



In the Matter of)

No. 11-107

The Financial Examination of)
PREMERA BLUE CROSS)

) FINDINGS, CONCLUSIONS,
) AND ORDER ADOPTING REPORT
) OF FINANCIAL EXAMINATION
)

A Registered Health Care Service Contractor.

BACKGROUND

An examination of the financial condition of **PREMERA BLUE CROSS**, (the Company) as of December 31, 2009, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of registration as a health care service contractor. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for its comments on May 5, 2011. The Company's response to the report is attached to this order only for the purpose of a more convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and the submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 19 of the report.

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **PREMERA BLUE CROSS**, and to order the Company to take the actions described in the Instructions section of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions prior to the date of this order. The Instructions in the report are appropriate responses to the matters found in the examination.

ORDER

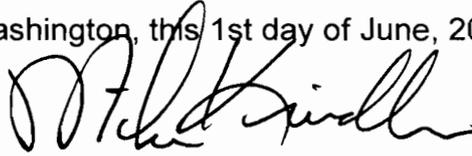
The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions contained in the examination report on pages 1-3.

1. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in accordance with the AP&P, and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 1, Examination Report, page 3.
2. The Company is ordered to comply with WAC 284-07-050(2) which requires adherence to the AP&P, by amending its agreement to be in compliance with SSAP 96, and file a Form D for OIC approval in accordance with RCW 48.31C.050(2)(d) and WAC 284-18A-420. Instruction 2, Examination Report, page 3.
3. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in accordance with the AP&P and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and SSAP 55 and SSAP 85. Instruction 3, Examination Report, page 3.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 1st day of June, 2011.

A handwritten signature in black ink, appearing to read "Mike Kreidler". The signature is fluid and cursive, with the first name "Mike" being more prominent than the last name "Kreidler".

MIKE KREIDLER
Insurance Commissioner

RECEIVED

MAY 25 2011



VIA OVERNIGHT MAIL

May 24, 2011

**INSURANCE COMMISSIONER
COMPANY SUPERVISION**

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
Office of Insurance Commissioner
5000 Capital Boulevard
Olympia, WA 98501

Re: Financial Examination Report of Premera Blue Cross
as of December 31, 2009

Dear Deputy Insurance Commissioner Odiorne:

The purpose of this letter is to respond to your May 5, 2011 letter and furnish you with our comments concerning the Draft Financial Examination Report ("Draft Report") for Premera Blue Cross ("PBC" or the "Company"). Exhibit A to this letter provides the Company's responses to each of the Instructions contained in the Draft Report. For ease of reference, the letter contains the exact verbiage of each finding in italics.

In closing, if you have any questions about our comments, I would be happy to discuss them with you.

Sincerely,

A handwritten signature in cursive script that reads "Sharilyn Campbell".

Sharilyn Campbell
Vice President, Finance

Enclosure

EXHIBIT A
PREMERA BLUE CROSS RESPONSE TO
DRAFT FINANCIAL EXAMINATION REPORT

1. NAIC Annual Statement Errors, Omissions, and Misclassifications

The results of the examination disclosed instances in which the Company's filing of the 2009 NAIC Annual Statement did not conform to the NAIC AP&P Manual and the NAIC Annual Statement Instructions. Except for Instructions 1c and 1d, none of the following items in this instruction were material to the financial statements and no examination adjustments were necessary.

- a. Schedule D - Part 1** - *The Company reported the wrong NAIC designation for two long term bonds and the wrong CUSIP numbers for two other bonds on Schedule D - Part 1. The NAIC Annual Statement Instructions require correct CUSIPs and NAIC designations on Schedule D - Part 1.*

PBC Response: The Company does not disagree with the finding, and corrected the reporting of this item on its third quarter 2010 statement.

- b. Schedule D - Part 1** - *The Company did not properly implement the new rating process for Residential Mortgage Backed Securities (RMBS) as required by the NAIC's "Interim Reporting Instructions for the Year Ending December 31, 2009 For Use in Reporting Residential Mortgage Backed Securities." As a result, the book/adjusted carrying value for a few of its non-agency RMBS were understated on Schedule D, Part 1.*

PBC Response: The Company does not disagree with the finding, and properly implemented the new rating process for RMBS for its 2010 annual statement.

- c. Liabilities, Capital, and Surplus** - *The Company recorded \$24.7 million of the rate stabilization reserve from the Federal Employees Health Benefit Plan on page 3, line 8, "Premiums received in advance." The NAIC Annual Statement Instructions require this to be reported on page 3, line 4, "Aggregate health policy reserves." (See adjustment No. 1.)*

PBC Response: The Company does not disagree with the finding, and corrected the reporting of this item on its second quarter 2010 statement.

