

REPORT OF EXAMINATION
OF THE
BLUE SHIELD OF CALIFORNIA LIFE & HEALTH
INSURANCE COMPANY
AS OF
DECEMBER 31, 2020

Filed on January 7, 2022

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Sacramento, California
December 10, 2021

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

BLUE SHIELD OF CALIFORNIA LIFE & HEALTH INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's home office is located at 601 12th Street, Oakland, California 94607.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was as of December 31, 2015. This examination covered the period of January 1, 2016 through December 31, 2020.

This examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. 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, and evaluate system controls and procedures used to mitigate those risks. The examination also included identifying and evaluating significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This includes 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 an adjustment was identified during the course of the

examination, the impact of such adjustment would be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

The examination was conducted concurrently with the examination of the Company's affiliate, CareAmerica Life Insurance Company.

COMPANY HISTORY

Dividends

In June 2016, the Company paid an extraordinary dividend to California Physicians' Service dba Blue Shield of California (BSC) in the amount of \$180 million. The California Department of Insurance (CDI) approved this transaction in June 2016.

In July 2017, the Company paid an extraordinary dividend to BSC in the amount of \$150 million. The CDI approved this transaction in July 2017.

In July 2019, the Company paid an extraordinary dividend to BSC totaling \$75 million. The CDI approved this transaction in June 2019.

Capitalization

The Company is authorized to issue 6,000 shares of common stock with a par value of \$1,000 per share. As of December 31, 2020, there were 2,500 shares issued and outstanding.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which California Physicians' Service (d.b.a. Blue Shield of California) is the ultimate controlling entity. The following organizational chart depicts the relationships of the companies within the holding company system as of December 31, 2020 (all ownership is 100%):

California Physicians' Service d.b.a. Blue Shield of California (California)
Blue Shield of California Life & Health Insurance Company (California)
CareAmerica Life Insurance Company (California)
Altas (California)
 Altas Clinical Service
California Physicians' Service Foundation (California)
FullSpan Holding Company, Inc. (California)
 Blue Shield of California Promise (California)

The twelve members of the Board of Directors, who are elected annually, oversee the business and affairs of the Company. Following are members of the Board and principal officers of the Company serving on December 31, 2020:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Mari Baker San Mateo, California	Board of Directors of Blue Shield of California
Kimberly Belshe Marina Del Ray, California	Board of Directors of Blue Shield of California
Guillermo Diaz Pleasanton, California	Chief Executive Officer Kloudspot, Inc.
Evelyn S. Dilsaver San Leandro, California	Board of Directors of Blue Shield of California
Helen M. DuPlessis, M.D. Merced, California	Principal Health Management Associates
Hector Flores, M.D. Los Angeles, California	Chairman Department of Family Medicine White Memorial Medical Center

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Alan J. Fohrer Arcadia, California	Board of Directors of Blue Shield of California
Will Glaser Berkeley, California	Chief Executive Officer Grabango
Colleen H. Johnston, Ph.D. ⁽¹⁾ Toronto, Ontario	Board of Directors of Blue Shield of California
Kristina M. Leslie Pasadena, California	Board of Directors of Blue Shield of California
Paul S. Markovich Oakland, California	President and Chief Executive Officer California Physicians' Service
Leon E. Panetta Monterey, California	Chairman The Panetta Institute of Public Policy

⁽¹⁾Colleen Johnston resigned from the Board effective August 30, 2021.

Note: Arthur Chen, M.D. and Myechia Minter-Jordan, M.D. were elected to the Board on October 1, 2021 and January 1, 2021, respectively.

Principal Officers

<u>Name</u>	<u>Title</u>
Patrice Bergman	President and Chief Executive Officer
Mike Stuart	Vice President
Seth Jacobs, Esq. ⁽¹⁾	Secretary
Emily R. Glidden	Treasurer
Michael Gebhart ⁽²⁾	Controller
Timothy D. Gustafson ⁽³⁾	Actuary
Craig Laidig	Assistant Secretary
Devin Gensch	Assistant Secretary

⁽¹⁾Effective August 1, 2021, Seth Jacobs, Esq. retired as the Secretary, and was replaced by Hope Scott effective August 2, 2021.

⁽²⁾Effective April 2, 2021, Michael Gebhart resigned as Controller, and was replaced by Michelle Mortensen effective April 3, 2021.

⁽³⁾Timothy D. Gustafson was replaced by Ian Lebby effective October 26, 2021.

Management Agreements

Administrative Services Agreements: Effective October 1, 2003, the Company entered into an Administrative Services Agreement with its parent, Blue Shield of California (BSC). Under the terms of the Agreement, BSC provides the Company with personnel services, facilities, information systems, administrative and operational support on an actual cost basis. The Agreement was approved by the California Department of Insurance (CDI) on September 13, 2004. This Agreement had been revised three times, with each revision submitted to and approved by the CDI on August 17, 2004; December 27, 2005; and May 25, 2010. The total fees incurred by the Company for services under this Agreement were: \$25,118,902, \$25,818,708, \$20,124,989, \$19,878,198, and \$21,698,198 for 2016, 2017, 2018, 2019, and 2020, respectively.

