REPORT OF EXAMINATION
OF THE

BLUE SHIELD OF CALIFORNIA LIFE & HEALTH INSURANCE COMPANY

AS OF
DECEMBER 31, 2011

Filed: June 10, 2013

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San Francisco, California
April 19, 2013

Honorable Dave Jones
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) at its home office located at 50 Beale Street, San Francisco, California 94105.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was made as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2011. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; mortality and loss experience; statutory deposits; and accounts and records.

COMPANY HISTORY

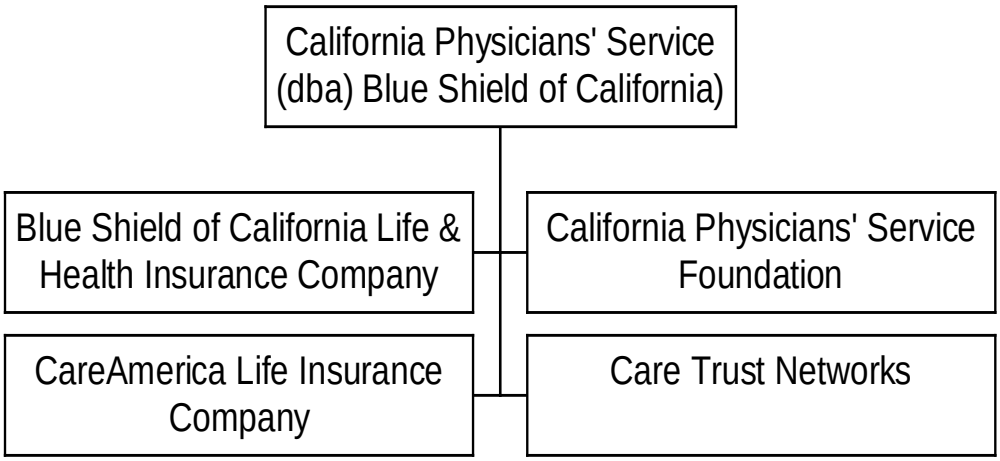
The Company received the following capital contributions from its parent, California Physicians' Service (dba Blue Shield of California) during the examination period:

Year	Amount
2009	$203,320,434
2010	75,122,575
2011	(160,639) *
	$278,282,370

* This amount represents an adjustment to the 2010 contribution.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which California Physicians' Service (dba 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, 2011. All companies are domiciled in California and ownership is 100%.



The Company is managed by a ten-member board of directors elected annually. Following are members of the board and principal officers serving as of December 31, 2011:

Directors

Name and Residence	Principal Business Affiliation
Bruce G. Bodaken [1] Tiburon, California	Chairman, President, and Chief Executive Officer California Physicians' Service
Douglas Busch Penryn, California	Chief Operating Officer Care Innovations
Vanessa C.L. Chang [2] Los Angeles, California	Principal EL & EL Investments
Evelyn Dilsaver San Leandro, California	Retired
Hector Flores, M.D. Los Angeles, California	Physician White Memorial Medical Center
Alan Fohrer Arcadia, California	Retired

Name and Residence	Principal Business Affiliation
William Hauck Sacramento, California	Political Advisor Goddard Claussen/West
Sandra Hernandez, M.D. San Francisco, California	Physician and Chief Executive Officer The San Francisco Foundation
Robert Lee [3] Moraga, California	Retired
Mohammed H. Qayoumi, Ph.D. San Jose, California	President San Jose State University

Principal Officers

Name	Title
Duncan Ross [4]	President and Chief Executive Officer
Seth A. Jacobs, Esq.	Secretary
Emily R. Glidden	Treasurer
Christopher Gorecki	Controller
Andrea DeBerry	Assistant Secretary
Kathy Swenson [5]	Vice President
David Joyner [6]	Vice President
Timothy Gustafson, FSA, MAAA	Actuary

The following changes in management occurred subsequent to the examination date:

[1] Replaced by Paul Markovich effective January 1, 2013
[2] Resigned from the board effective March 31, 2013
[3] Elected Chairman effective January 1, 2013
[4] Replaced by Lou Lombardo effective January 1, 2013
[5] Replaced by John Hedberg effective January 1, 2013
[6] Replaced by Jeff Hermosillo effective January 1, 2013

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,

facilities, information systems, and administrative and operational support on an actual cost basis. The agreement was approved by the California Department of Insurance (CDI) on September 13, 2004. Amendments one through three of the agreement were approved by the CDI on the following dates, respectively: August 17, 2004, December 27, 2005; and May 25, 2010.

