



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

ORDER

After full consideration and review of the report of the financial examination of Blue Cross and Blue Shield of Kansas City for the period ended December 31, 2017, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, territory and plan of operation, reinsurance, financial statements, financial statement changes resulting from examination, comments on financial statement items, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Blue Cross and Blue Shield of Kansas City as of December 31, 2017 be and is hereby ADOPTED as filed and for Blue Cross and Blue Shield of Kansas City to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

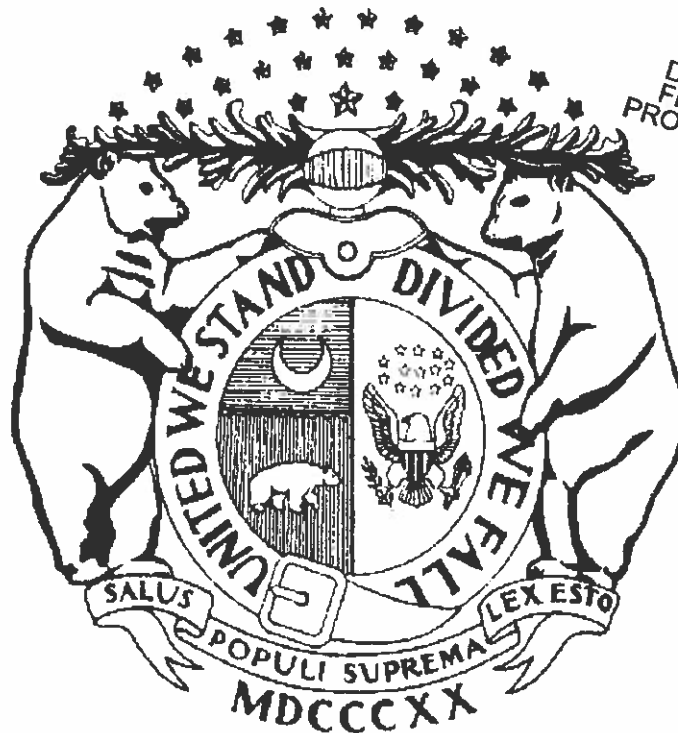
So ordered, signed and official seal affixed this 28th day of June, 2019.



Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
FINANCIAL EXAMINATION OF
Blue Cross and Blue Shield of Kansas City
AS OF
DECEMBER 31, 2017**



FILED
JUL 8 2019
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI**

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Kansas City, MO
May 16, 2019

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

Director Lindley-Myers:

In accordance with your financial examination warrant, a full scope financial association examination has been made of the records, affairs and financial condition of

Blue Cross and Blue Shield of Kansas City

hereinafter referred to as BCBSKC or as the Company. Its main administrative office is located at 2301 Main Street, Kansas City, Missouri 64108. The fieldwork for this examination began on June 25, 2018 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) has performed a full scope financial examination of Blue Cross and Blue Shield of Kansas City. The last examination covered the period January 1, 2008 through December 31, 2012 and was also completed by examiners from the DIFP. This examination covers the period of January 1, 2013 through December 31, 2017.

This examination was performed concurrently with the examination of the Company's insurance subsidiaries: Good Health HMO, Inc. (Good Health), Blue Advantage Plus of Kansas City, Inc. (BA+) and Missouri Valley Life and Health Insurance Company (Missouri Valley).

The examination also includes the material transactions and/or events occurring subsequent to December 31, 2017 which are noted in this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook) except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks.

An examination also includes identifying 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 Company were considered in accordance with the risk-focused examination approach. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements. The following key activities were identified during the examination: Investments, Related Party, Reserving/Claims Handling, Premiums/Underwriting, and Medicare Advantage.

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

Reliance Upon Others

The examination relied upon information provided by the Company and its management. Where the examiners have deemed appropriate, this information has been tested or verified with external sources. The examiners also relied upon information supplied by the Company's independent auditor, Ernst & Young, LLP of Kansas City, Missouri for its audit covering the period from January 1, 2017 through December 31, 2017 and BCBSKC's, Internal Audit Department. Information relied upon included, but was not limited to: fraud risk analysis, process narratives, control and substantive testing procedures for investments, premiums, claims, and taxes.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2017 through the date of this report.

CORPORATE HISTORY

General

BCBSKC was incorporated under the laws of the State of Missouri on May 17, 1982, through the merger of Blue Cross of Kansas City with Blue Shield of Kansas City. The Company commenced business on that same date as a consolidated, not-for-profit health services corporation. The Company also obtained a certificate of authority on May 17, 1982, to be a licensed insurer in the State of Kansas.

On February 10, 1995, the DIFP granted BCBSKC a certificate of authority to operate as a Health Maintenance Organization (HMO) and on August 10, 1995, the Company was licensed as a Business Entity Producer. On February 23, 1998, the DIFP granted the Company a third party administrator license.

Capital Contributions

The Company is a not-for-profit entity; therefore, no capital contributions occurred during the examination period.

Dividends

Due to the Company's not-for-profit status, no dividends have been declared or paid since incorporation.

Mergers and Acquisitions

The following significant acquisitions and other major corporate events occurred during the examination period.

On January 20, 2015, BCBSKC, as sole shareholder of BA+, adopted amendments to the Articles of Incorporation and Bylaws of BA+ providing for the conversion of BA+ to a nonprofit, mutual-benefit corporation under Revised Statutes of Missouri (RSMo) Chapter 355 (Nonprofit Corporate Law). The Missouri Secretary of State issued a Certificate of Acceptance of the new Articles of Incorporation on February 11, 2015. Contemporaneously, BA+ issued a Surplus Note in the amount of \$22,200,000 to BCBSKC. The Surplus Note represented the redemption of BCBSKC's stock in BA+ of 10,000 shares at \$1 per share and \$22,190,000 in capital contributions made to BA+ by BCBSKC since its inception. BCBSKC became the sole member of the new mutual benefit corporation.