Tax Allocation Agreement: Effective July 21, 2011, the Company entered into a Tax Allocation Agreement with BSC and its affiliates, CareAmerica Life Insurance Company and CareTrust Networks, for the purpose of filing a consolidated federal income tax return. The Agreement provides for separate income tax return calculations with credit for net losses that can be used on a consolidated basis. The Agreement was filed with the CDI on May 11, 2011, and approved on August 14, 2012.

Amended and Restated Tax Sharing Agreement: Effective December 31, 2019, the Company entered into an Amended and Restated Tax Sharing Agreement (Agreement) with BSC and its affiliates, CareAmerica Insurance Company, FullSpan Holding Company, Inc., Blue Shield of California Promise Health Plan, and Altais, for the purpose of filing a consolidated federal income tax return. It was noted that the Company failed to file the Agreement with CDI for prior approval pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). It is recommended that the Company file the Agreement with CDI for prior approval as required by CIC Section 1215.5(b)(4). It was also noted that the Agreement was not disclosed in the Company's 2020 Form B filing pursuant to CIC Section 1215.4(b)(3)(H). It is recommended that the Company disclose the Agreement as required by CIC Section 1215.4(b)(3)(H).

TERRITORY AND PLAN OF OPERATION

The Company is licensed and operates exclusively in California. It writes ordinary life, group life; and group and other accident and health insurance. Direct premiums written in 2020 by line were as follows: Ordinary and group life combined were \$10,111,756 (4.1%); group accident and health was \$103,272,042 (42.1%); and other accident and health was \$131,733,002 (53.7%).

The Company has no direct employees. Employees of Blue Shield of California (BSC), the Company's parent, manage the affairs of the Company. The Company markets through independent agents and brokers and directly through the distribution system of BSC. Accident and health products offered by the Company included Preferred Provider Organization health plans for individuals and for small, midsize, and large employer groups as well as vision, dental, and stop-loss coverage during the examination period.

REINSURANCE

Assumed

The Company did not assume any reinsurance during the examination period.

Ceded

The following is a summary of principal reinsurance agreements in effect as of December 31, 2020:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
<u>Life:</u>			
Excess Life and Accidental Death And Dismemberment (AD&D) Automatic Group	Swiss Re Life & Health America Inc. (authorized)	For Group Life: \$200,000 per person For Group AD&D: \$200,000 per person	For Group Life: 100% excess of \$200,000 up to a maximum of \$1,000,000 per person For Group AD&D: 100% excess of \$200,000 up to a maximum of \$1,000,000 per person
<u>Accident and Health:</u>			
Specific Excess Stop Loss – Medical Stop Loss for Self-Funded Groups	QBE Reinsurance Corporation (authorized)	\$2 million ultimate net loss for each covered person, per policy period	\$5 million ultimate net loss for each covered person and \$10 million for all covered persons per policy period
Mental Health and Substance Abuse	Magellan Life Insurance Company (authorized)	None	All charges for covered services after the application of network discounts and net of Members' copayments, coinsurance, and deductibles

CORPORATE RECORDS

An Annual Information Statement is required to be filed by the Company annually in order to establish the Company's continuing qualification to hold a California Certification of Authority. The Company is responsible for providing updated information in the Annual Information Statement filed with the California Department of Insurance (CDI). It was noted that the Company amended and restated its Bylaws effective November 13, 2012. However, such information was not reflected in the Annual Information Statements filed with the CDI from 2013 to 2020. It is recommended that the Company provide updated and accurate information in the Annual Information Statement filings.

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2020. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements reported by the Company.

Statement of Financial Condition as of December 31, 2020

Summary of Operations and Capital and Surplus Account for the Year Ended
December 31, 2020

Reconciliation of Capital and Surplus from December 31, 2014 through
December 31, 2020

Statement of Financial Condition
as of December 31, 2020

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 222,900,851	\$	\$ 222,900,851	
Cash and cash equivalents	21,332,119		21,332,119	
Contract loans	16,852		16,852	
Receivables for securities	700		700	
Investment income due and accrued	1,037,248		1,037,248	
Uncollected premiums, agents' balances in the course of collection	1,368,998	291,595	1,077,403	
Amounts recoverable from reinsurers	1,922,403	1,922,403		
Net deferred tax asset	4,263,824	2,215,178	2,048,646	
Receivables from parent, subsidiaries and affiliates	1,174,166		1,174,166	
Health care and other amounts receivable	2,573,564	1,525,880	1,047,684	
Aggregate write-ins for other than invested assets	37,657	37,657		
Total assets	\$ 256,628,381	\$ 5,992,712	\$ 250,635,669	

