with the Board of Directors ("Board"). The members of the duly elected Board, along with their place of residence and principal occupation, at December 31, 2017, were as follows:

<b>Name and Residence</b>	<b>Principal Occupation</b>
Richard John Hale, Chairman Madison, Mississippi	Owner, RJ Farms
James Herbert Finley, Vice Chairman Morton, Mississippi	Owner, Finley Services, LLC
Arthur Claiborne Kelly Starkville, Mississippi	Owner, Kelly Consulting Group
Robert Mark Ledbetter Tupelo, Mississippi	Owner, Robert M. Ledbetter Enterprises, LLC
Carol Todd Puckett Jackson, Mississippi	Former owner and President of the Everyday Gourmet and Everyday Gardner
Mary Carol Pigott Jackson, Mississippi	President and Chief Executive Officer – Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company
Robin Young McCormick West Point, Mississippi	Partner, Watkins, Ward and Stafford, CPAs, PLLC
Ralph Brooks Vance, M. D. Jackson, Mississippi	Professor Emeritus of Medicine, University of Mississippi Center

## Committees

The following directors served on the Company's Finance Committee:

Name	Title
Robin Y. McCormick	Chairman
James H. Finley	Member
Richard J. Hale	Member
Robert M. Ledbetter	Member
Carol T. Puckett	Member
Arthur C. Kelly	Member
M. Carol Pigott	Member
Ralph B. Vance, Sr., M.D.	Member

The following directors served on the Company's Governance and Organization Committee:

Name	Title
Arthur C. Kelly	Chairman
Ralph B. Vance, Sr. M.D.	Member
Richard J. Hale	Member
Arthur C. Kelly	Member
James H. Finley	Member
Robin Y. McCormick	Member
Carol T. Puckett	Member
M. Carol Pigott (non-voting)	Non-voting Member

The following directors served on the Company's Public Accountability Committee:

Name	Title
Carol T. Puckett, Chairman	Chairman
James H. Finley	Member
Richard J. Hale	Member
Robin Y. McCormick	Member
Ralph B. Vance, Sr., M.D.	Member
Robert M. Ledbetter	Member
Arthur C. Kelly	Member
M. Carol Pigott	Member

## **Officers**

Name	Title
Mary Carol Pigott	President and Chief Executive Officer
Jeffery Thomas Leber	Executive Vice President & Chief Financial Officer
Cheri Denise Green	General Counsel & Secretary
Thomas Carroll Fenter, M.D.	Chief Medical Officer
Bryan Arthur Lagg	Senior VP of Consumer Marketing and Sales
Ugandhar Adari	Senior VP of Innovation & Development
Jennifer Jay Allen	Senior VP of Provider Partnerships & Health Management
Ronald Scott Stringer	Senior VP of Customer & Technology Operations
Sheila Belue Grogan	VP of Community & Public Relations

## **Conflict of Interest**

The Company had formal procedures whereby disclosure was made to the Board of any material interest or affiliation on the part of any officer or director that was, or would likely be, a conflict with the official duties of such persons. Written statements were signed annually by all officers and members of the Board of Directors.

## **Corporate Governance**

The risk- focused surveillance approach requires examiners to consider the insurer's corporate governance and established risk management processes. This evaluation includes assessing the "tone-at-the-top", board of directors and management oversight and understanding and conveyance of the necessity of internal controls to employees. Strong corporate governance encompasses a clearly defined vision of ethics, appropriate goals, effective strategy, effective implementation of the strategy, and appropriate reporting systems emphasizing feedback and transparency.

It was noted that the Company's management as of December 31, 2017 consisted of a CEO, CFO, Secretary, Chief Medical Officer, and five Vice-Presidents. In accordance with the Company's Bylaws (as amended April 22, 2010) the Board consisted of eight board members with a majority being public members. Ms. McCormick meets the standard of a "financial expert". Information regarding the Board members, committees and other related information can be found in the "Management and Control" section of this report.

