MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON

Phone: (360) 725-7000
www.insurance.wa.gov

OFFICE OF
INSURANCE COMMISSIONER

In the Matter of	)	No. G07-4
	)	
	)	
The Financial Examination of	)	FINDINGS, CONCLUSIONS,
PREMERA BLUE CROSS	)	AND ORDER ADOPTING REPORT
	)	OF EXAMINATION

A Registered Health Care Service Contractor.

BACKGROUND

An examination of the financial condition of **PREMERA BLUE CROSS** (the Company) as of December 31, 2004, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of registration as a health care service contractor. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for its comments on January 31, 2007. The Company's response to the report is attached to this order only for the purpose of a more convenient review of the response.

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

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

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 18 of the report.

Mailing Address: P. O. Box 40255 • Olympia, WA 98504-0255
Street Address: 5000 Capitol Blvd. • Tumwater, WA 98501

CONCLUSIONS

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

ORDER

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

The Company is ordered as follows, these being the Instructions contained in the examination report on pages 1-7.

1. The Company is ordered to comply with RCW 48.44.100 and file an accurate statement of its financial condition, transactions, and affairs; with RCW 48.43.097 which requires the filing of its financial statements in accordance with the NAIC AP&P Manual; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the NAIC AP&P Manual. Instruction 1, Examination Report, page 4.

2. The Company is ordered to comply with RCW 48.44.100 and file an accurate statement of its financial condition, transactions, and affairs; with RCW 48.43.097 which requires the filing of its financial statements in accordance with the NAIC AP&P Manual; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the NAIC AP&P Manual. Instruction 2, Examination Report, page 4.

3. The Company is ordered to comply with RCW 48.31C.040 and file all required information when submitting the annual registration statement or when material changes or additions are required to be filed with the OIC on an interim basis. Instruction 3, Examination Report, page 5.

4. The Company is ordered to amend its custodial agreement with BNY to include appropriate wording and criteria as set forth in the NAIC FCEH pursuant to RCW 48.03.010(1) and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions.

   In connection with the incorrect statement in General Interrogatory No. 23.01, the Company is also ordered to comply with RCW 48.44.100 and file an accurate statement of its financial condition, transactions, and affairs. Instruction 4, Examination Report, page 5.

5. The Company is ordered to complete and submit a SUB 1-form to the SVO as required in Part Eight, Section 2(a) and (b) of the SVO manual, pursuant to SSAP No. 46, paragraph 23; RCW 48.03.010(1) which requires the consideration of criteria as set forth in the NAIC FCEH; RCW 48.43.097 which requires the filing of its financial statements in accordance with the NAIC AP&P Manual; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the NAIC AP&P Manual. Instruction 5, Examination Report, page 5.

6. The Company is ordered to comply with RCW 48.44.030, and WAC 284-44-340, which require a health care service contractor to maintain a minimum indemnity deposit with the state of Washington pursuant to the underwriting of indemnity calculation. Instruction 6, Examination Report, page 6.

7. The Company is ordered to comply with WAC 284-07-060(2)(a) and include a SAO that is in compliance with the NAIC Annual Statement Instructions and NAIC AP&P Manual pursuant to WAC 284-07-050(2). Instruction 7, Examination Report, page 6.

8. The Company is ordered to adequately account for unpaid claims adjustment expenses using past experience adjusted for current trends, pursuant to SSAP No. 55, paragraph 8, and comply with RCW 48.44.100 and file an accurate statement of its financial condition, transactions, and affairs; with RCW 48.43.097 which requires the filing of its financial statements in accordance with NAIC AP&P Manual; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the NAIC AP&P Manual. Instruction 8, Examination Report, page 7.

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

ENTERED at Olympia, Washington, this 6th day of March, 2007.

MIKE KREIDLER
Insurance Commissioner

RECEIVED
FEB 22 2007
INSURANCE COMMISSIONER
COMPANY SUPERVISION

PREMERA | BLUE CROSS

February 16, 2007

James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Washington Office of the Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

RE: Financial Examination Report of Premera Blue Cross as of December 31, 2004

Dear Deputy Commissioner Odiorne:

Please see Premera Blue Cross' (the Company) responses to the examination Instructions and Comments and Recommendations from the Office of the Insurance Commissioner's Financial Examination Report in the letter dated January 31, 2007. Also, we noted some inaccuracies in the other sections of the report and have suggested alternative text for your consideration.