Tax Allocation Agreement: Effective January 1, 2010, the Company entered into a tax allocation agreement with BSC, CareAmerica Life Insurance Company, and CareTrust Networks, for the purpose of filing a consolidated federal income tax return. The agreement was filed with the CDI on May 11, 2011. The agreement provides for separate income tax return calculations with credit for net losses that can be used on a consolidated basis. The CDI approved the new agreement on August 14, 2012.

TERRITORY AND PLAN OF OPERATION

The Company is licensed and operates exclusively in California. It writes ordinary life, group life, and individual and group accident and health insurance. Direct premium written in 2011 by line was as follows: Ordinary and group life combined $7,682,094 (0.5%); individual accident and health $595,266,068 (43.3%); and group accident and health $772,921,095 (56.2%). The Company markets through independent agents and brokers, and directly through the distribution system of its parent company, Blue Shield of California. Accident and health products offered by the Company include Preferred Provider Organization (PPO) health plans for individuals, small, midsize, and large employer groups; as well as vision, dental, and stop-loss coverage.

REINSURANCE

Assumed

No reinsurance was assumed during the examination period under review.

Ceded

Following is the Company's reinsurance program in place at December 31, 2011. All reinsurers are authorized.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Life:			
Excess Life and Accidental Death & Dismemberment (AD&D) Automatic Group	Swiss Re Life & Health America Inc.	$150,000 per person	$1 million per person excess of $150,000
Catastrophe Life and AD&D	Swiss Re Life & Health America Inc.	$2 million per accident	$10 million excess of $2 million per accident, limited to $20 million per year.
Automatic Quota share Group Term Life – EDS Employees	Swiss Re Life & Health America Inc.	Employee/Retiree: 50% of the first $100,000; 10% of the next $1 million	Employee/Retiree: 50% of the first $100,000; 90% of the next $1 million; 100% of the amounts over $1.1 million
		Spouse/Dependent: 50% of the first $200,000	Spouse/Dependent: 50% of the first $200,000
Group Voluntary AD&D Quota Share	Swiss Re Life & Health America Inc.	25% of $250,000 any one life	75% of $250,000 any one life
Accident and Health:			
Specific Excess of Loss – Medical Stop Loss for Self-Funded Groups	Zurich American Insurance Company	$750,000	Layer 1: $1 million less Company retention less Self Funded Employer's retention per covered person per policy period Layers 2 – 5: up to $10 million per covered person per policy period Layer 6: Unlimited after $10 million per covered person per policy period
Quota Share – Long Term Care	Swiss Re Life & Health America Inc.	50% of long term care insurance benefits	50% of long term care insurance benefits
Mental Health and Substance Abuse (MHSA) Quota Share	United HealthCare Insurance Company	0% of all charges for MHSA services that the Company has assumed or specifically contracted for under any Benefit Contract.	100% of all charges for MHSA services that the Company has assumed or specifically contracted for under any Benefit Contract.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2011

Summary of Operations and Capital and Surplus Account for the Year Ended December 31, 2011

Reconciliation of Capital and Surplus from December 31, 2008 through December 31, 2011

Statement of Financial Condition
as of December 31, 2011

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 556,904,227	$	$ 556,904,227	
Cash and short-term investments	68,038,210		68,038,210	
Contract loans	17,281		17,281	
Receivable for securities	60,623		60,623	
Investment income due and accrued	3,429,184		3,429,184	
Uncollected premiums and agents' balances				
In the course of collection	3,772,570	467,823	3,304,747	
Deferred premiums, agents' balances and installments				
Booked but deferred and not yet due	3,774		3,774	
Amount recoverable from reinsurers	5,606,789	4,436,284	1,170,505	
Other amounts receivable under reinsurance contracts	406,411	406,411		
Current federal and foreign income tax recoverable and interest thereon	339,982		339,982	
Net deferred tax asset	24,588,249	20,682,425	3,905,824	
Aggregate write-ins for other than invested assets	15,128		15,128	
Total assets	$ 663,182,428	$ 25,992,943	$ 637,189,485	