The appropriateness of the Company's organizational structure and its ability to provide the necessary information flow to manage its activities were considerations in obtaining an understanding of the organizational structure and encompassed understanding the assignment of authority and responsibility. It was noted that the Company maintained formal internal control



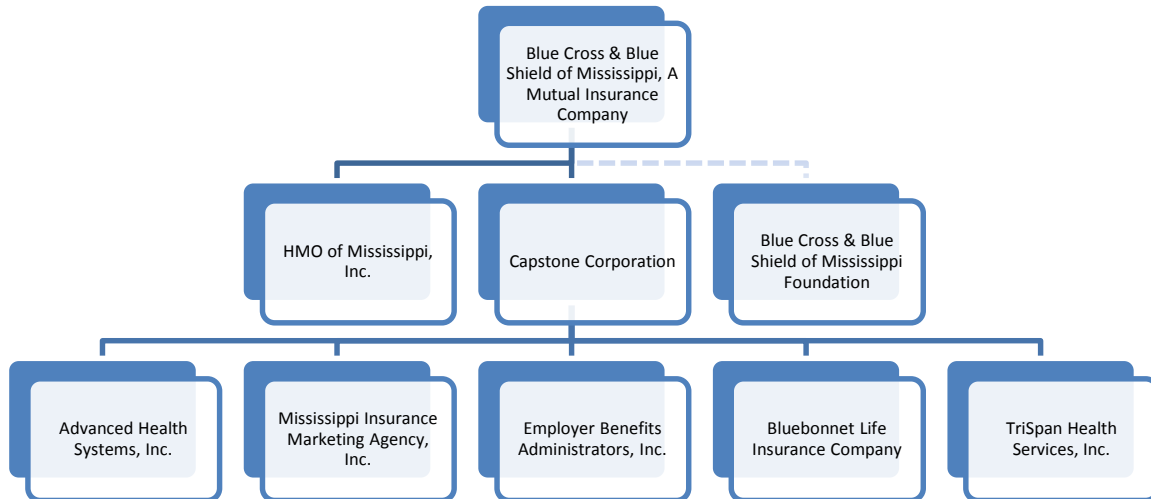
policies. Oversight of operational processes, business planning, non-routine transactions, and material events were reviewed and approved by appropriate levels of management and the Board. Management maintains effective controls over its IT environment and maintains frequent correspondence with its external auditors, Carr, Riggs & Ingram, LLC. The Finance Committee, which serves as the Audit Committee, members are independent from management. The management structure of the Company shows clear assignment of responsibilities within the Company. It appears that the Company's organizational structure provides appropriate segregation of duties, review and oversight for the size and nature of the Company.

Management has implemented an effective enterprise risk management (ERM) program which includes re-evaluating and re-prioritizing the most significant risks facing the Company on a regular basis. The ERM evaluation and planned responses/mitigations of the identified risk are reported to the Board regularly.

### **HOLDING COMPANY STRUCTURE**

The Company is a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. The Company was required to file with the MID, Holding Company Registration Statements in accordance with Miss. Code Ann. §§ 83-6-5 and 83-6-9. These filings set forth material changes in structure, identity or relationships of affiliates and any material transactions by and between the Company and its affiliates.

#### **Organizational Chart**



## **Subsidiaries and Affiliated Companies**

**HMO OF MISSISSIPPI, INC. (HMOMS):** HMOMS, a wholly owned subsidiary of BCBSMS, was incorporated on June 21, 1995, under the laws of the State of Mississippi, as a health maintenance organization whose products were included within BCBSMS' managed care offerings. As of the examination date, HMOMS was inactive.

**CAPSTONE CORPORATION (CAPSTONE):** Capstone, a wholly owned subsidiary of BCBSMS, was incorporated on November 2, 1984, under the laws of the State of Mississippi, as a for-profit holding company for the interests of BCBSMS.