Effective December 31, 2015, BCBSKC liquidated Capri Holding Company, LLC (Capri), a wholly owned subsidiary. BCBSKC reported its investment in Capri based on the underlying GAAP equity of Capri, in the amount of \$4,060,731, as of December 31, 2014. As a result of the liquidation, BCBSKC recognized a \$7,554,897 realized capital loss in 2015.

In December 2017, BCBSKC contributed \$100,000 to Spira Care, LLC (Spira Care), a new entity created to provide services to health care providers, and to own and operate health care clinics. BCBSKC is the sole member of Spira Care.

Surplus Notes

As indicated in the Mergers and Acquisition section, BA+ issued a \$22,200,000 surplus note to the Company on February 11, 2015 in exchange for the value of the Company's ownership interest in BA+ stock and capital contributions. BA+ is to make annual interest payments based on a 3% interest rate on the surplus note with full payment due in February 2025.

On January 30, 2017, BA+ issued a \$11,000,000 surplus note to the Company. BA+ will make annual payments of interest based on a 3% interest rate with payment in full due in February 2027.

On December 18, 2017, BA+ issued a \$14,000,000 surplus note to the Company. BA+ will make annual payments of interest based on a 3% interest rate with payment in full due in December 2027.

On December 21, 2018, BA+ issued a \$4,000,000 surplus note to the Company. BA+ will make annual payments of interest based on a 3% interest rate with payment in full due in December 2028.

On March 1, 2019, BA+ issued a \$21,100,000 surplus note to the Company. BA+ will make annual payments of interest based on a 3% interest rate with payment in full due in March 2029.

CORPORATE RECORDS

The Company's Articles of Consolidation and Incorporation and its Bylaws were reviewed for the period under examination. The Articles of Consolidation and Incorporation were not amended during the examination period. The Company's Bylaws were amended various times during the examination period as follows:

- March 7, 2013 – Allowed the Chairman or 20% of the directors to call a special meeting; allowed the Board Chairman to name committee chairs, to be ratified by the Board; eliminated dates for, and the minimum number of, committee meetings; allowed nominations for new board members by the Chairman or any 4 directors, in addition to those by the Nominating Committee; allowed physician directors to be non-practicing and non-participating in a BCBSKC Plan.
- July 8, 2013 – Revised the composition and appointment of members for the Executive and Governance Committees of the Board of Directors.
- May 13, 2014 – Allowed Directors approaching mandatory retirement age to be elected to a term of less than 3 years; reduced the number of Board meetings from 5 to 4; changed the name of the Investment Committee to the Investment and Finance Committee; updated responsibilities of the Compensation Committee.
- April 30, 2015 – Added an annual Board approval of the investment guidelines in accordance with Missouri statutes, eliminated the officer position of Immediate Past Chair, clarified the process for Board self-assessments and review of the performance of the CEO.
- October 29, 2015 – Clarified that Directors must retire at the Annual Board meeting occurring during the year that they reach their 75th birthday, and that a Director can be elected to a term less than 3 years to coincide with the year of mandatory retirement.
- April 27, 2016 – Increased the maximum number of Directors from 16 to 17; updated residency requirements for Directors; lowered the number of licensed physician Directors from 2 to 1; clarified Director's retirement effective dates; revised the term for Chairman of the Board; allowed the Board to add corporate officers other than those stated in Bylaws.
- August 24, 2017 – Changed the name of the Health Policy and Quality Standing Committee to Health Innovation and Performance Committee and updated the primary responsibilities of this Committee; removed the limit on members allowed to serve on the Executive Committee.

- November 30, 2017 – Revised the mandatory retirement provisions for Directors; moved the responsibility for the Audit Committee to assist with Board oversight to the enterprise risk management process and key risks to the Enterprise Risk Management Committee.

The minutes of the Board of Directors and committee meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company’s major transactions and events for the period under examination.

Board of Directors

The management of the Company is vested in a Board of Directors. The Company’s Bylaws specify that the number of Directors shall be no fewer than 10 and no more than 17 and a majority must be independent. The Directors elected and serving as of December 31, 2017 were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Garry K. Kemp	Retired Executive, Greater Kansas City Building and Construction Trades Council
Janice C. Kreamer	Chairman of the Board of Directors, BCBSKC, Retired Chief Executive Officer, Greater Kansas City Community Foundation
James R. Roath	Retired Investment Corporation Business Owner
Karen L. Daniel	Chief Financial Officer, Black & Veatch Global Engineering and Construction Company
Danette K. Wilson	President and Chief Executive Officer, BCBSKC
Sam R. Reda	Retired Executive, Lockton Benefit Company
Anne D. St. Peter	Founder and Chief Executive Officer, Global Prairie
Lawrence A. Rues, MD	Emeritus Director and Faculty, Research Family Medicine Residency, Physician, Research Medical Center
Marilyn M. Rymer, MD	Vice President, Neuroscience, The University of Kansas Hospital
Cheryl D. Alston	Executive Director and Chief Investment Officer, City of Dallas Employee’s Retirement Fund
Randall C. Ferguson, Jr.	Retired Executive, IBM Corporation Director, Great Plains Energy
Jack A. Newman Jr.	Self-Employed Consultant, Retired Executive Vice President, Cerner Corporation
Karon H. Hicks	Retired BCBSKC Executive

Janice Kreamer resigned from the Board of Directors effective April 10, 2018 and Randall Ferguson, Jr. resigned from the Board of Directors effective March 31, 2018. In December 2018, the number of Directors was increased to 15 with the addition of the following four individuals: Nate DaPore, John Spertus MD, Russel Kohl, MD and Michael Valentine.