- d. Statement of Revenues and Expenses** - *The Company included \$5.3 million of administration fees paid to Medco, its pharmaceutical benefit manager, as paid claims/prescription drug benefits on page 4, line 9. The NAIC Annual Statement Instructions, SSAP 55, paragraph 6, and SSAP 85, paragraph 4, require this to be reported as "General administrative expenses" on page 4, line 21. (See adjustment No. 2.)*

PBC Response: The Company does not disagree with the finding, and corrected the reporting of this item on its third quarter 2010 statement.

e. Statement of Revenues and Expenses - The Company reported \$1.4 million of fees paid to Nurseline, a vendor which provides phone support for members to call with questions, on page 4, line 9, "Hospital/medical benefits". Nurseline fees meet the definition of cost containment expenses. SSAP 85 and the NAIC Annual Statement Instructions require cost containment expenses to be reported on page 4, line 20, "Claims adjustment expenses."

PBC Response: The Company does not disagree with the finding, and corrected the reporting of this item on its third quarter 2010 statement.

f. Assets - The Company reported tax sharing receivables/payables with affiliates of \$2.3 million on page 2, line 21, "Receivables from parent, subsidiaries and affiliates" and \$0.2 million on page 3, line 15, "Amounts due to parent, subsidiaries and affiliates." The NAIC Annual Statement Instructions require the net amount to be recorded on page 2, line 16.1, "Current federal and foreign income tax recoverable and interest thereon."

PBC Response: The Company does not disagree with the finding, and corrected the reporting of this item on its 2010 annual statement.

g. Schedule BA - The Company failed to report an investment of \$19,100 in a nonaffiliated partnership on Schedule BA. As a result, Schedule BA did not agree with the trial balance on page 2, line 7, "Other invested assets (Schedule BA)." The NAIC Annual Statement Instructions require that investments in other long term invested assets be reported on Schedule BA.

PBC Response: The Company does not disagree with the finding, and corrected the reporting of this item on its 2010 annual statement.

h. Liabilities, Capital, and Surplus - The Company reported uncovered claims in the covered claims column 1 on page 3, line 1, "Claims unpaid." The NAIC Annual Statement Instructions require uncovered claims unpaid to be reported in column 2. Of the total unpaid claims of \$237 million in column 3, \$225 million should have been reported in column 1 as covered and \$12 million should have been reported in column 2 as uncovered.

PBC Response: The Company does not disagree with the finding, and corrected the reporting of this item on its second quarter 2010 statement.

i. Liabilities, Capital, and Surplus - The Company included certain amounts that belong to PBC's self-funded line of business on page 3, line 1, "Claims unpaid". SSAP 47 and SSAP 55 provide that a liability shall be established for the occurrence of insured events. NAIC Annual Statement Instructions state that line 1, "Claims unpaid", should exclude liabilities relating to uninsured plans and the uninsured portion of partially insured plans.

PBC Response: The Company does not disagree with the finding, and corrected the reporting of this item on its third quarter 2010 statement.

- j. Liabilities, Capital, and Surplus** - *The Company reported a liability on page 3, line 2, "Accrued medical incentive pool and bonus amounts" for two contracts that did not contain incentive clauses. The NAIC Annual Statement Instructions require page 3, line 2, to include liabilities for 2 arrangements with providers and other risk sharing arrangements. These amounts did not meet the definition of a liability per SSAP 5, paragraph 2.*

PBC Response: The Company does not disagree with the finding, and should not have reported this as a liability.

2. Due Date for Related Party Transactions

The General Agency Agreement between PBC and Ucentris, effective August 1, 2009, did not provide for the timely settlement of amounts owed within a specified due date. SSAP 96, paragraph 2, requires the agreement to provide for the timely settlement of amounts owed within a specified due date. If the due date is not addressed in the written agreement, any uncollected receivable is non-admitted.

The Company is instructed to comply with WAC 284-07-050(2) which requires adherence to the AP&P, by amending its agreement to be in compliance with SSAP 96, and file a Form D for OIC approval in accordance with RCW 48.31C.050(2)(dl and WAC 284-18A-420.

PBC Response: The Company does not disagree with this finding and filed a Form D for the OIC's approval on May 18, 2011.

3. Unpaid Claims Adjustment Expenses

The Company could not demonstrate that the amount reported on page 3, line 3, was consistent with the cost of settling claims using past experience adjusted for current trends, and any other factor that would modify past experience, as required by SSAP 55, paragraph 8. Furthermore, SSAP 85, paragraph 3, and SSAP 55, paragraph 6, define unpaid claim adjustment expenses for accident and health reporting entities as those costs expected to be incurred in connection with the adjustment and recording of accident and health claims. The NAIC Annual Statement Instructions require page 3, line 3, "Unpaid claims adjustment expenses" to provide for the estimated expenses necessary to adjust all unpaid claims, in accordance with SSAP 85 and SSAP 55.

The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in the in accordance with the AP&P and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P SSAP 55 and SSAP 85.

PBC Response: The Company does not disagree with the finding, and corrected the reporting of this item on its third quarter 2010 statement.