**BLUE CROSS & BLUE SHIELD OF MISSISSIPPI FOUNDATION (BCBSMSFD):** BCBSFD, a non-profit corporation, is a philanthropic affiliate of BCBSMS. It is a private, charitable foundation operated exclusively to fund and support 501(c)(3) organizations and programs that positively impact the health of Mississippians. It is reflected with a dotted line denoting the lack of control by BCBSMS.

**ADVANCED HEALTH SYSTEMS, INC. (AHS):** AHS, a wholly owned subsidiary of Capstone Corporation, was incorporated on December 14, 1984, under the laws of the State of Mississippi, as Automated Health Systems, Inc., with its business being the facilitation of electronic submission of claims by providers. The Company's name was changed to Advanced Health Systems, Inc., and, in 1994, its business purposes were expanded to include utilization management, managed care services for clients, employers and groups; the development and maintenance of provider networks; providing health care provider management and consulting; and providing computerized information management.

**MISSISSIPPI INSURANCE MARKETING AGENCY, INC. (MIMA):** MIMA, a wholly owned subsidiary of Capstone Corporation, was incorporated on September 19, 1986, under the laws of the State of Mississippi. The primary purpose of this company is that of a general insurance agency, which includes the selling and brokerage of insurance coverage and the administration of claims and other services.

**EMPLOYER BENEFITS ADMINISTRATORS, INC. (EBA):** EBA, a wholly owned subsidiary of Capstone Corporation, was incorporated on September 18, 1986, under the laws of the State of Mississippi, as a third party administrator for self-insured, partially insured and insured employee benefit plans. The name was changed from Bluestone Administrative Services, Inc. in February 1987.

**BLUEBONNET LIFE INSURANCE COMPANY (BBLIC):** BBLIC, a wholly owned subsidiary of Capstone Corporation, was incorporated on June 11, 1984, under the laws of the State of Louisiana, as a life and accident and health insurance company. On October 13, 1989, Capstone Corporation acquired BBLIC and moved its domicile to Mississippi effective at the close of business March 31, 1997. The principal activity of the Company is to provide life, cancer, and disability insurance coverage.

**TRISPAN HEALTH SERVICES, INC. (THS):** THS, a wholly owned subsidiary of Capstone Corporation, was incorporated on April 21, 2005, under the laws of the State of Mississippi. The primary purpose of the Company was to execute contracts related to federal and/or state government health care programs.

### **Affiliated and Related Party Transactions**

#### **Tax Sharing Agreement with Affiliates:**

BCBSMS filed consolidated federal and state income tax returns with its affiliates. Income taxes were allocated to the subsidiaries based on their proportionate share of income, deductions, and credits that were reflected within the consolidated tax returns filed by the Company.

#### **Service Agreement with Capstone Corporation:**

The Company entered into a Service Agreement on January 1, 1985, with Capstone Corporation. Under the terms of this agreement, BCBSMS agreed to provide business services as requested to Capstone Corporation. These services included accounting, printing, mailing, payroll, purchasing, legal, and other such services as Capstone Corporation and/or any subsidiary may request. In return for provided services, BCBSMS received as compensation a prorated portion of the employee's salary that performed such services.

#### **Service and Lease Agreement with HMOMS:**

Effective August 31, 1996, BCBSMS entered into a Service and Lease Agreement with HMOMS; whereby, BCBSMS provided certain business services to the Company. These services included; general management services, financial services, accounting, printing, mailing, corporate data systems and programming, public relations, personnel, payroll, purchasing, legal, and other services. BCBSMS allocated or directly charged HMOMS its portion of salaries, travel, fees, and expenses.

#### **Insolvency Plan Agreement with HMOMS:**

Effective September, 1, 1995, BCBSMS entered into an Insolvency Plan Agreement whereby, BCBSMS guaranteed the solvency of the HMOMS. Pursuant to this agreement, BCBSMS agreed to continue coverage for members of HMOMS, in the event of insolvency.