Liabilities, Surplus and Other Funds				
Aggregate reserve for life contracts			$ 2,981,085	(1)
Aggregate reserve for accident and health contracts			62,952,716	(1)
Liability for deposit-type contracts			6,038	
Contract claims: Life			2,571,689	(1)
Contract claims: Accident and health			180,786,514	(1)
Premiums and annuity considerations for life and accident and health received in advance			70,769,932	
Other expenses			6,292,056	
Taxes, licenses and fees			14,202,000	
Unearned premiums			1,807,824	
Advance premiums			2,178,121	
Dividends declared and unpaid: Policyholders			1,093,736	
Ceded reinsurance premiums payable			1,245,143	
Payable to parent, subsidiaries and affiliates			52,975,051	
Aggregate write-ins for liabilities			7,471,235	
Total liabilities			407,333,140	
Common capital stock		$ 2,500,000		
Gross paid-in and contributed surplus		310,192,369		
Unassigned funds (surplus)		(82,836,024)		
Capital and surplus			229,856,345	
Total liabilities, capital and surplus			$ 637,189,485	

Summary of Operations and Capital and Surplus Account for the Year Ended December 31, 2011

Summary of Operations

Premiums and annuity considerations	$ 1,370,823,154
Net investment income earned	19,055,421
Amortization of Interest Maintenance Reserve	2,714,558
Commission and expense allowances on reinsurance ceded	1,771
Total	1,392,594,904
Death benefits	3,167,011
Disability benefits and benefits under accident and health contracts	1,100,993,907
Surrender benefits and withdrawals for life contracts	11,700
Increase in aggregate reserves for life and accident and health contracts	(1,297,442)
Commissions on premiums, annuity considerations and deposit-type contract funds	105,336,271
General insurance expenses	216,700,115
Insurance taxes, licenses and fees, excluding federal income taxes	32,471,677
Increase in loading on deferred and uncollected premiums	(1,256)
Total	1,457,381,983
Net loss from operations before federal income taxes	(64,787,079)
Federal and foreign income taxes incurred	(23,416,796)
Net loss from operations after federal income taxes	(41,370,282)
Net realized capital gains	4,526
Net loss	$ (41,365,757)

Capital and Surplus Account

Capital and surplus, December 31, 2010		$ 275,490,142
Net loss	$ (41,365,757)	
Change in net deferred income taxes	202,526	
Change in nonadmitted assets	(3,938,701)	
Change in asset valuation reserve	(371,226)	
Surplus adjustments:		
Paid-in	(160,639)	
Net change in capital and surplus for the year		(45,633,797)
Capital and surplus, December 31, 2011		$ 229,856,345

Reconciliation of Capital and Surplus
from December 31, 2008 through December 31, 2011

	Gain in Surplus	Loss in Surplus	
Capital and surplus, December 31, 2008 per Examination			$ 138,486,888
Net loss	$	$ 97,893,618	
Change in net unrealized capital gains	43,304		
Change in net deferred income tax	20,552,073		
Change in nonadmitted assets		21,940,463	
Change in asset valuation reserve		1,245,143	
Surplus adjustments: Paid-in	278,282,370		
Aggregate write-ins for gains and losses in surplus		86,429,066	
Total gains and losses	$ 298,877,747	$ 207,508,290	
Net increase in capital and surplus			91,369,457
Capital and surplus, December 31, 2011, per Examination			$ 229,856,345

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), the California Department of Insurance (CDI) retained an independent actuary to perform an actuarial review of the aggregate reserves for life contracts, contract claims: life, and contract claims: accident and health. A CDI actuary reviewed and concurred with the work performed. Based on the review, the Company's December 31, 2011 reserves for the above liabilities were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Corporate Records (Page 5): It was recommended the Company comply with California Insurance Code Section 735. The Company has complied with this recommendation.

Account and Records (Page 8): It was recommended the Company make appropriate changes to strengthen its information systems controls. The Company has complied with this recommendation.

ACKNOWLEDGMENT

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

Respectfully submitted,

_____/s/_____

Isabel Spiker, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California