Committees

The Bylaws provide for the Board of Directors to appoint annually six committees. As of December 31, 2017, the members of each committee were as follows:

Executive Committee

Janice C. Kreamer, Chairman
 Anne D. St. Peter
 Marilyn M. Rymer, MD
 Randall C. Ferguson, Jr
 Cheryl D. Alston
 Garry K. Kemp
 Karon H. Hicks

Governance Committee

Karon H. Hicks, Chairman
 Garry K. Kemp
 Anne D. St. Peter
 Marilyn M. Rymer, MD

Audit Committee

Garry K. Kemp, Chairman
 Randall C. Ferguson, Jr.
 Karen L. Daniel
 Jack A. Newman, Jr.
 Marilyn M. Rymer

Compensation Committee

Randall C. Ferguson, Jr., Chairman
 Cheryl D. Alston
 Karon H. Hicks

Investment and Finance Committee

Cheryl D. Alston, Chairman
 Jack A. Newman, Jr.
 Sam R. Reda
 James R. Roath

Health Innovation and Performance Committee

Anne D. St. Peter, Chairman
 James R. Roath
 Marilyn M. Rymer, MD
 Sam R. Reda
 Lawrence A. Rues, MD

Officers

The Board of Directors annually elects various Company officers, as required by the Bylaws. The President and Chief Executive Officer will supervise the day to day operations of the Company as directed by the Board of Directors. The officers elected and serving, as of December 31, 2017 were as follows:

Danette K. Wilson	President and Chief Executive Officer
Richard J. Kastner	General Counsel, Chief Administrative Officer, Corporate Secretary
Thomas E. Nightingale	Senior Vice President, Chief Financial Officer, Treasurer
Nancy M. Creasy	Executive Vice President, Technology and Service Delivery
Erin E. Stucky	Executive Vice President, Market Innovation and Business Development
Ronald R. Rowe	Senior Vice President, Sales Marketing
J. David Kaercher	Senior Vice President and Chief Information Officer

Richard J. Kastner, Nancy M. Creasy and J. David Kaercher departed from the Company subsequent to the examination period. Mark A. Newcomer was appointed Vice President, General Counsel and Corporate Secretary. Kim G. White was appointed Senior Vice President and Chief Administrative Officer. Ronald R. Rowe was appointed Senior Vice President and Chief Operating Officer. Phil Merrell was appointed Vice President and Chief Information Officer.

Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo. (Definitions). An Insurance Holding Company System Registration Statement was filed by BCBSKC on behalf of itself and its subsidiaries for each year of the examination period. The Company is a not-for-profit organization and therefore, there are no stockholders or other ownership. BCBSKC is ultimately controlled by its Board of Directors.

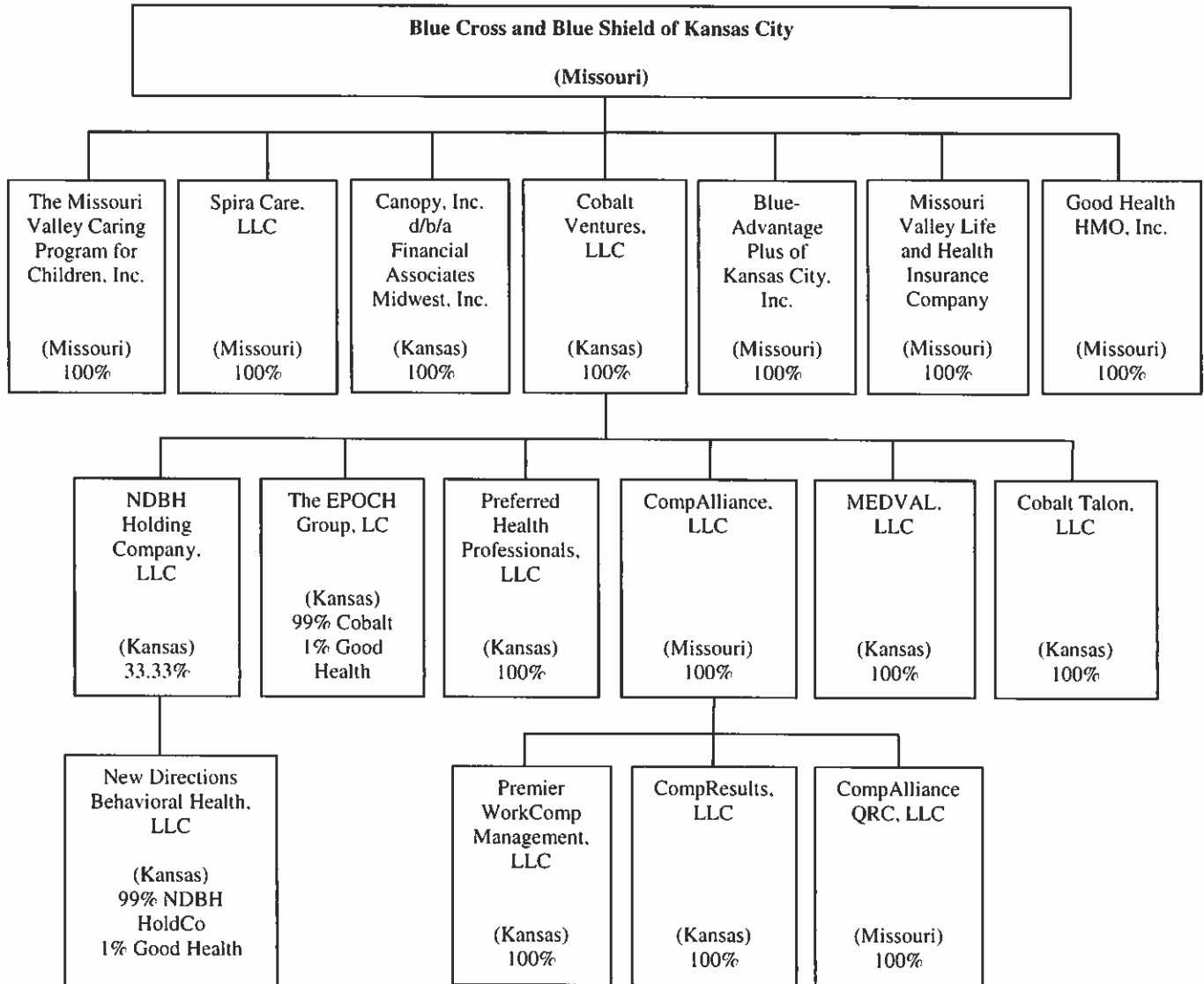
BCBSKC has several subsidiaries that have businesses involved in or related to the health care insurance industry. These subsidiaries are described as follows:

- Good Health HMO, Inc. d/b/a Blue Care, Inc., Blue Advantage Plus of Kansas City, Inc., and Missouri Valley Life and Health Insurance Company are Missouri domiciled insurers.
- Canopy, Inc. (Canopy) f/k/a Financial Associates Midwest, Inc. is a brokerage company specializing in group and individual health products, life, dental, disability, and retirement annuities.
- Missouri Valley Caring Program for Children, Inc. is a charitable organization providing durable medical equipment to children for items not covered by insurance.
- Spira Care, LLC (Spira Care) is in the business of providing services to health care providers, and owning and operating health care clinics.
- Cobalt Ventures, LLC (Cobalt) is a holding company and directly holds BCBSKC's interest in its non-insurance subsidiaries. The entities held are NDBH Holding Company LLC; The EPOCH Group, LC; Preferred Health Professionals LLC; CompAlliance, LLC; MEDVAL, LLC and Cobalt Talon LLC.
- The EPOCH Group, LC (EPOCH) d/b/a Cobalt MedPlans serves as an outsourcing partner for insurance claims processing, staff augmentation, backlog reduction, systems conversions, and facility consolidation. Cobalt owns a 99% interest in EPOCH and Good Health owns the remaining 1% interest.
- Preferred Health Professionals, LLC (PHP) provides network rental and medical management services for groups and third-party administrators.
- MEDVAL, LLC provides consultation services in the settlement of insurance claims. Its primary business involves preparing Medicare set-aside arrangements and integrating these arrangements into workers' compensation and personal injury settlements. It also provides structured settlement services and administration.

- Cobalt Talon, LLC (Cobalt Talon) currently exists as a shell company since the sale of its assets to Health Lumen in 2016. Prior to the asset sale, Cobalt Talon provided healthcare data analytic services.
- NDBH Holding Company, LLC (NDBH HoldCo) is a holding company that owns New Directions Behavioral Health, LLC. BCBSKC owns a 33.33% interest in NDBH HoldCo.
- New Directions Behavioral Health, LLC (NDBH) manages behavioral health benefits and operates an employee assistance program. NDBH HoldCo owns a 99% interest and Good Health owns a 1% interest in NDBH.
- CompAlliance, LLC is a managed care service organization for workers' compensation claims, providing bill review, Preferred Provider Organization (PPO) and case management services. CompAlliance, LLC owns Premier Workers Comp Networks, LLC, CompAlliance QRC, LLC, and CompResults, LLC.
- Premier Workers Comp Networks, LLC is a PPO network used exclusively for the treatment of work-related injuries and illnesses.
- CompResults, LLC is a PPO network used exclusively to bring workers' compensation cost containment solutions to employers and payers.
- CompAlliance QRC, LLC provides qualified workers compensation consultation services.

Organizational Chart

The following organizational chart depicts BCBSKC’s ownership and holding company system, as of December 31, 2017:



Intercompany Transactions

The Company's intercompany agreements in effect, as of December 31, 2017, are outlined below.

1. **Type:** Third Amended and Restated Agreement for the Sharing of Federal Income Taxes and Filing of a Consolidated Tax Return
Affiliates: Missouri Valley, Good Health, BA+, and Canopy
Effective: December 31, 2014, amended January 22, 2016 to update the parties to the agreement and add a provision for addition and termination of parties to the agreement.
Terms: BCBSKC will file a consolidated federal tax return for itself and its subsidiaries. The tax liability for each subsidiary shall be based upon each subsidiary's taxable income or loss as reflected in the consolidated financial statements. Each subsidiary will pay its federal income taxes to BCBSKC. BCBSKC will collect and remit any tax refunds to the subsidiaries.

2. **Type:** Administrative Services Agreement
Affiliate: Missouri Valley
Effective: August 1, 2006
Terms: BCBSKC agrees to provide the following administrative services: accounting, budgeting, payroll, personnel, office space, utilities, maintenance, claims processing, purchasing, legal, actuarial, underwriting, cash management, investment, marketing, data processing, and other services. Missouri Valley will pay BCBSKC the actual expenses incurred for the services provided.