#### **Service Agreement with BCBSMSFD:**

The Company entered into a Service Agreement on January 1, 2007, with the BCBSMSFD. Under the terms of this agreement, the Company shall provide employees to work on behalf of the Foundation. In return for the services provided, the Foundation shall reimburse the Company for the employees' time computed at rates by prorating the salaries paid to the employee, during their respective payroll periods, together with the cost of fringe benefits and travel expenses. In

addition, the Company shall provide non-professional goods such as pencils, stationery and other incidental supplies at no charge.

Service Agreement with Advanced Health Systems, Inc. (AHS):

Each company agrees to provide or make available to the other certain business services including (but not limited to) provider networks, general management services, general provider contracting services, financial services, accounting, printing, mailing, corporate data systems and programming, public relations, purchasing, claims administrative services, managed care services and other such services.

**FIDELITY BOND AND OTHER INSURANCE**

The Company maintained a comprehensive corporate insurance program. This program included commercial general liability, commercial property, and cybersecurity and privacy liability, as well as other policies, as deemed appropriate by the Company's management. The Company maintained a financial institution bond with a \$5,000,000 aggregate limit of liability for the operations of BCBSMS and its subsidiaries, which exceeded the minimum fidelity coverage suggested by the NAIC for a company of this size.

**PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company provided a health and welfare program for its officers and employees. It appears that adequate and/or reasonable provisions were made within the financial statements for the Company's obligations under such plans. The following is a brief description of the plans offered.

*Non-Contributory Retirement Program for Certain Employees:* This program is a qualified, defined benefit pension plan for all employees who meet eligibility requirements. The Plan was amended to only include those employed prior to January 1, 2007. The program has a beneficial interest in the Blue Cross & Blue Shield National Retirement Trust. Contributions to the program are made by the Company upon determination of any applicable amount by the program's actuary.

*Retirement Benefit Restoration Program:* This program is a non-contributory, non-qualified, defined benefit retirement plan for key executives as designated by the Company's Governance and Organization Committee. Benefits under this program are based on years of service and the participant's history of earnings. The actuarial and recorded liabilities for this plan have not been funded.

The Company also established an irrevocable Rabbi Trust for the benefit of executives for which Renasant Bank serves as Trustee and the Company pays all administrative and Trustee's fees expenses.

*Deferred Compensation Plan:* The Company sponsored a contributory, tax-favored savings program (401K) for all eligible employees where the Company matched 100% of each employee's contribution, up to 3% of their salary and 50% of each employee's contribution for 4% and 5% of their salary. The Company may also contribute discretionary amounts.

In addition, the Company offered life and health insurance benefits to retired employees. The benefits vary depending on employment date and years of service.

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2017, the Company was authorized to write accident and health lines of business in the State of Mississippi. BCBSMS' health operations were defined by the following segments: fully insured group, non-group, underwritten other, cost plus, national and the State of Mississippi. The Company also had a segment for non-full service health contracts that consists mainly of dental policies.

BCBSMS used four main distribution channels; internal sales force, broker sales force, Mississippi Farm Bureau, and the internet. During the exam period, the Company launched provider and member portals and pushed internet sales as a sales tool. As of 2017, the Company was the only major health insurer to offer coverage throughout the entirety of the State.

## **GROWTH OF COMPANY**

The review of the growth of the Company was performed based on balances as reported in the annual statements filed with the MID during the period under examination.

