

STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS
SERVICES
DIVISION OF FINANCIAL
REGULATION



REPORT OF FINANCIAL EXAMINATION
OF
REGENCE BLUECROSS BLUESHIELD OF OREGON
PORTLAND, OREGON

AS OF

DECEMBER 31, 2020

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

**REGENCE BLUECROSS BLUESHIELD OF OREGON
PORTLAND, OREGON**

NAIC COMPANY CODE 54933

AS OF

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SALUTATION

January 20, 2022

Honorable Andrew Stolfi, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

**REGENCE BLUECROSS BLUESHIELD OF OREGON
100 SW Market Street
Portland, Oregon 97201**

NAIC Company Code 54933

hereinafter referred to as the "Plan." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our regular, triennial, multi-state examination of Regence BlueCross BlueShield of Oregon, conducted with the insurance regulators from the States of Idaho, Utah and Washington, for the coordinated examination of insurers under Cambia Health Solutions, Inc. (“Cambia”). Oregon was designated as the lead state. The examination was conducted in conjunction with the examination of seven affiliated health care service contractors and two life and health insurers. A separate report of examination will be prepared for each entity. The last examination of this health care service contractor was completed as of December 31, 2017. This examination covers the period of January 1, 2018 to December 31, 2020.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1) which allows the examiners to consider the guidelines and procedures in 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 Plan and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Plan 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 Plan's financial statements.

This examination report includes significant findings of fact, as mentioned in ORS 731.302 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report, but separately communicated to other regulators and the Plan.

COMPANY HISTORY

Northwest Hospital Service (dba Blue Cross of Oregon) was incorporated under the laws of the State of Oregon on October 7, 1941, and commenced business in June 1942. Oregon Physicians' Service (dba Blue Shield) was incorporated under the laws of the State of Oregon on December 6, 1941, and commenced business in June 1942. Both entities functioned independently as health care service contractors under individual Certificates of Authority until March 1983, when Oregon Physicians' Service merged with and into Northwest Hospital Service, the surviving corporation, and soon after the entity changed its name to Blue Cross and Blue Shield of Oregon (BCBSO). Effective August 1, 1997, BCBSO changed its name to Regence BlueCross BlueShield of Oregon (RBCBSO).

Dividends to Stockholders and Other Distributions

During the period under examination, the Plan declared and paid cash distributions to its sole member as follows:

<u>Declared Date</u>	<u>Paid Date</u>	<u>Amount</u>	<u>Description</u>
12/07/2018	12/07/2018	\$ 35,000,000	Ordinary
12/10/2019	12/10/2019	40,000,000	Ordinary

The Plan made the proper disclosure of the distributions to the director of the Department of Consumer and Business Services (DCBS) in accordance with the reporting requirements

established by ORS 732.554 and 732.576. Since it began making distributions to its sole corporate member in 2010, the Plan has distributed a total of \$328,000,000 in cash distributions.

CORPORATE RECORDS

Board Minutes

In general, the review of the Board meeting minutes of the Plan indicated the minutes support the transactions of the Plan and clearly describe the actions taken by its directors. A quorum, as defined by the Plan's Bylaws, met at all of the meetings held during the period under review.

Neither the Plan's Articles nor its Bylaws authorize any standing committee, but does state the Board may appoint special committees for specific purposes and for a limited duration. Instead, the Plan relies on appointed committees of the ultimate parent, Cambia. There are six committees authorized to assist in the management of Cambia, as follows:

- Organizational and Governance Committee
- Investment Committee
- Audit and Compliance Committee
- Personnel and Compensation Committee
- Health Strategies Committee
- Consumer Enablement Committee

A review of the Board minutes indicated the compensation of Cambia's CEO is approved through the Personnel and Compensation Committee, which is then approved by the Board. Compensation of other senior officers, including the Plan's president, is indirectly approved through the Board's approval of an annual budget. This process complies with the provisions of ORS 732.320(3).

Articles of Incorporation

The Plan's Articles of Incorporation were last amended on June 26, 2012. No changes were made during the period under examination. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

The Bylaws were last amended and restated on December 1, 2017. No changes were made during the period under examination. The Plan's Bylaws conform to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws, in Article II - Section 1, state the business affairs of the corporation shall be managed by its Board of Directors. Section 3 states the number of directors constituting the Board of Directors shall not be less than five (5) nor more than seven (7). At December 31, 2020, the Plan was governed by a five-member Board of Directors as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Representative</u>	<u>Member Since</u>
Angela M. Dowling West Linn, Oregon	President and Chief Revenue Officer Regence BlueCross BlueShield of OR	Plan	2013
Mark B. Ganz Portland, Oregon	Former President & CEO Regence BlueCross BlueShield of OR	Plan	2005
Luis F. Machuca Hillsboro, Oregon	CEO Enli Health Intelligence	Public	2008
John W. Morgan * Portland, Oregon	CEO Avamere Health Services	Public	2012
Jake R. Nichol Park City, Utah	Retired President & CEO Leatherman Tool Group	Public	2020

*Chairman

The Insurance Code requires at least one third of the Board of Directors be representatives of the public who are not practicing doctors, employees, or trustees of a participant hospital. The Plan was in compliance with ORS 750.015. The Directors as a group had experience in insurance, accounting and management, in accordance with the provisions of ORS 731.386.