3. **Type:** Administrative Services Agreement
Affiliate: Good Health
Effective: August 1, 2006, restated April 1, 2009 to add service of tracking and allocating of premium revenue between accounts.
Terms: BCBSKC agrees to provide the following administrative services: accounting, budgeting, personnel, payroll, office space, utilities, maintenance, claims processing, purchasing, legal, actuarial, underwriting, cash management, investment, marketing, data processing, and other services. Good Health will pay BCBSKC the actual expenses incurred for the services provided.

4. **Type:** Administrative Services Agreement
Affiliate: BA+
Effective: August 1, 2006
Terms: BCBSKC agrees to provide the following administrative services: accounting, budgeting, personnel, payroll, office space, utilities, maintenance, claims processing, purchasing, legal, actuarial, underwriting, cash management, investment, marketing, data processing, and other services. BA+ will pay BCBSKC the actual expenses incurred for the services provided.

5. **Type:** Collaboration Agreement
Affiliate: PHP
Effective: January 1, 2003, amended effective December 23, 2004, amended June 28, 2006 and October 1, 2014 to reflect a name change to PHP and revise access fees.
Terms: BCBSKC grants PHP the right to market and sell access to its networks. PHP will pay BCBSKC an access fee per enrolled employee of each group per month. BCBSKC also agrees to make available certain managerial and administrative employees to PHP. PHP will reimburse BCBSKC for the expenses of the loaned employees.
6. **Type:** Ancillary Provider Agreement
Affiliates: NDBH, Good Health, BA+ and Missouri Valley
Effective: January 1, 2006, amended June 1, 2006, October 1, 2007, June 1, 2008, January 1, 2011, January 1, 2014, September 1, 2015, and April 7, 2016 to adjust rates and include services to be provided by NDBH.
Terms: NDBH agrees to manage and/or arrange for the provision of behavioral health and substance abuse services for BCBSKC’s members and the members of BCBSKC’s subsidiaries. NDBH will provide for the credentialing reviews of the providers. BCBSKC will pay NDBH a capitation payment each month that is determined by the per member per month rates specified in the agreement. The rates vary between products sold by BCBSKC and its subsidiaries.
7. **Type:** Administrative Services Agreement
Affiliate: NDBH
Effective: June 1, 2011, amended August 1, 2013 and January 1, 2016 to add confidentiality language and revise the scope of services to be provided.
Terms: Under the terms of the Agreement, BCBSKC shall provide administrative and other support services to include accounting services, personnel, legal services, information technology services, investment services, and insurance coverage.
8. **Type:** Agreement for the Management of Intercompany Payables and Receivables
Affiliates: Missouri Valley, Good Health, Spira Care, Canopy and BA+
Effective: August 1, 2006, restated effective March 1, 2009 to remove a specific exclusion for the Missouri Valley direct enrollment PPO, change duration and renewal terms, and include a specific exclusion for Medicaid payments, and amended November 1, 2017 to add Spira Care and Canopy to the agreement.
Terms: BCBSKC shall pay the payables and collect the receivables for its subsidiaries. Separate accounting records will be maintained for the transactions for each subsidiary. Transfers of funds to or from the subsidiaries will be made to minimize uninvested cash balances and to minimize the receivable or payable balance with each subsidiary. BCBSKC shall settle all intercompany payable and receivables within ninety days following receipt by BCBSKC.

BCBSKC shall pool and retain the consolidated funds resulting from these transactions and invest the pooled funds. BCBSKC shall pay interest or receive interest each month from the subsidiaries based on the intercompany balance of each subsidiary.

9. **Type:** Agreement for the Management of Intercompany Payables and Receivables
Affiliate: Cobalt
Effective: May 12, 2010
Terms: Under the Agreement, BCBSKC has the authority to receive payables, receivables, and information relating to Cobalt's payables and receivables. However, no transaction will involve the receipt of insurance premiums of any kind. BCBSKC shall pool and deposit funds into BCBSKC bank accounts. All intercompany payables and receivables shall be settled within 90 days of receipt. To compensate Cobalt for allowing BCBSKC to retain funds belonging to Cobalt, each party shall pay interest based upon the previous month-end balance in each intercompany payable or receivable account. The Agreement is effective through December 31, 2010, with automatic renewals for subsequent one year terms unless canceled.
10. **Type:** Guarantor Agreement
Affiliate: Missouri Valley
Effective: March 1, 1991
Terms: BCBSKC agrees to provide any contributions to the capital and surplus to Missouri Valley necessary to maintain capitalization of \$1,500,000.
11. **Type:** Guarantor Agreement
Affiliate: Good Health
Effective: January 1, 1993
Terms: In the event of the insolvency of Good Health, BCBSKC agrees to provide Good Health whatever guarantee or coverage that is necessary to meet all applicable requirements of its business as a state-qualified HMO. This coverage will provide for the continuation of covered benefits to Good Health's members and pay provider expenses, as defined in the agreement.
12. **Type:** Guarantor Agreement
Affiliate: BA+
Effective: July 1, 2005
Terms: In the event of the insolvency of BA+, BCBSKC agrees to provide BA+ whatever guarantee or coverage that is necessary to meet all applicable requirements of its business as a state-qualified HMO. This coverage will provide for the continuation of covered benefits to BA+'s members and pay provider expenses, as defined in the agreement.
13. **Type:** Management Services Agreement
Affiliate: Cobalt
Effective: May 12, 2010
Terms: Under the terms of the Agreement, BCBSKC shall provide management services to Cobalt, including accounting, personnel and personnel support, legal services, information technology and services, investment services, and executive management services.