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Capital and Surplus	\$ 627,605,835	\$ 597,288,624	\$ 583,601,690	\$ 564,752,084	\$ 555,493,510
Ratio of premiums to capital and surplus	2.17 to 1	2.23 to 1	2.21 to 1	2.15 to 1	2.14 to 1
Ratio of assets to liabilities	2.88 to 1	2.98 to 1	2.99 to 1	3.01 to 1	3.17 to 1
Ratio of premiums to expenses	1.04 to 1	1.01 to 1	1.01 to 1	1.01 to 1	0.99 to 1
Cash flows from operations	\$ 52,874,993	\$ 23,134,266	\$ 11,279,887	\$ 11,458,317	\$ 24,146,521
Net income (loss)	\$ 49,733,977	\$ 23,588,428	\$ 13,627,898	\$ 18,342,555	\$ 4,118,329

## **REINSURANCE**

### **ACA Transitional Reinsurance Program**

BCBSMS participated in the ACA temporary transitional reinsurance program established to stabilize premiums in the individual market. The program was effective for the period January 1, 2014 through December 31, 2016. Under the program, contributions were collected from contributing entities to fund reinsurance payments to issuers of non-grandfathered reinsurance-eligible individual market plans, the administrative costs of operating the reinsurance program, and the General Fund of the U.S. Treasury.

For 2016, the Uniform Reinsurance Contribution Rate was \$27 per covered life (including self-insured group health plans that use a third-party administrator in connection with claims processing or claims adjudication or plan enrollment). The Program covered individual policies up to 50% of paid claims from \$90,000 to \$250,000.

### **Quota Share Reinsurance Contract with HM Life Insurance Company**

Under this agreement, BCBSMS cedes 100% of policies issued in connection with the FEP BlueVision Plan. The Company terminated this agreement effective December 31, 2013.

## **ACCOUNTS AND RECORDS**

The Company's 2017 trial balances were tied to the financial statements within the statutory annual statements filed with the MID, with no material exceptions noted. The Company was audited annually by an independent CPA firm and the Company's claims unpaid liability and health policy reserves were calculated by a consulting actuarial firm.

The Company processed all information at its home office located in Flowood, Mississippi utilizing a combination of purchased and internally-modified applications. Significant applications include NAS, CAS and RXClaim for claims processing, MABIL for membership and billing, CARMS for credit and accounts receivable and WALKER for financial reporting. The Company utilizes multiple platforms including an IBM z13s-U03 mainframe with the IBM z/OS 2.2 operating system. Mainframe and open systems data are continuously replicated to like equipment with an offsite storage service.

The Company is licensed as a single-line accident and health mutual insurance company pursuant to Miss. Code Ann. § 83-19-31(1) (d), which requires the Company to maintain surplus equal to the capital and surplus requirements of a stock company writing similar lines of insurance. Miss. Code Ann. § 83-19-31 (1) (a) requires single-line companies to maintain combined capital and surplus of \$1,000,000. The Company is also required to file risk-based capital (RBC) reports for each of its NAIC annual statement filings pursuant to Miss. Code Ann. § 83-5-401 through § 83-5-427.



## STATUTORY DEPOSITS

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. § 83-19-31(2) and § 83-7-21. The following chart displays the Company's deposits at December 31, 2017.

<u>Description of Security</u>	<u>State Deposited</u>	<u>Fair Value</u>
Bond	Mississippi	\$ 590,664

## **FINANCIAL STATEMENTS**

### **Introduction**

The following financial statements consist of a Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2017, a Statement of Revenue and Expenses for examination period ended December 31, 2017, a Reconciliation of Capital and Surplus for the examination period ended December 31, 2017 and a Reconciliation of Examination Adjustments to Surplus at December 31, 2017.