Liabilities, Surplus, and Other Funds

				<u>Notes</u>
Aggregate reserve for life contracts			\$ 2,312,377	(1)
Aggregate reserve for accident and health contracts			28,815,166	(1)
Contract Claims: Life			5,140,394	(1)
Contract Claims: Accident and health			21,795,284	(1)
Premiums and annuity considerations for life and accident and health contracts received in advance less discount; including accident and health premiums			13,636,683	
Provision for experience rating refunds			15,123	
Other amounts payable on reinsurance ceded			1,971,603	
Interest Maintenance Reserve			4,910,849	
Commissions to agents due or accrued			1,715,540	
General expenses due or accrued			3,136,492	
Taxes, licenses and fees due or accrued, excluding federal income taxes			6,224,522	
Current federal and foreign income taxes			2,230,907	
Asset valuation reserve			1,097,438	
Payable for securities			260,000	
Aggregate write-ins for liabilities			362,567	
Total liabilities			93,624,945	
Common capital stock		2,500,000		
Gross paid-in and contributed surplus		113,647,289		
Unassigned funds (surplus)		40,863,435		
Total surplus			\$ 157,010,724	
Total liabilities, surplus, and other funds			\$ 250,635,669	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2020

Underwriting Income

Premiums and annuity considerations	\$ 245,116,800
Net investment income	5,729,642
Amortization of Interest Maintenance Reserve	<u>1,009,783</u>
Totals	251,856,226

Deductions:

Death benefits	\$ 3,997,438
Disability benefits and benefits under accident and health contracts	178,195,532
Increase in aggregate reserves for life and accident and health contracts	(3,584,459)
Commissions on premiums, annuity considerations and deposit-type contract funds	12,131,460
General insurance expenses and fraternal expenses	23,633,592
Insurance taxes, licenses and fees, excluding federal income taxes	<u>7,990,531</u>
Totals	<u>222,364,094</u>
Net gain from operations after dividends to policyholders, refund to members and federal income taxes	29,492,132
Federal and foreign income taxes incurred	7,468,087
Net realized capital loss	(134,349)
Net income	<u>\$ 21,889,696</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2019	\$ 135,154,710
Net income	\$ 21,889,696
Change in net deferred income tax	478,618
Change in nonadmitted assets	(263,155)
Change in asset valuation reserve	<u>(249,147)</u>
Net change in capital and surplus for the year	<u>21,856,013</u>
Capital and surplus, December 31, 2020	<u>\$ 157,010,724</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2015 through December 31, 2020

Surplus as regards policyholders, December 31, 2015			\$ 481,147,839	<u>Notes</u>
	Gain in Surplus	Loss in Surplus		
Net income	\$ 75,972,809	\$		
Change in net unrealized capital gains	8,892			
Change in net deferred income tax		2,609,355		
Change in nonadmitted assets	1,393,854			
Change in asset valuation reserve	621,699			
Surplus adjustments: Paid-in		336,234,855		
Dividends to stockholders		68,765,145		
Aggregate write-ins for losses in surplus	<u>5,475,007</u>			
Total gains and losses	<u>\$ 83,472,261</u>	<u>\$ 407,609,355</u>		
Capital and surplus, December 31, 2020			<u>\$ 157,010,724</u>	

COMMENTS ON FINANCIAL STATEMENT ITEMS

- (1) Aggregate Reserve for Life Contracts
Aggregate Reserve for Accident and Health Contracts
Contract Claims: Life
Contract Claims: Accident and Health

Pursuant to California Insurance Code Section 733(g), California Department of Insurance actuary performed an actuarial review of the aggregate reserves for the above liability accounts. Based on the review, the Company's reserves as of December 31, 2020 were found to be reasonably stated and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared the outbreak of SAR-CoV-2, named the coronavirus 2019 (COVID-19), a pandemic. The COVID-19 pandemic continues to evolve, and the virus and efforts to prevent its spread have continued to have a global impact. The Company has proactively taken actions to minimize these effects and will continue to monitor the COVID-19 pandemic, as well as resulting legislative and regulatory changes that may impact the business.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management Agreements – (page 5): It is recommended that the Company file the Amended and Restated Tax Sharing Agreement with the California Insurance Code (CIC) Section 1215.5(b)(4). It is also recommended that the Company disclose the Amended and Restated Tax Sharing Agreement as required by CIC Section 1215.4(b)(3)(H).

Corporate Records – (page 7): It is recommended that the Company provide updated and accurate information in the Annual Information Statement filings. This is a repeat finding from the prior examination.

Previous Report of Examination

Corporate Records – Insurance Holding Company System Annual Registration Statement (page 8): It was recommended that the Company include the required statements in its future Insurance Holding Company System Annual Registration Statement filings in accordance with CIC Section 1215.4(b)(6). The Company is now in compliance.

Corporate Records – Annual Statement Instructions (page 8): It was recommended the Company implement procedures to ensure future compliance with the National Association of Insurance Commissioners Annual Statement Instructions in regard to the presentation by the Appointed Actuary to the Board of Directors or the Audit Committee. The Company is now in compliance.

Corporate Records – Annual Information Statements (page 8): It was recommended that the Company provide updated and accurate information in the Annual Information Statement filings. The Company is not in compliance.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

_____/S/_____

Kyo Chu, CFE
Examiner-In-Charge
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California

_____/S/_____

Ber Vang, CFE
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