- 14. Type:** Management Services Agreement
Affiliate: EPOCH
Effective: June 20, 2011
Terms: Under the terms of the Agreement, BCBSKC shall provide management services to EPOCH including tax return preparation, executive services, legal services, and insurance coverage.
- 15. Type:** Business Process Outsourcing Services Agreement
Affiliate: EPOCH
Effective: July 1, 2011, amended April 27, 2016
Terms: Under the terms of the Agreement, EPOCH will provide transaction processing and related business process outsourcing services as detailed in the Statements of Work (SOW) that are part of the Agreement. As of December 31, 2017, there were 14 SOW's that had been added to the Agreement covering various services.
- 16. Type:** Services Agreement
Affiliate: PHP
Effective: September 1, 2012
Terms: Under the terms of the Agreement, PHP is to provide certain services, which are detailed in a SOW. A SOW, effective September 1, 2012, provides for PHP to scan and convert dental claims into an Optical Character Recognition (OCR) format. A SOW amendment, effective October 1, 2014, allowed PHP to convert claims related to medical services to an OCR format.
- 17. Type:** Medicare Advantage and Part D Services Agreement
Affiliates: Missouri Valley
Effective: January 1, 2017
Terms: BCBSKC provides Missouri Valley with certain administrative services in establishing and maintaining a Medicare Advantage and/or Part D program including sales and marketing, provider network, compliance and audit functions, reporting, IT support, dedicated Medicare Advantage personnel quality committees, financial services, legal and additional general corporate services as reasonable requested and necessary to stay compliant with the Center for Medicaid and Medicare Services (CMS). Missouri Valley shall reimburse BCBSKC the actual costs in providing the services as allocated by BCBSKC's cost allocation system. The cost allocation system allocates all administrative costs to lines of business based on statistics such as actual employee time reports, processed claims counts and membership counts.

- 18. Type:** Medicare Advantage and Part D Services Agreement
Affiliate: BA+
Effective: January 1, 2015
Terms: BCBSKC provides BA+ with certain administrative services in establishing and maintaining a Medicare Advantage and/or Part D program including sales and marketing, provider network, compliance and audit functions, reporting, IT support, dedicated Medicare Advantage personnel quality committees, financial services, legal and additional general corporate services as reasonable requested and necessary to stay compliant with the CMS. BA+ shall reimburse BCBSKC the actual costs in providing the services as allocated by BCBSKC's cost allocation system. The cost allocation system allocates all administrative costs to lines of business based on statistics such as actual employee time reports, processed claims counts and membership counts.
- 19. Type:** Master Services Agreement
Affiliate: NDBH
Effective: May 1, 2014
Terms: BCBSKC engages NDBH to provide well-being educational seminars for BCBSKC employer group health insurance customers. NDBH shall provide BCBSKC and its affiliated companies with the services as described in each Statement of Work and per the terms and conditions of the Agreement. Each SOW is to describe the term the services will be provided or will automatically terminate upon completion of the services. Each SOW will be considered a separate agreement which incorporates the terms and conditions of the Agreement and each SOW and any amendment to this Agreement or a SOW must state that it is entered into pursuant to, and incorporates the terms and conditions of Agreement. SOW #1, the only SOW filed under the Agreement, was terminated effective April 1, 2016.
- 20. Type:** Master Software Services Agreement
Affiliates: Canopy
Effective: September 1, 2015
Terms: Canopy agrees to provide BCBSKC with certain software services, supporting the internal and external services of BCBSKC's business units. The agreement allows BCBSKC and its affiliates, nonexclusive and irrevocable license to use the services, including software from Canopy for the duration of the contract. It also allows one or more third parties to use the software and services to perform processing, disaster recovery and testing, or other services as long as third parties agree to keep the software confidential. Services provided and payment terms are detailed under separate SOW's. There were no SOW's in effect for this agreement as of the examination date.

- 21. Type:** Master Services Agreement
Affiliates: EPOCH d/b/a Cobalt Medplans
Effective: May 31, 2016
Terms: BCBSKC will provide co-location data hosting services to Cobalt Medplans at its data center located at 6500 Euclid in Kansas City under the terms described in the Statements of Work. Under SOW #1, Cobalt Medplans has a need for approximately (1) rack to be hosted by BCBSKC in a secure facility, with cooling and backup generator provided. Cobalt Medplans agrees to pay a Setup Fee of \$500 plus the cost to install power whips in addition to a monthly fee of \$600 per rack housed, inventory space fee of \$300 per month, and \$0.15 per kilowatt hour used.
- 22. Type:** Administrative Services Agreement
Affiliates: Spira Care
Effective: October 1, 2017
Terms: BCBSKC agrees to provide Spira Care with certain administrative services in establishing and maintaining the Spira Care business, including sales, marketing, compliance, audit and accounting functions, budgeting, reporting, cash management, insurance coverage, legal services, IT Support, financial services, and other corporate services as requested or necessary. BCBSKC bills Spira Care quarterly under the Management of Intercompany Payables and Receivables in effect between BCBSKC and its subsidiaries. Spira Care reimburses BCBSKC an amount equal to the actual administrative expenses incurred by BCBSKC as determined under BCBSKC's Cost Allocation System. BCBSKC will also allocate a portion of overhead costs for providing the services.
- 23. Type:** Administrative Services Agreement
Affiliates: Canopy, Inc.
Effective: November 1, 2017
Terms: BCBSKC agrees to provide Canopy with certain administrative services in furtherance of Canopy's business, including financial services, budgeting, compliance and audit functions, reporting, marketing assistance, IT support, insurance procurement, legal counsel, data processing, and additional operational and general corporate services as reasonably requested. The Agreement also allows for BCBSKC to assign its rights and obligations to perform any or all of the Services to its subsidiaries or affiliates upon the consent of Canopy. Canopy shall pay BCBSKC on a quarterly basis as set forth in the Agreement for the Management of Intercompany Payables & Receivables between BCBSKC and several subsidiaries.