INSTRUCTIONS

1. NAIC Annual Statement Errors and Misclassifications

a. Non-Admitted Accounts Receivable for Uninsured Plans

The Company does not contest this finding.

b. Contingent Commitment NAIC Annual Statement Disclosure

The Company does not contest this finding. In the 2005 Annual Statement, the Company reported full numbers which were not truncated and will do so in all future filings.

c. Real Estate Investment Disclosure

The Company does not contest this finding. In the 2005 Annual Statement, the Company corrected the note to reflect its investments in real estate and real estate investment information was properly disclosed.

d. Unpaid Claims for Uninsured Plans

The Company does not contest this finding. In the 2005 Annual Statement, unpaid claims for uninsured plans was no longer on the balance sheet.

e. Premium Reporting on Schedule T and the Underwriting and Investment Exhibit, Part 1

The Company does not contest this finding. In the 2005 Annual Statement, the Company recorded written premiums on Schedule T and the Underwriting and Investment Exhibit, Part 1, Column 1.

f. Remittances and Items Not Allocated Misclassified

The Company does not contest this finding. In the 2005 Annual Statement and for subsequent filings, unapplied premium payments will be reported as Remittances and items not allocated.

g. Securities Lending Annual Statement Disclosure

The Company does not contest this finding. In the 2005 Annual Statement, the number scheme of the notes conformed to NAIC instructions and the response to the General Interrogatory relating to exclusive control of securities owned was corrected.

h. Other Assets Not Under the Exclusive Control of the Company Annual Statement Disclosure

The Company does not contest this finding. In the 2005 Annual Statement, the Company corrected the responses for General Interrogatory disclosures relating to assets not under the exclusive control of the Company.

i. Securities Lending Accounting for Collateral Received on Securities Loaned

The Company does not contest this finding. Beginning with the 2005 1st Quarter Statement and all subsequent filings, amounts related to securities lending on the balance sheet were no longer reported.

j. Rental Income Footnote Disclosure

The Company does not contest this finding. In the 2005 Annual Statement, the Company corrected the Exhibit of Net Investment Income footnote disclosures related to rental income.

k. Additional Data to the NAIC Annual Statement

The Company does not contest this finding. The Company corrected and resubmitted the 2004 Additional Data to the Annual Statement. In the 2005 Annual Statement, the Additional Data to the Annual Statement was completed properly.

l. Accrued Retrospective Premium Disclosure

The Company does not contest this finding. In the 2005 Annual Statement, the Company corrected the disclosures related to accrued, retrospective premium disclosures consistent with SSAP No. 66 and the NAIC Annual Statement Instructions.

m. Special Deposit, Schedule E – Part 3, Reporting Error

The Company does not contest this finding. In the 2005 Annual Statement, the Company properly referenced these funds on Special Deposit, Schedule E – Part 3.

2. Tax Allocation

The Company does not contest this finding. In the 2005 Annual Statement, the Company reported the entries to credit Unassigned funds and to debit Receivables from parent, subsidiaries and affiliates for subsidiary utilization of tax net operating loss carry forwards.

3. Holding Company Act Failure to Report All Required Data

As instructed by the Washington State Office of the Insurance Commissioner in connection with its financial conduct examination of LifeWise Health Plan of Arizona, Inc. (LWAZ), LWAZ reconfirmed its participation in the Intercompany Agreement (Allocation of Costs) between the Company and its affiliates on August 8, 2003. Such information is captured in the Company's Annual Registration Statement filed under the Health Carrier Holding Company Act.

4. Investment Custodial Agreement Criteria

The Company does not contest this finding. The Company is in the process of amending its custodial agreement with the Bank of New York Trust Company.

Beginning with the 2005 3rd Quarter Statement, the Company corrected the General Interrogatories related to the custodial agreement.