**Statement of Assets, Liabilities, Capital and Surplus**  
**December 31, 2017**

<b>Assets</b>	
Bonds	\$ 596,602,850
Common stocks	116,437,284
Real estate	42,976,724
Cash and cash equivalents	101,588,783
Other invested assets	669,643
Investment income due and accrued	4,925,740
Uncollected premiums and agents' balances in course of collection	33,864,130
Accrued retrospective premiums and contracts subject to redetermination	600,000
Reinsurance recoverable from reinsurers	472,931
Amounts receivable relating to uninsured plans	31,094,247
Net deferred tax asset	8,790,727
Guaranty funds receivable or on deposit	3,605,049
Electronic data processing equipment and software	2,512,888
Healthcare and other amounts receivables	10,431,623
Miscellaneous receivables	3,142,837
Premium tax credit	4,365,415
<b>Total assets</b>	<b>962,080,871</b>
<b>Liabilities, Capital and Surplus</b>	
Claims unpaid	\$ 113,853,919
Accrued medical incentive pool and bonus amounts	270,038
Unpaid claims adjustment expenses	2,588,367
Aggregate health policy reserve	3,760,105
Premiums received in advance	12,925,110
General expenses due or accrued	70,440,535
Current federal income tax payable	10,579,435
Amounts withheld or retained for the account of others	4,863,854
Remittance and items not allocated	3,284,369
Amounts due to parent, subsidiaries and affiliates	4,644,287
Retirement liabilities	100,851,397
Escheat liability	2,651,295
Other long term liability	3,096,532
Summary of remaining write-ins	665,793
<b>Total liabilities</b>	<b>334,475,036</b>
Special surplus funds: Health insurance industry fee	27,558,000
Unassigned funds	600,047,835
<b>Total capital and surplus</b>	<b>627,605,835</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 962,080,871</b>

**Statement of Revenue and Expenses**  
**For the examination period ended December 31, 2017**

Total revenues	\$ 1,359,345,116
<b>Benefits and Expenses</b>	
Hospital/medical benefits	671,798,899
Emergency room and out-of-area	226,420,948
Prescription drugs	261,965,413
Incentive Pool	342,849
Net reinsurance recoveries	(65,152)
Total hospital and medical	1,160,593,261
Claims adjustment expenses,	(8,723,577)
General administrative expenses	153,019,647
Total underwriting deductions	1,304,889,331
Net underwriting gain	54,455,785
Net investment income earned	31,240,618
Net realized capital gains	1,886,627
Net investment gains	33,127,245
Miscellaneous income	22,923
Net income after capital gains tax and before all federal income taxes	87,605,953
Federal income tax in	37,871,976
Net income	\$ 49,733,977

**Reconciliation of Capital and Surplus  
For the Examination Period Ended December 31, 2017**

	2017	2016	2015	2014	2013
Capital and Surplus, December 31, prior year	\$597,288,624	\$583,601,690	\$564,752,084	\$555,493,510	\$565,994,802
Net Income	49,733,977	23,588,428	13,627,898	18,342,555	4,118,329
Change in net unrealized capital gains (losses)	4,758,411	6,447,088	(327,522)	1,655,124	2,775,562
Change in net deferred income tax	(9,876,500)	3,791,912	891,625	4,411,250	8,263,956
Change in non- admitted assets	(7,080,884)	(13,779,239)	(3,889,924)	11,169,252	3,370,518
Cumulative effect of changes in accounting principles	0	0	0	0	(31,282,159)
Change in non-admit subsidiary assets	(643,695)	(91,511)	501,844	(285,816)	(153,030)
Change in additional pension liability in excess of unrecognized PSC	(6,574,098)	(6,269,744)	8,045,685	(26,033,791)	(2,405,532)
Capital and Surplus, December 31, current year	\$627,605,835	\$597,288,624	\$583,601,690	\$564,752,084	\$555,493,510

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS  
DECEMBER 31, 2017**

There were no changes made to the admitted assets, liabilities capital and surplus balances reported by the Company for the year ended December 31, 2017. The surplus, which totaled \$627,605,835 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. §83-19-31(1)(d).



## **MARKET CONDUCT ACTIVITIES**

A full market conduct examination was not conducted; however, specific areas of the market conduct activities were reviewed. The specific areas reviewed included those items as indicated below.

### **Complaint Handling**

The Company maintained complaint documentation during the period under examination. Complaints appeared to have been appropriately resolved and no policyholder abuse was noted.