TERRITORY AND PLAN OF OPERATION

BCBSKC is licensed as a Health Services Corporation and as a Health Maintenance Organization in the State of Missouri under Chapter 354 RSMo. (Health Service Corporations – Health Maintenance Organizations – Prepaid Dental Plans). The Company is also a licensed insurer in the State of Kansas. The Company's service territory is concentrated in the Kansas City, Missouri metropolitan area and Northwest Missouri, which includes 30 counties in Missouri and 2 counties in Kansas. As of December 31, 2017, the Company reported 393,156 policies covering 721,362 lives.

Most of the Company's business is derived from its Preferred Provider Organization (PPO) products. It is marketed under the "Preferred Care Blue" name. The Company provides health insurance through its participation in the Federal Employee Program that is managed by the Blue Cross and Blue Shield Association. The Company also provides a small amount of dental coverage. In addition, the Company has a significant amount of Administrative Services Only and Administrative Services Contract (ASC) plan business. For some groups enrolled in ASC coverage, the Company provides stop-loss insurance coverage. The Company offers wellness programs to encourage members toward health improvements, and the Company participates in Blue Card Program to provide members with healthcare services while traveling outside the Blue Cross service area.

Third-party agents and brokers are utilized to obtain group business. The Company has a staff of sales and marketing employees that sell and promote its various products. Marketing methods include the use of television, radio, newspaper, and magazine advertisements, billboards, direct mail, and telemarketing.

The Company no longer writes Health Maintenance Organization (HMO) business, yet it still retains its HMO license. Effective January 1, 2016, the Company entered the Medicare Advantage market and began offering Medicare Advantage HMO products through BA+. Effective January 1, 2018, the Company began offering Medicare Advantage PPO products through Missouri Valley. In addition, the Company transitioned its large group stop-loss insurance to Missouri Valley in 2016.

In 2017, the Company announced that beginning January 1, 2018, it would no longer offer or renew individual Affordable Care Act plans in the Company's 32 county service area in Kansas and Missouri.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below (000s omitted):

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Direct Business	\$1,848,884	\$1,731,018	\$1,497,652	\$1,344,859	\$1,242,413
Reinsurance					
Assumed:					
Affiliates	-	-	-	-	-
Non-affiliates	-	-	(1)	(401)	10,120
Reinsurance Ceded:					
Affiliates	-	-	-	-	-
Non-affiliates	<u>(2,513)</u>	<u>(4,387)</u>	<u>(4,795)</u>	<u>(6,826)</u>	<u>(3,444)</u>
Net Premiums Written	<u>\$1,846,371</u>	<u>\$1,726,631</u>	<u>\$1,492,856</u>	<u>\$1,337,632</u>	<u>\$1,249,089</u>

Assumed

The Company did not assume reinsurance during 2016-2017, but it did assume reinsurance during 2013-2014, maintaining one agreement with Healthy Alliance Life Insurance Company (HALIC). The Company entered into the reinsurance agreement with HALIC effective June 1, 2003, and ended the agreement January 1, 2014. Under the terms of the agreement, BCBSKC assumed a variable percentage of HALIC's group contracts issued under the Missouri Educators Health Plan (MEHP), formerly known as the Missouri State Teachers Association Plan. The Company's assumed percentage of the MEHP group business was determined by the percentage of group plan members located in the BCBSKC service territory.

Ceded

The majority of the Company's business is reinsured on an excess of loss basis with high retentions. All reinsurers are authorized carriers in the State of Missouri.

BCBSKC together with BA+, Good Health, and Missouri Valley are reinsured by an excess of loss agreement with BCS Insurance Company (BCS). BCS is domiciled in the State of Ohio and is licensed as a property and casualty company with an accident and health line in the State of Missouri. The Company's specific retention is \$2,500,000 per covered loss under the agreement. The covered blocks are fully insured medical, medical stop loss, and minimum premium medical.

The Company has a coinsurance agreement, effective December 15, 1998, with Genworth Life Insurance Company (Genworth), previously General Electric Capital Assurance Company, for a long-term care product. BCBSKC cedes 100% of the risks for the long-term care policies to Genworth.

The Company has a proportional share reinsurance agreement, effective June 15, 1990, that was novated to MedAmerica Insurance Company (MedAmerica), effective April 1, 2003. BCBSKC cedes 100% of the risks for 11 specified long-term care policies conveyed to MedAmerica.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the DIFP and present the financial condition of the Company for the period ending December 31, 2017. 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.

There may have been additional differences found in the course of this examination, which are not shown in the “Comments on Financial Statement Items”. These differences were determined to be immaterial concerning their effect on the financial statements and therefore were only communicated to the Company and noted in the workpapers for each individual activity.