Officers

Principal officers serving at December 31, 2020, were as follows:

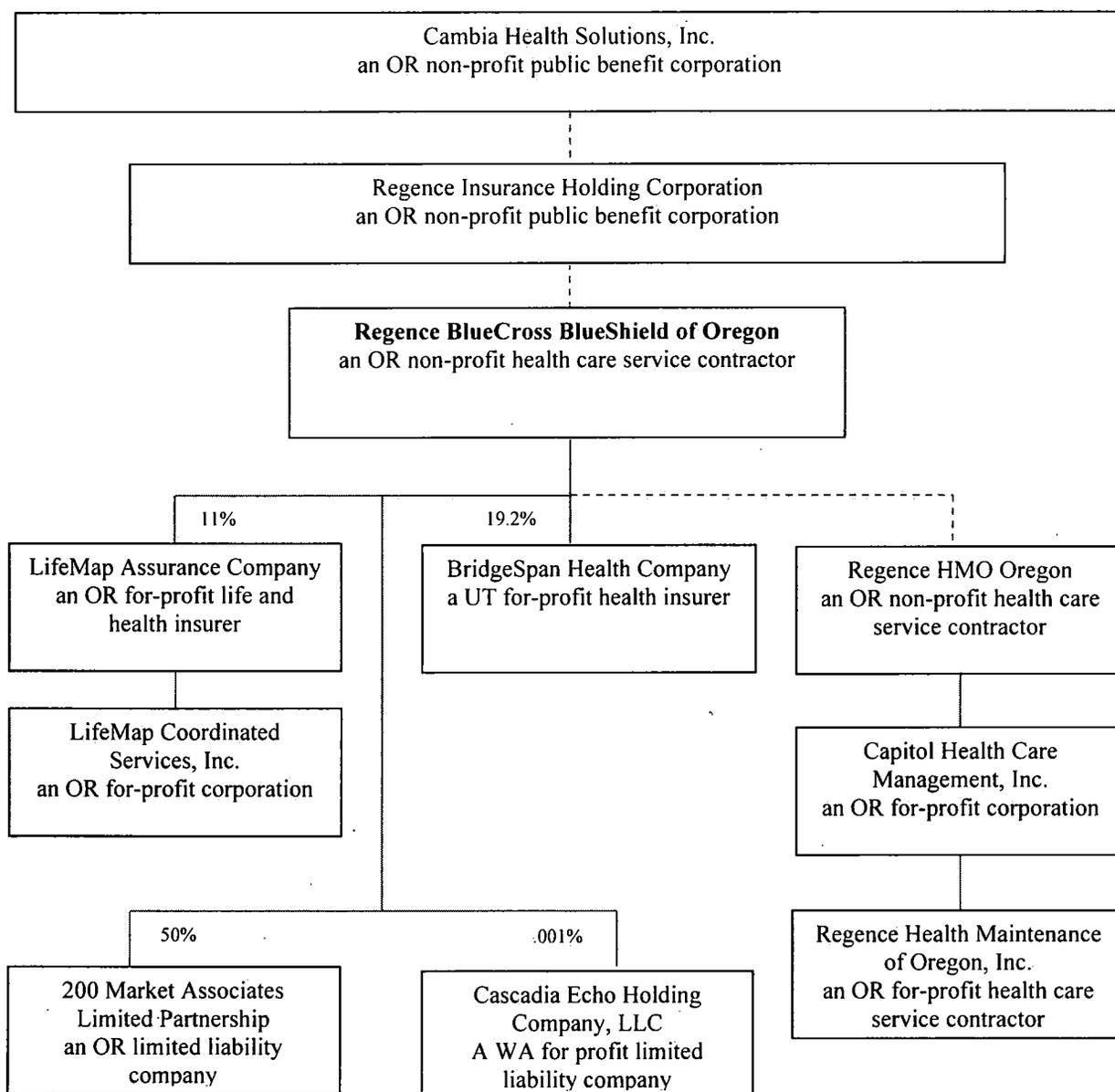
<u>Name</u>	<u>Title</u>
Angela M. Dowling	President
John W. Attey	Secretary
Andreas B. Ellis	Treasurer
William J. Lehman	Assistant Secretary

Conflict of Interest

The Plan's Board adopted a formal statement of policy concerning conflict of interest for all directors, officers and responsible employees. Board members, senior officers and key employees are required to annually sign a conflict-of-interest declaration. From a review of the completed conflict of interest questionnaires, the Plan's personnel performed due diligence in completing the conflict-of-interest statements. No material conflicts of interest were noted.

Insurance Company Holding System

An insurance holding company registration statement was filed by the Plan in accordance with the provisions of ORS 732.552, ORS 732.554, and OAR 836-027-0020(1). The following condensed organizational chart depicts the relationships of the Plan within the holding company system:



Cambia owns or is the sole member of four non-insurance companies, as follows:

Regence Insurance Holding Corporation is an Oregon non-profit public benefit corporation established by Cambia on November 21, 2011. It operates as a holding company and is the sole corporate member for Regence BlueShield (RBS), Regence BlueCross BlueShield of Utah (RBCBSU) and the Plan.

OmedaRx, Inc. is an Oregon for-profit taxable corporation that operates as a pharmaceutical benefits management program contracting with pharmacies, processing prescription claims, reviewing medication formularies, and providing educational tools for members and doctors. OmedaRx is a wholly owned subsidiary of Cambia.

Direct Health Solutions Corporation is an Oregon corporation incorporated on April 4, 2012, to act as a holding company for various insurance related businesses. It owns two direct subsidiaries, and one indirect subsidiary as follows:

MedSavvy, Inc. is a website that provides information about the effectiveness and cost of prescription medications for patients, caregivers and doctors. It assigns evidence-based letter grades to medications, making them easier to compare. Grades are based on objective criteria developed from best practices in evidence-based medicine, and assigned by a team of pharmacists who have specialized training in clinical evidence review and evaluation.

HealthSparq, Inc. was incorporated in Oregon on August 9, 2013, and is an online marketplace for employers and health providers. It is an integrated solution that transforms health by turning health care data into consumer information. HealthSparq, Inc. owns one direct subsidiary as follows:

Prism Services Group, LLC is a limited liability company that provides a web-based tool that allows health care consumers to search for providers, estimate healthcare costs and learn more about their health and wellness community.

Cambia Health Foundation is an Oregon tax-exempt, private foundation established by Cambia on June 11, 2007, as a 501(c)(3) corporation. It was formed to provide eleemosynary contributions in Idaho, Oregon, Utah and Washington, which benefits three core areas: 1) building healthier

communities, 2) transforming health care, and 3) end-of-life issues. Its primary mission is to increase access to medical care for those who cannot afford it, while delivering and coordinating care with innovative methods that improve outcomes and address disparities in care.

Additional direct and indirect subsidiaries of Cambia include:

Journi, Inc. is a for-profit Oregon Corporation healthcare solutions company offering a mobile-enabled application that allows personnel to get health advice, find in-network providers, make appointments, view health history and deductible information available to organizations that offer health and wellness benefits to employees in the four states where Cambia operates its health plans. It is 100% owned by Cambia.

Cascadia Echo Holding Company is a Washington for-profit investment management company formed in 2016 by Cambia Health Solutions with various contributions from the plans. It is mainly funded through RBS, which has a 70.254% ownership interest. It owns 50% of Echo Health Ventures, LLC. This Holding Company is used to invest in non-insurance related entities which provide various services focusing on the consumer such as IT services; programs/applications, pharmacy benefit management services, network management, and health and wellness services.

LifeMap Coordinated Services, Inc. is an Oregon for-profit corporation that is a life insurance agency. This company is 100% owned by LifeMap Assurance Company.

Capitol Health Care Management, Inc. is an Oregon for-profit corporation that serves as a downstream holding company to own all stock of HMO subsidiaries. This company is 100% owned by Regence HMO Oregon.

200 Market Associates LP is an Oregon limited partnership formed on April 5, 1990, to hold and manage a commercial office building and park in Portland, Oregon. Market Building, LLC is the general partner. RBCBSO is a Class B limited partner (50% ownership interest) and John W. Russell is a Class C limiter partner. The partnership owns and operates the 200 SW Market Street commercial office building.

CSN Acquisition Corporation is a Washington for-profit insurance agency formed on March 31, 1999, and is a wholly-owned subsidiary of RBS.

Healthcare Management Administrators, Inc. is a Washington corporation formed on March 20, 1986. It acts as a third-party administrative company for self-funded employers located in Washington and Oregon, offering access to providers as a preferred provider organization (PPO) and participating networks. It is 100% owned by RBS.

Group Services, Inc. is a Utah for-profit corporation formed as an insurance agency on April 17, 1974. This company is 100% owned by RBCBSU.

ValueCare is a Utah for-profit PPO network management company formed on September 11, 1984. It is 100% owned by RBCBSU.

BCSU Professional Services Corporation is a Utah for-profit facility management company formed on February 5, 1986. It is 100% owned by RBCBSU.

RBCSU Realty Holding Corporation is a Utah for-profit company acting as a downstream holding company to 100% own RBCSU Realty, LLC, a limited liability corporation formed to own a

commercial office building in Salt Lake City, Utah (Utah Cottonwood building). It is 100% owned by RBCBSU.

Pando Health Ventures, LLC is a Utah for-profit limited liability company formed on July 8, 2015, with the University of Utah to pursue activities that further the not-for-profit health goals of each joint venture member. This company is 50% owned by RBCBSU.

INTERCOMPANY AGREEMENTS

The following agreements are in place between the Plan and its affiliates or subsidiaries within the insurance company holding system:

Plan and Agreement of Affiliation

Effective May 1, 1995, and amended July 28, 1997, the Plans from Idaho, Oregon, Utah and Washington agreed to form a non-profit holding corporation (now known as Cambia Health Solutions) to become the sole corporate member of RBSBSORBCBSO, RBCBSU and RBS. A fourth plan, Regence Blue Shield of Idaho, Inc. (RBSI), is a mutual insurer and became affiliated through a separate agreement. The four plans also agreed to create a business plan to consolidate certain operations and functions to achieve desired economies.

Administrative Service Agreement

Effective December 28, 2007, Cambia agrees to provide all operational, administrative and management services reasonably necessary to transact business, including managerial, legal, financial, actuarial, underwriting, accounting, human resources, employee benefits administration, data network/telecommunications, marketing, advertising, community affairs, public relations, communications, billing, banking, membership, claims adjudication, customer service, reporting,

regulatory compliance, mail, and information technology services. In addition, Cambia shall provide all equipment, materials, office space, and general supplies. The Plan shall pay Cambia its proportionate share of the cost as well as its proportional share of general overhead expenses, according to a system-wide cost allocation methodology and in accordance with generally accepted cost accounting principles. It is intended that Cambia shall receive complete reimbursement for its costs and derive no profit from such reimbursement. All direct and indirect expenses incurred will be reconciled monthly and balances settled within 90 days from the end of the reporting month.

Insolvency Agreements

The Plan entered into an agreement on August 1, 1991, with its downstream subsidiary, Regence Health Maintenance of Oregon, Inc. On June 1, 1995, a separate agreement was entered into between the Plan and its direct subsidiary, Regence HMO Oregon. Both agreements require the Plan to make certain payments for covered services and to protect members from incurring liability in the event of the insolvency of the subsidiaries. A third agreement dated December 2012, replaced a missing contract between the Plan and LifeMap Assurance Company to guarantee all contractual and financial obligations to its customers in the event of the insolvency of LifeMap. Effective December 15, 2020, the Plan terminated the insolvency agreements that guaranteed all covered liabilities for Regence HMO Oregon and Regence Health Maintenance of Oregon, Inc.

Guaranty Agreement

The Guaranty Agreement was entered into on November 14, 2005, whereby the Plan agreed to guarantee the loan on its headquarters building in Portland, Oregon, which included liability for the full and timely payment of a \$61 million promissory note.

Consolidated Federal Income Tax Agreement

Effective January 1, 1997 (although the agreement was not signed until September 20, 2000), Cambia agrees to file a consolidated federal income tax return, including any liability for alternative minimum tax. The tax liability is then allocated to each member of the affiliated group, computed as if a separate return was filed. Any credits or operating losses shall be allocated to those members with the credits or generating the losses. Payment of estimated installments due for such taxable periods shall be paid within 30 days of receiving notice. Final settlements for a tax year must be paid within 30 days after the filing of the consolidated return.

FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages. The Plan's insurance coverages are provided through insurance policies from unaffiliated carriers, and coverage protected the Plan and all subsidiary and affiliated companies were listed as a named insured. The group as a whole is insured up to \$10,000,000 per occurrence, after a \$200,000 deductible, against losses from acts of dishonesty and fraud by its employees and agents. Fidelity coverage was found to meet the coverage level recommended by the NAIC.

Other insurance coverages in force at December 31, 2020, were found to be adequate, and are as follows:

Property liability	Cyber liability
International liability	Foreign liability
Excess liability	Employment practices liability
General liability, auto, employee benefits	Director's and officer's liability
Managed care errors & omissions	Workers' compensation
Umbrella liability	Fitness center – general and excess liability

TERRITORY AND PLAN OF OPERATION

During the period under examination, the Plan offered a full line of health insurance products for large and small employer groups, individuals and government employee programs, including Medicare, and Medicare supplement coverage. The Plan also offered a range of supplemental products such as dental, vision and prescription drug coverage. The Plan covers all of Oregon and parts of southern Washington.

The Plan also participates in the Federal Employee Program (FEP) and the BlueCard Program. FEP is a nationwide contract with the Federal Office of Personnel Management to provide health benefit coverage to federal employees and their dependents. The BlueCard Program is a Blue Cross Blue Shield Association (BCBSA) nationwide program that enables members who need health care services while traveling or living in another BCBSA Plan's service area to access local Plan's providers. In addition, the Plan offers a broad range of health benefit services for self-funded plans including claims processing, stop-loss insurance, actuarial and reporting services, medical cost management and other administrative services.

The plan reported total enrolled members over the past five years as follows:

Line of Business	2020	2019	2018	2017	2016
Individual hospital & medical	5,148	5,554	6,432	20,775	18,749
Group hospital & medical	180,854	170,741	161,971	145,439	130,313
Medicare supplement	16,203	11,278	8,329	8,174	8,282
Vision only	76,434	69,082	61,931	55,662	56,275
Dental only	44,587	41,203	39,400	40,461	36,491
FEHBP	62,168	61,191	60,880	61,545	61,622
Medicare*	68,518	60,056	53,458	56,212	56,700
Medicaid	0	0	0	0	0
Other	440	446	137,404	132,394	114,342
Total enrollment	<u>454,352</u>	<u>419,551</u>	<u>529,805</u>	<u>520,662</u>	<u>482,774</u>

At year-end 2020, the Plan reported direct business, as follows:

State	Direct Premiums Written
Oregon	\$ 2,006,761,863
Washington	<u>292,729,363</u>
Total	<u>\$ 2,299,491,226</u>

GROWTH OF THE COMPANY

Growth of the Plan over the past five years is reflected in the following schedule. Amounts were derived from Plan's filed annual statements, except in those years where a report of examination was published by the Oregon Division of Financial Regulation.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2016	\$ 1,092,931,048	\$ 431,961,075	\$ 660,969,969	\$ 30,214,856
2017 *	1,194,792,198	463,911,775	730,880,423	78,766,132
2018	1,255,584,792	479,016,083	776,568,709	62,224,117
2019	1,462,401,453	625,779,046	836,622,407	60,605,628
2020 *	1,722,480,385	779,084,046	943,396,339	72,756,804

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Plan over the past five years.

The amounts were obtained from copies of the Plan's filed annual statements and, where indicated, from the previous examination reports.

<u>Year</u>	(1) <u>Total Revenues</u>	(2) <u>Total Hospital and Medical</u>	(2)/(1) <u>Medical Loss Ratio</u>	(3) <u>Claim Adjustment and General Expenses</u>	(2)+(3)/(1) <u>Combined Loss Ratio</u>
2016	\$ 1,780,829,618	\$ 1,496,458,787	84.0%	\$ 255,475,814	98.4%
2017*	1,913,431,308	1,602,445,048	83.7%	227,824,725	95.7%
2018	1,965,484,605	1,621,167,179	82.5%	272,360,473	96.3%
2019	2,128,531,494	1,833,436,730	86.1%	265,233,636	98.6%
2020*	2,280,463,076	1,846,809,200	81.0%	332,139,441	95.5%

* Per examination

A combined claims and expense to premium ratio in excess of 100% typically indicates an underwriting loss. The Plan reported underwriting gains in each of the past five years.

REINSURANCE

Assumed

Effective January 1, 2006, the Plan entered into a reinsurance agreement with Asuris Northwest Health (Asuris) to assume 100% of the liability incurred under Asuris Medicare Script insurance policies issued by Asuris to individuals in Oregon on or after the effective date. Effective January 1, 2020, the Plan amended the agreement to include a settlement clause and an entire agreement clause.

Effective January 1, 2000 the Plan and LifeMap entered into an Individual Short-term Major Medical Excess Medical Agreement whereby the Plan agrees to indemnify LifeMap 100% of the excess liability resulting from LifeMap's covered claims under its individual short term medical

policy for sickness or injury incurred on or after the effective date for individual claims in excess of \$100,000 with a lifetime maximum of \$1 million for any one person.

Effective October 1, 2020, the Plan and LifeMap entered into a Reinsurance Agreement whereby the Plan assumed 100% of group stop loss policies issued by LifeMap, including all claims incurred on or after the effective date under new and renewed reinsured policies. The reinsurance provided by the Plan is limited to reinsured policies written and insured by LifeMap in the state of Washington.

Ceded

Effective January 1, 2014, the Plan ceded 100% of its accidental death benefits included in certain individual and group medical policies to LifeMap. Effective January 1, 2020, the Plan amended the agreement to include a settlement clause and an entire agreement clause.

Effective January 1, 2014, the Plan ceded 100% of the liability for eligible high risk patient claims to the Oregon Health Authority. Effective January 5, 2015, Cambia entered into an Excess of Loss contract with HM Life Insurance Company that reinsures them against high commercial, retrospective, federal exchange and stop loss claims in excess of \$2 million for its fully insured members. The agreement was subsequently terminated and replaced with a Medical Excess of Loss agreement between Cambia (including the Plan) and QBE Reinsurance Corporation, which included a settlement clause. Under the agreement, QBE will cover any claims incurred for a member exceeding Cambia's retention of \$3,500,000 ultimate net loss.

Effective April 1, 2018, the Plan entered into a Stop-Loss Policyholder Transition agreement with Commencement Bay Risk Management Insurance Company whereby the Plan exited the

stop-loss market in Oregon and exclusively endorsed Commencement Bay as its recommended alternative carrier, based on each renewal date for the Plan's stop-loss policies.

Effective April 1, 2018, the Plan and LifeMap entered into a Stop-Loss Policyholder Transition with Commencement Bay, whereby the Plan ceased offering reinsured coverage for LifeMap stop-loss policies, LifeMap exited the stop-loss market in Washington, and LifeMap exclusively endorsed Commencement Bay as its recommended alternative carrier, based on each renewal date for its stop-loss policies.

Each of the reinsurance agreements contained a proper insolvency clause in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded. In view of the Plan's reported surplus at December 31, 2020, it does not maintain risk on any one subject in excess of ten percent of its surplus, in compliance with ORS 731.504.

ACCOUNTS AND RECORDS

In general, the Plan's records and source documentation supported the amounts presented in the Plan's December 31, 2020, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

STATUTORY DEPOSIT

As of the examination date, the Plan maintained a \$260,000 (par value) US Treasury bond on deposit at the Division of Financial Regulation, which meets the requirements of ORS 750.045(2). The deposit was verified from the records of the Division of Financial Regulation. In addition, the Plan reported \$1,125,000 (par value) in a US Treasury note as a deposit held for the Washington

Office of the Insurance Commissioner for the benefit of all policyholders. Both deposits were properly listed in the 2020 annual statement on Schedule E – Part 3.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The prior examination report as of December 31, 2017, included the following recommendations:

I recommend the plan amend the reinsurance agreement with LifeMap that assumes 100% of aggregate and specific Washington stop loss policies to include an entire agreement clause pursuant to the provisions of OAR 836-012-0320. This agreement has since been terminated.

I recommend the Plan amend its quota share reinsurance agreement with LifeMap that assumes 100% of the liability under all issued group and individual health policies to include both a settlement clause pursuant to the provisions of OAR 836-012-0310 and an entire agreement clause pursuant to the provisions of OAR 836-012-0320. LifeMap no longer has any obligations under the quota share reinsurance agreement with the Plan, as all contracts that were covered have been transferred elsewhere. As a result, this agreement has been terminated.

I recommend the Plan amend its 2006 reinsurance agreement with Asuris to include both a settlement clause pursuant to the provisions of OAR 836-012-0310 and an entire agreement clause pursuant to the provisions of OAR 836-012-0320. Effective January 1, 2020, the Plan amended the reinsurance agreement with Asuris to include a settlement clause and an entire agreement clause.

I recommend the Plan amend its Reinsurance Agreement with MedAmerica to include a settlement clause pursuant to the provisions of OAR 836-012-0320. Effective April 1, 2019, the Plan amended this agreement to include a settlement clause and an entire agreement clause. In 2020,

the Plan resumed writing Long Term Care business on existing policies and reassumed the risk for those policies. As a result, the agreement was terminated.

I recommend the Plan amend the ceded reinsurance agreement with HM Life Insurance Company to include a settlement clause pursuant to the provisions of OAR 836-012-0310. The agreement was subsequently terminated and replaced with a reinsurance agreement between Cambia Health Solutions and QBE Reinsurance Corporation, which included a settlement clause.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop throughout 2021, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review of the Plan noted that there has not been a significant impact to the Plan. The Division of Financial Regulation has been in communication with the Plan regarding the impact of COVID-19 on its business operations and financial position, including its Pandemic Preparedness Plan, Material Third Party Vendors' business continuity plans, etc. The Division of Financial Regulation continues to closely monitor the impact of the pandemic on the Plan and will take necessary action if a solvency concern arises.

Final settlement amount for the Class Action Anti-Trust Lawsuit affecting BCBSA and its Blue Cross insurers for the provider portion is still outstanding. The subscriber portion has been settled, but is awaiting final federal court certification, which could take several months. Cambia Health Solutions and its affected Blue plan insurers has estimated additional reserves for their portion of the final settlement.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Plan with the Division of Financial Regulation and present the financial condition of the Plan for the period ending December 31, 2020. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. These statements include:

Statement of Assets

Statement of Liabilities, Capital and Surplus

Statement of Revenue and Expenses

Reconciliation of Capital and Surplus Since the last Examination

REGENCE BLUECROSS BLUESHIELD OF OREGON
ASSETS
As of December 31, 2020

Assets	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Bonds	\$ 959,988,357	\$ -	\$ 959,988,357	1
Common stocks	441,570,567		441,570,567	1
Properties occupied by the company	8,085,610		8,085,610	2
Cash, cash equivalents and short-term investments	24,696,130	-	24,696,130	1
Other invested assets	7,151,920		7,151,920	3
Receivable for securities	965,569		965,569	
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>1,442,458,152</u>	<u>-</u>	<u>1,442,458,152</u>	
Investment income due and accrued	5,960,418	-	5,960,418	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	116,899,450	-	116,899,450	
Accrued retrospective premium and contracts subject to redetermination	26,220,027		26,220,027	
Amounts recoverable from reinsurers	4,574,673		4,574,673	
Funds held by or deposited with reinsured companies	31,704		31,704	
Amounts receivable relating to uninsured plans	45,676,488		45,676,488	
Receivables from parent, subsidiaries or affiliates	54,070,282		54,070,282	
Health care receivable	22,700,279		22,700,279	
Aggregate write-ins for other than invested assets	<u>3,888,912</u>	<u>-</u>	<u>3,888,912</u>	
Total Assets	<u>\$ 1,772,480,385</u>	<u>\$ -</u>	<u>\$ 1,772,480,385</u>	

REGENCE BLUECROSS BLUESHIELD OF OREGON
LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2020

	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Claims unpaid	\$ 213,512,757	\$ -	\$ 213,512,757	4
Accrued medical incentive pool and bonus amounts	13,307,840	-	13,307,840	4
Unpaid claims adjustment expense	8,065,929	-	8,065,929	4
Aggregate health policy reserves	115,997,928	-	115,997,928	4
Aggregate health claims reserve	1,290,000	-	1,290,000	
Premiums received in advance	27,798,200	-	27,798,200	
General expenses due or accrued	37,046,004	-	37,046,004	
Current federal income tax payable	186,815,825	-	186,815,825	
Net deferred tax liability	12,539,662	-	12,539,662	
Ceded reinsurance payable	49,366	-	49,366	
Amounts withheld or retained for the account of others	25,434,990	-	25,434,990	
Remittances and items not allocated	3,838,805	-	3,838,805	
Amounts due to parent, subsidiaries and affiliates	37,380,316	-	37,380,316	
Payable for securities	3,584,810	-	3,584,810	
Liability for amounts held under uninsured plans	92,038,005	-	92,038,005	
Aggregate write-ins for liabilities	<u>383,609</u>	<u>-</u>	<u>383,609</u>	
Total Liabilities	<u>\$ 779,084,046</u>	<u>\$ -</u>	<u>\$ 779,084,046</u>	
Aggregate write-ins for special surplus funds	\$ 8,249,938	\$ -	\$ 8,249,938	
Common capital stock	-	-	-	
Gross paid-in and contributed capital	-	-	-	
Unassigned funds (surplus)	<u>935,146,401</u>	<u>-</u>	<u>935,146,401</u>	
Surplus as regards policyholders	<u>\$ 943,396,339</u>	<u>-</u>	<u>\$ 943,396,339</u>	
Total Liabilities, Surplus and other Funds	<u>\$ 1,772,480,385</u>	<u>\$ -</u>	<u>\$ 1,772,480,385</u>	

REGENCE BLUECROSS BLUESHIELD OF OREGON
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2020

	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Revenue				
Net premium income	\$ 2,301,431,033	\$ -	\$ 2,301,431,033	
Change in unearned premium reserves and reserve rate credits	(20,967,957)	-	(20,967,957)	
Aggregate write-ins for health care related revenues	<u>-</u>	<u>-</u>	<u>-</u>	
Total revenue	<u>2,280,463,076</u>	-	<u>2,280,463,076</u>	
Hospital and Medical:				
Hospital/medical benefits	1,101,609,837	-	1,101,609,837	
Other professional services	161,025,281	-	161,025,281	
Outside referrals	19,234,575	-	19,234,575	
Emergency room and out-of-area	307,449,176	-	307,449,176	
Prescription drugs	247,527,122	-	247,527,122	
Aggregate write-ins for other hospital and medical	-	-	-	
Incentive pool, withhold adjustments and bonus amounts	<u>12,868,062</u>	<u>-</u>	<u>12,868,062</u>	
Subtotal	1,849,714,053	-	1,849,714,053	
Less:				
Net reinsurance recoveries	<u>2,904,853</u>	<u>-</u>	<u>2,904,853</u>	
Total medical and hospital	1,846,809,200	-	1,846,809,200	
Non-health claims	-	-	-	
Claim adjustment expenses	125,144,312	-	125,144,312	
General administrative expenses	206,995,195	-	206,995,195	
Increase in reserves for life and accident and health contracts	<u>13,939,910</u>	<u>-</u>	<u>13,939,910</u>	
Total underwriting deductions	<u>2,192,888,551</u>	<u>-</u>	<u>2,192,888,551</u>	
Net underwriting gain or (loss)	<u>87,574,525</u>	<u>-</u>	<u>87,574,525</u>	
Net investment income earned	28,643,983	-	28,643,983	
Net realized capital gains (losses)	<u>5,775,527</u>	<u>-</u>	<u>5,775,527</u>	
Net investment gains (losses)	34,419,510	-	34,419,510	
Net gain or (loss) from agents' or premium balances charged off	(35,220)	-	(35,220)	
Aggregate write-ins for other income or expense	(5,076,341)	-	(5,076,341)	
Federal income taxes incurred	<u>44,125,670</u>	<u>-</u>	<u>44,125,670</u>	
Net income	<u>\$ 72,756,804</u>	<u>\$ -</u>	<u>\$ 72,756,804</u>	

REGENCE BLUECROSS BLUESHIELD OF OREGON
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2020	2019	2018
Surplus as regards policyholders, December 31, previous year	<u>\$836,622,407</u>	<u>\$776,568,709</u>	<u>\$730,880,423</u>
Net income (loss)	72,756,804	60,605,628	62,224,117
Change in net unrealized capital gains or (losses)	36,321,493	36,468,594	(27,791,879)
Change in net deferred income tax	8,953,196	4,494,312	(3,593,241)
Change in non-admitted assets	(11,257,561)	(1,514,836)	3,828,290
Change in provision for reinsurance	-	-	-
Change in surplus notes	-	-	-
Cumulative effects of changes in accounting principles	-	-	-
Capital changes:			
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:			
Paid in	-	-	-
Transferred to capital (Stock Dividend)	-	-	-
Transferred from capital	-	-	-
Distributions to parent (cash)	-	(40,000,000)	(35,000,000)
Change in treasury stock	-	-	-
Examination adjustment	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	<u>46,021,000</u>
Change in surplus as regards policyholders for the year	<u>106,773,932</u>	<u>60,053,698</u>	<u>45,688,286</u>
Surplus as regards policyholders, December 31, current year	<u>\$943,396,339</u>	<u>\$836,622,407</u>	<u>\$776,568,709</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2020, the Plan's long-term bond investments were diversified in US government obligations, US special revenue and special assessment obligations, corporate issues, and unaffiliated bank loans. The Plan did have a moderate exposure to mortgage-backed and asset-backed securities. All MBS/ABS issues were investment rated at year-end 2020, and the carrying book value of \$339 million comprised 35.3% of the total long-term bond portfolio, and 23.1% of all invested assets.

Short-term deposits consisted of five US Treasury bonds purchased within one year of maturity.

Common stocks included US and foreign corporations, and the equity in two subsidiaries based on the Plan's 11% ownership interest in LifeMap and 19.2% ownership interest in BridgeSpan.

A comparison of the major investments over the past five years shows the following:

<u>Year</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>Ratio</u>	<u>Ratio</u>	<u>Ratio</u>
	<u>Bonds</u>	<u>Common Stocks</u>	<u>Cash and Short-term</u>	<u>A/ Total Assets</u>	<u>B/ Total Assets</u>	<u>C/ Total Assets</u>
2016	\$ 592,562,924	\$ 257,018,591	\$ 3,596,899	54.2%	23.5%	0.3%
2017 *	725,303,369	287,423,499	(57,619,271)	60.7%	24.1%	(4.8)%
2018	732,100,940	259,941,525	(3,799,281)	58.3%	20.7%	(0.3)%
2019	823,473,209	370,458,047	14,886,070	56.3%	25.3%	1.0%
2020 *	959,988,357	441,570,567	24,696,130	55.7%	25.6%	1.4%

The Cambia Investment Committee approved the investment transactions in each of the years under review, and the actions of the committee were approved by the Board of Directors, pursuant to ORS 733.740. As of December 31, 2020, sufficient assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, and the Plan was in compliance with ORS 733.580.

Effective December 17, 2009, the Plan entered into a custodial agreement with BNY Mellon. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (1).

Note 2 - Real Estate

The Plan reported properties on Schedule A - Part 1 of the 2020 annual statement for the Plan's office building in Medford, Oregon. The total book value was reported at \$8,085,610 and consisted of the land and depreciated cost of the building, adjusting for renovations or other capital expenditures. There were no encumbrances on the property.

Note 3 - Other Invested Assets

During the period under examination, the Plan reported four assets in Schedule BA; 1) an investment in BlueCross BlueShield Venture Partners III, LLC in Chicago, IL., 2) an investment in BlueCross BlueShield Venture Partners IV, LLC in Chicago, IL., 3) a limited partnership interest in the Portland headquarters building known as 200 Market Associates LP, 4) an investment in Cascadia Echo Holding Company in Wilmington, DE and 5) an investment a subsidiary, Regence HMO Oregon. The limited partnership interest in 200 Market Associates LP was reported at zero book value and the investment in Regence HMO Oregon was non-admitted for statutory reporting.

Note 4 - Actuarial Reserves

A review of the actuarial liabilities, including unpaid claims and claim adjustment expense reserves for the Plan was performed by T. Michael Presley, FSA, MAAA and Senior Consulting Actuary of Risk & Regulatory Consulting (RRC). As part of his review, he examined the December 31, 2020, Actuarial Opinion and Memoranda prepared by Steven J. Gaspar, FSA, MAAA, Senior VP and Chief Actuary of Cambia Health Solutions. He also reviewed various information provided by the Plan, including claim data, statutory audit work-papers, responses to requests, and financial statements. The data, analysis and information was reviewed for reasonableness. Model Audit Rule actuarial work-papers were also included in his review, in addition to underlying claims data testing performed by the exam team. Further, he identified the most significant risks facing the Plan, identified controls and processes in place to mitigate the risks, and performed substantive testing procedures, as necessary. All of Mr. Presley's work was reviewed by John Humphries, ASA, MAAA, Partner and Supervising Actuary of RRC.

Based on their examination, the following actuarially related liabilities were:

	<u>Exam Estimate</u>	<u>Annual Statement</u>
Claims Unpaid	\$ 213,512,757	\$ 213,512,757
Accrued Medical Incentive Pool and Bonus Amounts	13,307,840	13,307,840
Unpaid Claims Adjustment Expenses (CAE)	8,065,929	8,065,929
Aggregate Health Policy Reserves	115,997,928	115,997,928
Aggregate Health Claim Reserves	<u>1,290,000</u>	<u>1,290,000</u>
Total Actuarial Liabilities	<u>\$ 352,174,454</u>	<u>\$ 352,174,454</u>

The appointed actuary opined that the reserves for the above actuarial liabilities, including unpaid claims and CAE carried by the Plan as of December 31, 2020, were reasonable. Mr. Presley's total estimate equaled the appointed actuary's and he concurred that the actuarial liabilities of the Plan were determined to be reasonably and accurately stated as of December 31, 2020.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

This Report of Examination made no adjustments to surplus and there were no recommendations made as a result of this examination.

CONCLUSION

During the three-year period covered by this examination, the surplus of the Plan has increased from \$730,880,423, as presented in the December 31, 2017, report of examination to \$943,396,339, as shown in this report. The comparative assets and liabilities are:

	December 31,		
	<u>2020</u>	<u>2017</u>	<u>Change</u>
Assets	\$ 1,722,480,385	\$ 1,194,792,198	\$ 527,688,187
Liabilities	<u>779,084,046</u>	<u>463,911,775</u>	<u>315,172,271</u>
Surplus	<u>\$ 943,396,339</u>	<u>\$ 730,880,423</u>	<u>\$ 212,515,916</u>

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Plan during the examination process are gratefully acknowledged.

In addition to the undersigned, Maanik C. Gupta, CFE, and Lori A. Kirschmann, insurance examiners for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, participated in this examination. We would also like to thank the following for their participation in this coordinated examination:

Idaho Department of Insurance

Jessie Adamson, CFE, Deputy Chief Examiner
James Anderson, Financial Examiner

Utah Department of Insurance

Malis Rasmussen, MSA, CFE, SPIR, Chief Financial Examiner
Cambria Shore, Examiner-In-Charge
Ashley Bowen, Financial Examiner

Washington Office of the Insurance Commissioner

Randy Fong, CFE, P&C Team Supervisor
Edsel Dino, CFE, Examiner-In-Charge
Constantine Arustamian, CFE, CPA, CIE, Financial Examiner
Cynthia L. Clark, CPA, Financial Examiner

INS Companies

Mark Jaster, CFE (Idaho EIC)
Richard Foster, CFE (Idaho Supervisor)

Risk & Regulatory Consulting, LLC

John Humphries, AES, ASA, CFE, CISA, MAAA, MCM, Partner and Supervising Actuary
Mike Presley, FSA, MAAA, Lead Consulting Actuary
Lisa Parker, ASA, MAAA, Life and Health Actuary & Actuarial Senior Associate
Tom Hayden, CISA and IT Manager

Respectfully submitted,

/s/ Mark A. Giffin

Mark A. Giffin, CFE
Senior Insurance Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)

County of Marion)

Mark A. Giffin, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Regence BlueCross BlueShield of Oregon, Portland, Oregon.
2. The Division of Financial Regulation of the Department of Consumer and Business Services of the State of Oregon 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. The examination of Regence BlueCross BlueShield of Oregon was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

/s/ Mark A. Giffin

Mark A. Giffin, CFE
Senior Insurance Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this 31st day of May, 2022.

/s/ Lauren Nicole Bodine

Notary Public in and for the State of Oregon

My Commission Expires: 3/10/2026