### **Underwriting and Rating**

Based upon procedures performed during the course of the examination, the Company appeared to be appropriately applying premium rates for insured policies based on application data. It appeared that all applicable policy forms had been appropriately approved by the MID.

### **Claims Handling**

Claim files were reviewed for general indicators of policyholder treatment concerns. No significant areas of concern were noted.

### **Producer Appointment & Licensing**

The Company appeared to have the appropriate licensure to issue its products and agents appeared to be properly licensed and appointed with only minor exceptions. No significant areas of concern were noted.

### **Privacy**

Privacy notices were sent to the Company's policyholders annually.

### **Network Adequacy**

The Company appeared to have appropriate controls to adequately monitor the effectiveness of its provider network.

### **Grievances**

The Company maintained grievance documentation during the period under examination. Grievances appeared to have been appropriately resolved and no policyholder abuse was noted.

### **Provider Credentialing**

The Company appeared to have appropriate policies and procedures for credentialing and re-credentialing all health care professionals with whom the Company contracts.

### **Coverage of Autism Spectrum Disorder**

Additional examination procedures were performed to test compliance with coverage of Autism Spectrum Disorder per Miss. Code Ann. § 83-9-26. No significant areas of concern were noted.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

BCBMS is a defendant in a single multi-district lawsuit (*In re Blue Cross Blue Shield Antitrust Litigation*), that is pending in the U.S. District Court for the Northern District of Alabama. In general, the suit alleges that the Association and the Blue Plans have engaged in a conspiracy to horizontally allocate geographic markets through license agreements, best efforts rules (which limit the percentage of non-Blue revenue of each plan), restrictions on acquisitions and other arrangements in violation of the Sherman Antitrust Act and related state laws. The cases were brought by two putative nationwide classes of plaintiffs, health plan subscribers and providers. Subsequent to year end, settlement discussions stalled and the case continues to move forward. It is reasonably possible that a change to the estimated accrued loss could occur in the near term and that such change could have a material effect on BCBSMS' financial condition.

As of December 31, 2017, the Plan accrued a loss contingency of approximately \$11.1 million for all legal matters in which the incurred loss could be reasonably estimated.

## **COMMENTS AND RECOMMENDATIONS**

The examination did not identify any material comments and recommendations.

## **SUBSEQUENT EVENTS**

On August 30, 2018, Articles of Dissolution for TriSpan Health Services, Inc. were filed with the Mississippi Secretary of State's Office. The sole shareholder, Capstone Corporation, approved the dissolution pursuant to a Plan of Dissolution on August 23, 2018.

During the first quarter of 2019, Jeffery Thomas Leber was replaced by Jennifer Jay Allen as Executive Vice President & Chief Financial Officer and Ronald Scott Stringer was named Executive Vice President & Chief Operating Officer.

During the first quarter of 2019, Sheila B. Grogan was named President of the Blue Cross & Blue Shield of Mississippi Foundation and no longer holds an officer position with Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company.

## ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Jimmy Blissett, CFE	Administrative Examiner
Kimberly Strong, CPA, CFE	Examiner-in-charge, Harper, Rains, Knight & Co.
Steve Sartin, CISA, CRISC	IT Examiner, Harper, Rains, Knight & Co.
Darlene Schaffer, CISA	IT Examiner
John Mayberry, FSA, MAAA	Examination Actuary, Lewis & Ellis
Katie Gilchrist	Market Conduct Examiner, Gilcrest Donnell, Attorneys & Counselors At Law
Ryan Davison, CFE	Financial Examiner, Lewis & Ellis
Ryan Dunbar	Financial Examiner, Harper, Rains, Knight & Co.
Rachel Cross	Financial Examiner, Harper, Rains, Knight & Co.

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



Kimberly Strong, CPA, CFE  
Examiner-in-charge



Mark Cooley, CFE  
Mississippi Insurance Department Designee