5. Initial Reporting of Subsidiary, Controlled and Affiliated (SCA) Entities to the Securities Valuation Office (SVO)

The Company does not contest this finding and will apply for a Private Placement Number (PPN) and file the SUB-1 form when the PPN is obtained.

6. Underwriting of Indemnity Deposit Deficiency

The Company does not contest this finding. The Company has since made additional deposits to maintain adequate indemnity deposits with the State of Washington.

7. Statement of Actuarial Opinion (SAO) Issues

The Company does not contest this finding. In the 2005 Annual Statement, the Company made corrections in its statement of Actuarial Opinion, pursuant to the OIC's instructions, consistent with the NAIC Annual Statement Instructions.

8. **Understated and Overstated Unpaid Claims Adjustment Expense (CAE)**

The Company will review its unpaid claims adjustment expenses as requested "using past experience adjusted for current trends pursuant to SSAP No. 55, paragraph 8."

COMPANY PROFILE

1. The correct legal name of Premera is "PREMERA", not "PREMERA, Inc." Please correct the company name throughout the report, including the following pages from other report sections: on page 7 under Capitalization, on page 8 under Acquisitions, Mergers, Disposals, Dissolutions, Purchases, and Sales, on page 8 under AFFILIATED COMPANIES - the category title and in the first sentence, on page 9 on the Organizational Chart, on page 11 under Board of Directors, on page 12 under Fidelity Bond and Other Insurance, on page 12 under Defined Benefit Plan, Defined Contribution Plans, and Consolidated Holding Company Plans.

2. On page 8 under Territory and Plan of Operation, delete "The Company is also a fiscal intermediary for Medicare Part A" and insert "The Company operated as fiscal intermediary for Medicare until September 30, 2004. Additionally, the Company ceased Medicaid operations effective June 1, 2004."

3. On page 8 under Acquisitions, Mergers, Disposals, Dissolutions, Purchases, and Sales, the Company's pre-merger name was Blue Cross of Washington and Alaska.

AFFILIATED COMPANIES

1. On page 8 under LifeWise Health Plan of Arizona, Inc. (LWAZ), LWAZ is also licensed as a life and disability carrier in the state of Washington although it does not sell policies in this state.

2. On page 9 under Washington-Alaska Group Services, Inc. (WAGS), LifeWise Administrators, Inc. needs to be added as a subsidiary. Additionally, delete the reference to Calypso Healthcare Solutions former name (i.e., "formerly Quality Solutions.").

INTERCOMPANY AGREEMENTS

1. On page 10, we noticed that the OIC has not included a reference to the service agreement that existed between the Company and Calypso Healthcare Solutions (formerly Quality Solutions) effective September 1, 2000 through January 31, 2005. This service agreement was included in the Company's initial Annual Registration Statement under the Health Carrier Holding Company Act in 2001.

2. On page 10, we are confused as to which agreement the description of the Administrative Services Agreement (ASA) relates to. There is no ASA between the Company and the PREMERA affiliated companies. Effective January 1, 2005, there is an ASA between the Company and one of its affiliated companies, LifeWise Health Plan of Washington.

3. On page 10 under Intercompany Agreements, Intercorporate Tax Sharing Agreement should be "Restated Intercorporate Tax Sharing Agreement." In its Annual Registration Statement, the Company refers to this agreement as the "Tax Allocation Agreement."

MANAGEMENT AND CONTROL

1. On page 11 this list of Officers contains the senior officers of the Company and, therefore, does not include the list of the Company's Vice Presidents. Please insert the term "senior" before any references to "officers."

2. On page 11 under Board of Directors remove the R. as a middle initial for Sally Jewel.

3. On page 12 under Fidelity Bond and Other Insurance, delete the third bullet, Executive Protection.

ACCOUNTING RECORDS AND INFORMATION SYSTEMS.

1. On page 14 under Accounting Records and Information Systems, the Company refers to its Information Technology department as IT, not IS.

Please feel free to call me regarding any of these responses or comments. I can be reached at 425-918-4640.

Sincerely,

Sharilyn A. Campbell by gs

Sharilyn A. Campbell
Vice President, Finance