	<u>Assets</u>		
	<u>Assets</u>	<u>Non-admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 531,473,904	\$ -	\$ 531,473,904
Common stocks	310,405,670	-	310,405,670
Real estate	22,672,322	-	22,672,322
Cash, cash equivalents and short-term investments	36,513,337	-	36,513,337
Other invested assets	105,827,283	-	105,827,283
Receivables for securities	114,344	-	114,344
Investment income due and accrued	3,210,326	-	3,210,326
Uncollected premiums and agents' balance in course of collection	71,212,627	-	71,212,627
Accrued retrospective premiums and contracts subject to redetermination	4,985,534	-	4,985,534
Reinsurance amounts recoverable from reinsurers	4,426,586	-	4,426,586
Amounts receivable relating to uninured plans	106,228,192	61,868	106,166,324
Net deferred tax assets	27,001,858	10,139,183	16,862,675
Electronic data processing equipment and software	8,336,656	4,566,136	3,770,520
Furniture and equipment, including health care delivery assets	3,050,007	3,050,007	-
Receivables from parent, subsidiaries and affiliates	9,092,780	2,248,787	6,843,993
Health care and other amounts receivable	41,476,728	2,737,532	38,739,196
Aggregate write-ins for other than invested assets	19,295,907	16,600,167	2,695,740
TOTAL ASSETS	<u>\$ 1,305,324,061</u>	<u>\$ 39,403,680</u>	<u>\$ 1,265,920,381</u>

Liabilities, Surplus and Other Funds

Claims unpaid	\$ 138,899,817
Unpaid claims adjustment expenses	7,050,049
Aggregate health policy reserves	95,802,213
Aggregate health claim reserves	617,366
Premium receivable in advance	26,504,475
General expenses due and accrue	56,199,917
Current federal and foreign income tax payable and interest	3,663,056
Current reinsurance premiums payable	1,572,341
Amounts withheld or retained for the account of others	1,880,327
Remittances and items not allocated	436,255
Amounts due to parent, subsidiaries and affiliates	44,029
Payable for securities	880,451
Liability for amounts held under uninsured plans	10,909,334
Aggregate write-ins for other liabilities	<u>214,856,173</u>
TOTAL LIABILITIES	\$ 559,315,803
Aggregate write-ins for special surplus funds	34,022,000
Aggregate write-ins for other than special surplus funds	1,000,000
Unassigned funds	<u>671,582,578</u>
TOTAL SURPLUS	\$ 706,604,578
TOTAL LIABILITIES AND SURPLUS	<u>\$ 1,265,920,381</u>

Statement of Income

Net premium income	\$1,846,371,076
Change in unearned premium reserves and reserve for rate credits	<u>(12,398,252)</u>
Total Revenue	\$1,833,972,824
Hospital/medical benefits	1,212,086,084
Emergency room and out-of-area	53,601,470
Prescription drugs	188,630,509
Net reinsurance recoveries	(7,224,492)
Claims adjustment expenses	81,456,137
General administrative expenses	162,020,844
Increase in reserves for life and A&H contracts	<u>1,469,095</u>
Total underwriting deductions	\$1,692,039,647
Net underwriting gain	\$ 141,933,177
Net investment income earned	16,857,953
Net realized capital gains	<u>12,046,333</u>
Net investment gains	\$ 28,904,286
Aggregated write-ins	<u>857,705</u>
Net income before taxes incurred	\$ 171,695,168
Federal and foreign income taxes incurred	<u>65,602,631</u>
NET INCOME	<u>\$ 106,092,537</u>

Reconciliation of Capital and Surplus
Changes from January 1, 2013 to December 31, 2017
(\$000 Omitted)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Capital and Surplus, Beginning of Year	\$651,862	\$610,233	\$502,049	\$562,176	\$604,671
Net income (loss)	(19,427)	(82,495)	(5,774)	23,084	106,093
Change in net unrealized capital gains (losses)	14,295	(7,487)	53,157	(3,232)	10,610
Change in net deferred income tax	(2,503)	(16,780)	21,978	49,628	(36,819)
Change in non-admitted assets	30,028	31,000	(11,819)	(41,270)	28,760
Cumulative effect of change in accounting principle	(111,565)	-	-	-	6,000
Agg. write-ins for gains (losses) in surplus	<u>47,544</u>	<u>(32,422)</u>	<u>2,585</u>	<u>14,285</u>	<u>(12,710)</u>
Change in capital and surplus for the year	<u>(\$41,628)</u>	<u>(\$108,184)</u>	<u>\$60,127</u>	<u>\$42,495</u>	<u>\$101,934</u>
Capital and Surplus, End of Year	<u>\$610,234</u>	<u>\$502,049</u>	<u>\$562,176</u>	<u>\$604,671</u>	<u>\$706,605</u>

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None

COMMENTS ON FINANCIAL STATEMENT ITEMS

None

SUMMARY OF RECOMMENDATIONS

None


ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of BCBSKC during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Mark Nance, CPA, CFE, Emily Pennington, CFE, Lisa Li, CPA, CFE, Kimberly Dobbs, AES, CISA, CFE, Bradley Brunton, AFE, and Danielle Smith, AFE, examiners for the DIFP participated in this examination. The firm of Lewis & Ellis, Inc. participated as consulting actuaries. The firm, Risk & Regulatory Consulting, LLC, also participated as an information technology systems consultant.

VERIFICATION


State of Missouri)
County of Jackson)

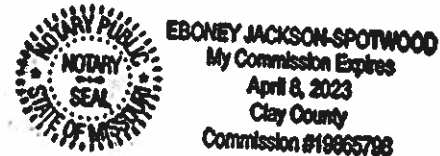
I, Laura Church, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Blue Cross and Blue Shield of Kansas City, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Laura Church, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 16th day of May, 2019.

My commission expires: April 8, 2023 
Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed, except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.



Levi N. Nwasoria, CPA, CFE

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration