

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**BLUE CROSS BLUE SHIELD
OF NORTH DAKOTA**

FARGO, NORTH DAKOTA

**AS OF
DECEMBER 31, 2019**

STATE OF NORTH DAKOTA
INSURANCE DEPARTMENT

I, the undersigned, Insurance Commissioner of the State of North Dakota, do hereby certify that I have compared the annexed copy of the Report of Examination of

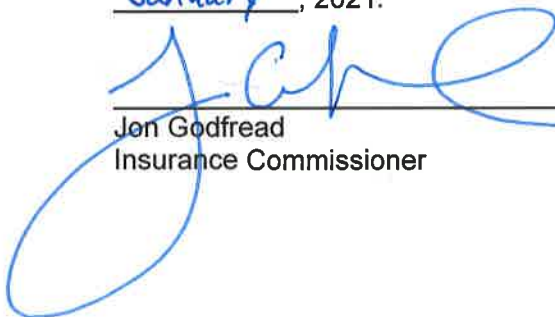
Blue Cross Blue Shield of North Dakota

Fargo, North Dakota

as of December 31, 2019, with the original on file in this Department and that the same is an accurate duplicate there from and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this 14 day of
January, 2021.





Jon Godfread
Insurance Commissioner

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Fargo, North Dakota
November 12, 2020

Honorable Jon Godfread
Insurance Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and statutory requirements, an examination has been made of the books, records, and financial condition of

Blue Cross Blue Shield of North Dakota

Statutory Home Office
4510 13th Ave S
Fargo, North Dakota, 58121

hereinafter referred to as (“BCBSND”) or the (“Company”), was last examined as of December 31, 2014, by the North Dakota Insurance Department, hereinafter referred to as the (“Department”).

The present examination was conducted as of December 31, 2019, by representatives of the Department.

SCOPE OF STATUTORY EXAMINATION

This examination was a risk focused financial condition examination conducted in accordance with N.D.C.C. (“N.D.C.C.”) § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC Financial Condition Examiners Handbook. The examination was conducted to determine the Company’s financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the period of January 1, 2015 through December 31, 2019, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The examination was conducted in accordance with examination policies and standards established by the Department and procedures recommended by the NAIC. In accordance with the NAIC Financial Condition Examiners Handbook, the examination was planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. The examination also included 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 process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles.

The examination does not attest to the fair presentation of the financial statements included herein. Statements were prepared by management and are therefore the responsibility of management. 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.

STATUS OF PRIOR EXAMINATION FINDINGS

The Company was in compliance with the prior examination recommendations.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

SUBSEQUENT EVENTS

On December 4, 2020, the Company's Board of Directors approved a commutation of its MedAmerica Insurance Company ("MedAmerica") long term care 100 percent reinsurance quota share agreement. As of the date of this report, the liability for this block of business totaled \$29 million. Asset and liability transfers related to this block of business are expected to be completed in early 2021.

COMPANY HISTORY

General

The North Dakota Hospital Service Association was incorporated on March 20, 1940, under the laws of the State of North Dakota relating to benevolent and charitable corporations. On February 28, 1964, the Articles of Incorporation were amended, changing the name to Blue Cross of North Dakota.

The North Dakota Physicians Service was incorporated on December 7, 1945, under the laws of the State of North Dakota relating to benevolent and charitable corporations. On March 27, 1971, the Articles of Incorporation were amended, changing the name to Blue Shield of North Dakota.

On July 1, 1986, the merger of the two companies was approved, with the name of the surviving company being Blue Cross and Blue Shield of North Dakota.

Effective January 30, 1998, the Company converted from a not-for-profit health services corporation to a nonprofit mutual insurance company and the Company's name was changed from Blue Cross Blue Shield of North Dakota to Noridian Mutual Insurance Company. The conversion also passed ownership to the policyholders and gave the Company the ability to market products in states other than North Dakota.

Effective January 1, 2019, the policyholders approved a plan that formed a Mutual Holding Company named "HealthyDakota Mutual Holdings" ("HDMH") and ceded ultimate control to HDMH.

MANAGEMENT AND CONTROL

Membership

The sole member of the Company is HDMH.

An HDMH member, as defined in the HDMH Bylaws, is (a) an owner of an individual accident and health policy or health service contract or an owner of a stop-loss insurance policy issued by BCBSND, as long as the policy is in force and unless such ownership, including membership, is transferred to a new owner of the policy or contract; or (b) a person named as a subscriber or certificate holder under a group accident and health insurance policy or health service contract issued by BCBSND that is in force.

The annual meeting of the members of HDMH shall be held in the month of December of each year at the time, day, and place determined by the Board of Directors ("Board") for the purpose of electing directors, reporting on the activities and financial condition of the Corporation and transacting any other business as may properly come before the meeting.

Special meetings of the members of HDMH may be called at any time upon written request of the President/CEO, the Chairman of the Board, five or more Directors, the lesser of 50 members or ten percent of the members, or as otherwise required by law.

Board of Directors

The Bylaws provide that the Company's Board of Directors shall, at all times, consist of the persons that also serve on the board of directors of HDMH. At the Annual Meeting, nominated Directors shall be elected by the Sole Member and shall serve for such term as such Director serves on the Sole Member's board of directors.

The HDMH Bylaws state the Board of Directors shall consist of between 9 and 15 persons among three classes: a) Members of the corporation, or officers, directors or trustees of Members of the corporation, who are not providers of health care services and who are not employees of, or persons having financial interest in, any provider of health care services ("Member Directors"), b) providers of healthcare services, including physicians, persons affiliated with hospitals, or individuals working in the health care delivery industry determined to be qualified ("Provider Directors"), and c) persons who meet neither the qualifications to be a Member Director nor a Provider Director ("At Large Directors"). A majority should be Member Directors and there must be more Provider Directors than At Large Directors.

These directors shall be elected by a majority of the members present or represented by proxy at the annual meeting. Each director shall be elected for a term of three years. No director shall serve more than four successive three-year terms.

The Bylaws require that Board of Directors shall meet not fewer than four times annually. The December meeting of the board of Directors shall constitute the Annual Meeting. Special meetings

may be called at any time by the President, Chair of the Board, five or more Directors, the Board of Directors, the Sole Member, or otherwise required by law. The Annual meeting of the Sole Member shall be held at a date and time determined by the Board of Directors for the purposes of electing Directors, reporting on the activities and financial condition of the Corporation and transacting any other necessary business.

Following is a list of the directors and their principal business affiliations as of December 31, 2019:

Name	Category	No. of Years as Director	Business Affiliation
Jodi Lynn Atkinson	C	12	Retired Hospital Administrator
Darrold Dean Bertsch	P	1	CEO of Sakakawea Medical Center; CEO of Coal Country Community Health Center
Kristi Therese Schlosser Carlson	C	2	Chief Legal Officer North Dakota Farmers Union
Lynette Johnson Dickson	P	9	Associate Director Center for Rural Health
Lisa Marie Anderson-Helbling	C	3	Chief Financial Officer, ImmunoPrecise Antibodies, ltd (IPA)
Dennis Arnold Hill	C	6	Retired EVP & General Manager North Dakota Association of Rural Electric Cooperatives
Niles John Hushka	A	4	Retired President and CEO of KLJ Solutions
Dale Albert Klein	P	8	Physician Sanford Health
Todd Robert Kumm	C	3	Retired CEO of Dakota Supply Group
James Lovell Larson	C	5	Finance Director for City of West Fargo
David Allen Sprynczynatyk	C	6	Retired Adjutant General North Dakota National Guard
Casey Douglas Stoudt	C	6	President and owner of R.M. Stoudt, Inc.

Category: P - Provider, C – Consumer, A – At Large
Officers

The Company shall have one or more persons exercising the functions of the offices of Chair, Vice-Chair, President, Treasurer, Secretary, Internal Audit Officer and Compliance Officer. The Board of Directors or the President may elect or appoint such other officers necessary for the oversight, operation or management of the Company.

Board officers serving as of December 31, 2019, were as follows:

David Spryncznatyk	Board Chair, Alternate Voting Delegate
Dennis Hill	Board Vice Chair
Daniel Conrad	President, Plan Voting Delegate
David Breuer	Treasurer
Donald Campbell	Secretary

Corporate officers serving as of December 31, 2019 were:

Daniel Conrad	President, Chief Executive Officer
David Breuer	Executive Vice President, Chief Financial Officer
Stacie Heiden	Executive Vice President, Strategic & Health Delivery
Donald Campbell	Senior Vice President, Chief Legal Officer
Jon Bogenreif	Senior Vice President, Operations
Joan McCusker	Senior Vice President, Risk & Administration
Anthony Piscione	Vice President, Actuarial & Appointed Actuary
Jeffrey Ubben	Vice President, Chief Compliance Officer
DeAnn Wissink	Internal Audit Officer

Committees

Finance and Investment Committee

The Finance and Investment Committee is tasked with managing investments in accordance with applicable laws as well as reviewing annual financial forecasts and administrative budgets of the Company and its subsidiaries and affiliates. As of December 31, 2019, the Finance and Investment Committee was comprised of:

Todd Kumm	Chair
Lynette Dickson	Member
Dale Klein	Member
Casey Stoudt	Member
David Sprynczynatyk	Ex-officio

Audit and Compliance Committee

The Audit and Compliance Committee's primary responsibilities include selecting the external auditors and monitoring the independence of the internal and external auditors. The Committee also oversees the Compliance Officer, the Internal Audit Officer, and each of their respective programs.

As of December 31, 2019, the Audit and Compliance Committee included the following directors:

Lisa Marie Anderson-Helbling	Chair
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Jodi Atkinson	Member
Darold Bertsch	Member
Dennis Hill	Member
Dale Klein	Member
David Sprynczynatyk	Ex-officio

Other Committees

Other committees designated by the Bylaws and composed only of Board members are the Quality Committee and the Human Resources and Compensation Committee. The Board of Directors may designate additional committees as it deems necessary.

CORPORATE RECORDS

Articles of Incorporation

On December 7, 2018, the policyholders of Noridian Mutual Insurance Company approved amended and restated Articles of Incorporation. Amendments relevant to this examination included:

- Article I: Changed the Company's name to Blue Cross Blue Shield of North Dakota
- Article V: The Sole Member of the Company is HDMH.
- Article VI: The Board of Directors shall, at all times, consist of the persons that also serve on the board of Directors of the Sole Member, HDMH.

Bylaws

Also, on December 7, 2018, the policyholders of Noridian Mutual Insurance Company adopted amended and restated Bylaws. The revised Bylaws became effective January 1, 2019 and, among others, included the following key changes:

- Article II: The Sole Member of the Company is HDMH.
- Article IV: The Board of Directors shall, at all times, consist of the persons that also serve on the board of directors of the Sole Member.
- Article V: The Company shall have one or more persons exercising the functions of the offices of Chair, Vice-Chair, President, Treasurer, Secretary, Internal Audit Officer and Compliance Officer.
- Article VI: The Governance and Nominations committee was eliminated at the Company level as the Boards are interlocking.

Board of Directors, Policyholders and Committee Minutes

The minutes of the Board of Directors, committees, and policyholder(s) were read for the period under examination.

The minutes of the various meetings indicate that the meetings were well attended and were held in accordance with the Bylaws, Articles of Incorporation, and statutory requirements. The deliberations of the board were adequately documented and supported the Company's transactions and events.

The Finance and Investment Committee's approval of investment transactions were not properly documented within the minutes of its quarterly meetings to evidence compliance with N.D. Admin. Code § 45-03-12-05(4), which states:

"On no less than a quarterly basis, the board of directors or committee of the board of directors shall:

- a. Receive and review a summary report on the insurer's investment portfolio, its investment activities, and investment practice engaged in under delegated authority, in order to determine whether the investment activity of the insurer is consistent with its written plan."

It is recommended that the Finance Committee document its quarterly review of investment activity within its meeting minutes per N.D. Admin. Code § 45-03-12-05(4).

Conflict of Interest

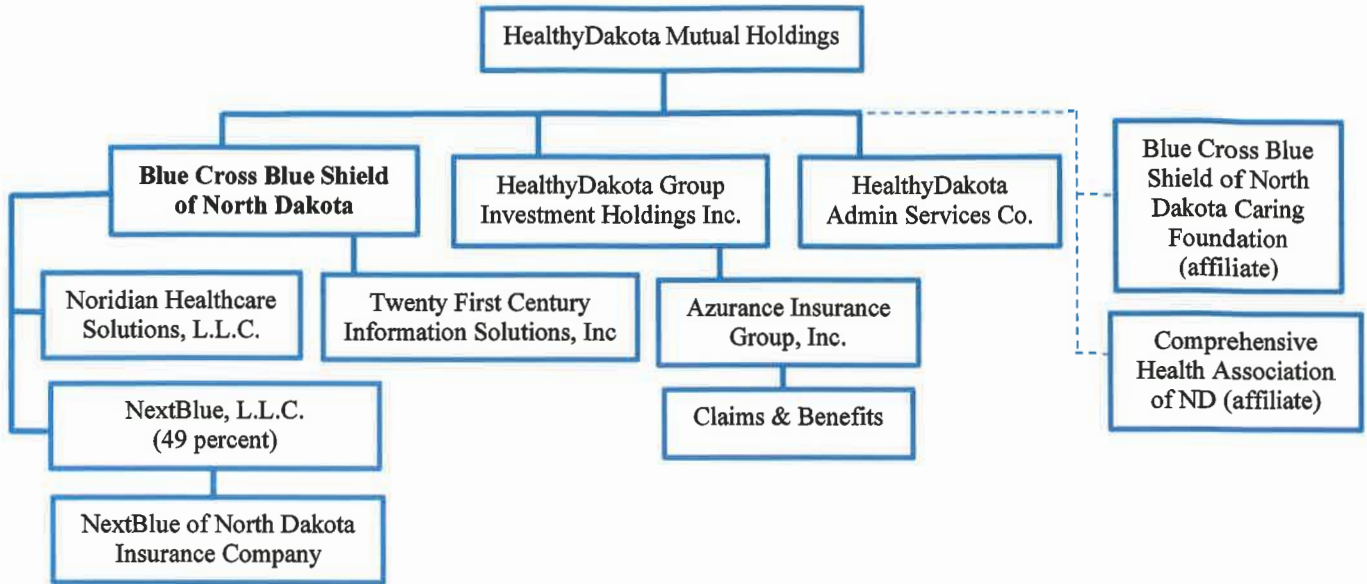
The Board of Directors adopted and published a resolution concerning conflict of interest, which is provided to the directors, officers, and key employees. The resolution requires full disclosure of any interest that might result in a conflict for a director and forbids a material conflict of interest on the part of an officer or employee.

Conflict of interest statements are completed each year by directors, officers, and key employees disclosing any material interest or affiliation likely to cause any conflict. Significant conflicts of interest, in particular those involving directors or officers, are reported by the Director of Compliance & Enterprise Ethics to the Board of Directors.

Conflict of interest statements executed during the period under examination were reviewed and no material conflicts were noted.

HOLDING COMPANIES, SUBSIDIARIES, AND AFFILIATES

The relationship of the Company to its subsidiaries and affiliates at December 31, 2019, is shown in the following organizational chart:



Holding Company

HealthyDakota Mutual Holdings

On December 7, 2018, the policyholders of Noridian Mutual Insurance Company approved a plan that formed a mutual holding company named “HealthyDakota Mutual Holdings” (“HDMH”) and ceded ultimate control to HDMH, which became the sole member of the Company.

Subsidiaries

Noridian Healthcare Solutions, LLC (“NHS”), a Delaware limited liability company, was formed in 2002, to operate as a regional claims contractor for the federal government’s Medicare program. The Company processes Medicare claims under its A/B MAC Contract for Jurisdiction F (both Part A and Part B) for North Dakota, South Dakota, Utah, Wyoming, Arizona, Montana, Washington, Alaska, Oregon and Idaho. The Company processes Medicare claims under its DME (Durable Medical Equipment) MAC Contract for Jurisdiction D for Alaska, American Samoa, Arizona, California, Guam, Hawaii, Idaho, Iowa, Kansas, Missouri, Montana, Nebraska, Nevada, North Dakota, Northern Mariana Islands, Oregon, South Dakota, Utah, Washington, and Wyoming. NHS is a wholly owned subsidiary of the Company. At December 31, 2019, the reported value of the investment in NHS was \$63,330,987.

Noridian Insurance Services, Inc. (“NISI”) is a wholly owned subsidiary of the Company, which operates as an insurance agency and provides employee benefit plan administration for pension, health and other welfare plans throughout the Upper Midwest area. With the formation of the HDMH mutual holding company on January 1, 2019, NISI changed its name to Azurance Insurance Group, Inc. (“Azurance”) and the Company transferred its ownership to HealthyDakota Group Investment Holdings Inc. (“HDGIH”).

Corelink Administrative Solutions, LLC, (“Corelink”) was formed on January 1, 2009, with the Company (through Twenty First Century) and Blue Cross and Blue Shield of Nebraska, each holding a 50 percent interest through a downstream subsidiary. Corelink provided information technology services to health insurers, health maintenance organizations and other managed care entities, including the Company and Blue Cross and Blue Shield of Nebraska. The Department approved an agreement transferring the Company’s ownership interests in Corelink to Azure Equity Management, LLC on July 2, 2019.

Twenty First Century Information Solutions, Inc., (“Twenty First Century”) incorporated May 18, 1994, is a wholly owned subsidiary of the Company. It was initially formed to furnish computer services to allow providers to become electronically integrated with the Company. Twenty First Century was the intermediate holding company for Corelink until the Company’s ownership interests were transferred to Azure Equity Management, LLC on July 2, 2019. At December 31, 2019, the reported value of the investment in Twenty First Century was \$0.

NextBlue, LLC, (“NB”) incorporated November 8, 2019, is joint venture between the Company and Covantage Health Partners, Inc., (“Covantage”) a subsidiary of Blue Cross Blue Shield of Michigan (“BCBSM”). NB is an intermediate holding company with NextBlue of North Dakota Insurance Company as its sole asset. The Company owns a 49 percent stake in NB, valued at \$980,000 as of December 31, 2019.

NextBlue of North Dakota Insurance Company (“NBNDIC”) was incorporated on December 13, 2019 under the laws of the State of North Dakota. NBNDIC was organized to produce Medicare Advantage business. The Department issued a Report on the Organization of NBNDIC as of January 31, 2020 and a Certificate of Authority on March 9, 2020. NBNDIC will start producing business on January 1, 2021. The Company and BCBSM each have guarantee agreements with NBNDIC to satisfy the liabilities of its portion of the NB joint venture, if necessary.

Affiliates

Comprehensive Health Association of North Dakota (“CHAND”) is a statutorily created association organized to provide health care coverage to high-risk individuals who would otherwise not be able to obtain coverage. The Company is the lead insurer and administrator of the program. Not less than 87.5 percent of the association plan premium paid to the lead carrier may be used to pay claims.

Blue Cross Blue Shield of North Dakota Caring Foundation, Inc. (“Foundation”) is a 501(c)(3) charitable organization funded by the Company. Through giving and grant making, the Foundation addresses health issues across the state that help improve the health and wellbeing of North Dakotans and their communities.

INTERCOMPANY AGREEMENTS

The Company has various agreements in place with HDMH, its subsidiaries, and its affiliates that provide the facilities and administrative resources necessary to carry out each entities’ operations. The Company is also the lead entity in an investment pooling arrangement where it guarantees a rate of return equal to the Barclay’s 1-5 Government Credit Index on all funds it receives from under the pooling agreement, notwithstanding the actual performance of the investment portfolio.

HealthyDakota Mutual Holdings (HDMH)

On February 18, 2019, HDMH entered into an agreement that guarantees to the full extent of its assets, all of the contractual and financial obligations of the Company to its customers. The Blue Cross Blue Shield Association (“Association”) requires HDMH, as the controlling affiliate of the Company, to have this guarantee in place. Similarly, on March 31, 2020, HDMH also signed an agreement guaranteeing the obligations of the Company’s subsidiary NBNDIC to the extent of the Company’s 49 percent ownership.

NextBlue of North Dakota Insurance Company (“NBNDIC”)

Effective January 24, 2020, the Company agreed to provide NBNDIC services including but not limited to account management, network design, provider contracting, and credentialing.

BLUE CROSS BLUE SHIELD ASSOCIATION

The Blue Cross Blue Shield Association (“Association”) is a national trade association and coordinating agency of the 36 Blues plans throughout the United States including the District of Columbia, and Puerto Rico, and the owner and licensor of the Blue Cross and Blue Shield names and trademarks. The Association performs three primary roles: those of a trademark licensor, a trade association, and a provider of various business and coordinating plan services.

The Association protects the value of the Blue Cross and Blue Shield names and trademarks by requiring plans to comply with the terms of a license agreement. The agreement defines the geographic boundaries within which plans may use the names and trademarks and the conditions of that usage. The Association also represents the collective interests of plans before the federal and state governments and certain other national organizations. Additionally, the Association administers programs designed to coordinate plan coverage nationwide for private business and government contracts and provides consulting services to individual plans.

The Association is governed by a Board of Directors composed of the chief executive officers from most Blues plans and is primarily funded by plan dues.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2019, the Company is the named insured on a crime insurance policy issued by Allied World Specialty Insurance Company. The policy has an aggregate loss limit of \$5,000,000 which exceeds the minimum coverage suggested by the NAIC.

STATUTORY DEPOSITS

The book value of securities held in a custodial account and vested with the North Dakota Insurance Commissioner for the benefit of all policyholders totaled \$865,908 at December 31, 2019.

TERRITORY AND PLAN OF OPERATION

Territory

The Company is duly licensed and qualified to transact the business of a nonprofit mutual insurance company in North Dakota, South Dakota, and Minnesota. The Certificate of Authority issued by the State of North Dakota was reviewed and found to be in proper order and effect. The Company did not write any business in Minnesota or South Dakota during the exam period.

The Company is the largest health insurer in North Dakota by market share. Comprehensive health business accounted for 68 percent of the Company's premiums in 2019. Medicare supplement premiums were 8 percent of total premiums.

Other Significant Accounts and Functions

Federal Employee Program

The Federal Employee Program ("FEP") is a Blue Cross Blue Shield program that serves the Federal Employees Health Benefit Program ("FEHBP"). The Blue Cross Blue Shield Association coordinates the FEP for Blue Cross Blue Shield Plans electing to participate in the program. A Plan Participation Agreement spells out the respective duties of the Plans and the Association. Claims incurred under FEP are paid by the participating Plans where services are rendered. The Plans are reimbursed by the Association from a central account funded by the federal government and FEHBP employee premiums. Participating Plans recover their approved costs of administration from the program. In addition, the FEP is paid a service charge by the government for operating the program, which is distributed to participating Plans based upon performance and service.

The FEP operates on a yearly cycle. The federal government and eligible carriers negotiate the benefit package, subscriber rates, and cost of administration of the FEP annually. All participating Plans are required by the federal program to jointly underwrite the benefits of the FEP.

The FEP premiums represented approximately 11 percent of the total premiums earned as reported on the 2019 Annual Statement Underwriting and Investment Exhibit Part 1.

Administrative Services Contracts ("ASC")

The Company functions as an administrator for various self-insured plans, providing claim processing services to the plan sponsors which bear the ultimate risk for payment of claims. Claims are paid by the Company and then reimbursement is obtained from the plan sponsor. The Company bears credit risk from the time the claim is paid until reimbursement is received from the plan sponsor. In return for the claim processing services, the Company receives an administrative fee. For some uninsured plans, the Company issues a stop-loss insurance policy in conjunction with the administrative service contract. The stop-loss policy covers claims incurred by the plan sponsor above a minimum amount. Uninsured plans with insurance coverage are classified as partially insured plans.

The following schedule shows the amount of ASC business transacted during the period under examination as reported by the Company in item 18 of the Notes to Financial Statements:

Year	ASC Admin Fee Income	ASC Expenses	Claim Payments	Gain/(Loss)
2015	\$40,261,881	\$37,991,727	\$590,551,877	\$ 2,270,154
2016	41,113,119	40,363,762	609,946,431	749,357

2017	41,247,779	50,178,227	845,132,237	(8,930,448)
2018	42,427,272	74,567,457	881,158,141	(32,140,185)
2019	40,181,506	70,125,149	896,596,494	(29,943,643)

Prime Therapeutics, Inc./Pharmacy Benefits Management

The Company has contracted with Prime Therapeutics, Inc., a pharmacy benefit management company located in Eagan, Minnesota, to provide pharmaceutical services and obtain pharmacy rebates from drug manufacturers. Pharmaceutical rebate receivables are estimated quarterly based on previous quarters actual prescriptions. Each quarterly estimate is confirmed/ invoiced by the Company's pharmaceutical benefit manager within 60 days.

The examiners reviewed the Company's compliance with the pharmacy benefit management provisions of N.D.C.C. § 26.1-27.1-06 and the related requirements of SSAP No. 84, paragraphs 10-13, that address pharmaceutical rebate receivables.

The examiners concluded the Company applied rebates received from its pharmacy benefit manager, related to the pharmaceutical purchases under the fully insured plans, to reduce the claims expense for fully insured plans. The Company's self-funded groups received 100 percent of the rebate received for pharmaceutical purchases made by the self-funded groups. The Company is in compliance with SSAP No. 84 requirements to report income from pharmaceutical rebates of insured plans as a reduction to claims expense in the summary of operations.

REINSURANCE

At December 31, 2019, the Company ceded all of its long-term care insurance premiums to MedAmerica Insurance Company. The reinsurance agreement was effective September 7, 1999. During 2019, \$1,594,661 in premiums were ceded to Med America Insurance Company under this agreement. As discussed in the subsequent events section above, as of the execution of this report, the Company is in the process of commuting its contract with Med America Insurance Company.

At December 31, 2019 and throughout the exam period, the Company was a party to a medical excess of loss reinsurance agreement with Munich Reinsurance America, Inc. ("Munich"). This contract covered any single claim exceeding \$2.5 million, without any stated annual aggregate limits. During 2019, \$2,168,795 in premiums were ceded to Munich Company under this agreement.

The Company procured this contract with the assistance of the reinsurance intermediary, Gordon Baxter ("Baxter"). Baxter was not a licensed reinsurance intermediary in North Dakota during the examination period. The Company has discontinued services with Baxter.

It is recommended that the Company only use licensed reinsurance intermediaries.

Subsequent to the examination period, the Company non-renewed its medical excess of loss reinsurance agreement with Munich and entered into a new medical excess of loss reinsurance agreement with BCS Insurance Company ("BCS"). Effective January 1, 2020, the BCS agreement also covers any single claim exceeding \$2.5 million, but also includes a potential for profit sharing if pool experience is favorable.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination.

The Company is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to extent deemed appropriate for this examination.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2019. This statement is followed by supporting statements and reconciliations presented in the following order:

Statements of Assets, Liabilities, Surplus, and Other Funds, December 31, 2019
Summary of Income, Year 2019
Reconciliation of Capital and Surplus, January 1, 2015, through December 31, 2019

These financial statements are based on the statutory financial statements filed by the Company with the North Dakota Insurance Department and present the financial condition of the Company for the period ending December 31, 2019. 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.

Blue Cross Blue Shield of North Dakota
Statement of Assets
as of December 31, 2019

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$344,436,464		\$344,436,464
Preferred stocks	1,999,999		1,999,999
Common stocks	146,466,241		146,466,241
Real Estate:			
Properties occupied by the company	18,959,847	\$ 118,818	18,841,029
Cash	43,064,333		43,064,333
Other invested assets	34,915,866		34,915,866
Investment income due and accrued	2,681,622		2,681,622
Uncollected premiums	37,394,653	189,012	37,205,641
Accrued retrospective premiums	2,792,587		2,792,587
Amounts recoverable from reinsurers	1,587,000		1,587,000
Amounts receivable relating to uninsured plans	49,484,329	856,478	48,627,851
Federal income tax recoverable	21,269,917		21,269,917
Net deferred tax asset	25,932,000	147,000	25,785,000
Electronic data processing equipment and software	1,790,900		1,790,900
Furniture and equipment	9,093,679	9,093,679	0
Receivables from parent, subsidiaries and affiliates	3,726,245		3,726,245
Health care and other amounts receivable	34,108,430	3,518,471	30,589,959
Aggregate write-ins:			
Prepaid PRW Benefits	37,997,588	37,997,588	0
Prepaid Retirement	15,218,994	15,218,994	0
PRW Overfunded Plan	13,579,495	13,579,495	0
Prepaid expenses	11,574,869	11,574,869	0
Miscellaneous Accounts Receivable	342,355	342,355	0
TOTAL ADMITTED ASSETS	\$858,417,413	\$92,636,759	\$765,780,654

**Blue Cross Blue Shield of North Dakota
Statement of Liabilities, Capital and Surplus
as of December 31, 2019**

Claims unpaid	\$126,446,827
Accrued medical incentive pool and bonus amounts	19,554,000
Unpaid claims adjustment expenses	3,010,000
Aggregate health policy reserves	14,701,778
Aggregate health claim reserves	990,000
Premiums received in advance	26,726,500
General expenses due or accrued	54,630,480
Current federal and foreign income tax payable and interest thereon	106,856
Amounts withheld or retained for the account of others	1,421,261
Amounts due to parent, subsidiaries and affiliates	30,371,594
Liability for amounts held under uninsured plans	31,437,510
Aggregate write-ins for other liabilities:	
Legal Contingency	5,000,000
Accrued benefits cost SERP	3,546,992
Guaranty Fund Assessment	2,100,000
Unclaimed property payable	581,747
Performance Guarantee	315,000
	<hr/>
TOTAL LIABILITIES	320,940,545
2020 ACA Health Insurer Fee	<hr/> 18,672,000
Unassigned funds (surplus)	<hr/> 426,168,109
TOTAL CAPITAL AND SURPLUS	<hr/> \$444,840,109
TOTAL LIABILITIES, CAPITAL, AND SURPLUS	<hr/> <hr/> \$765,780,654

**Blue Cross Blue Shield of North Dakota
Statement of Revenue and Expenses
for the Year Ended December 31, 2019**

Underwriting Income

Premiums earned		\$1,204,635,421
Deductions:		
Hospital/medical benefits	\$901,226,039	
Prescription drugs	145,384,725	
Incentive pool, without adjustments and bonus amounts	<u>13,916,781</u>	
Subtotal	1,060,527,545	
Net Reinsurance Recoveries	<u>2,336,976</u>	
Total Medical and Hospital	1,058,190,569	
Claims Adjustment Expenses	91,190,606	
General Administrative	<u>99,846,516</u>	
Total underwriting deductions		<u>1,249,227,691</u>
Net underwriting gain or (loss)		\$ (44,592,270)

Investment Income

Net investment income earned	\$ 18,375,017	
Net realized capital gains (losses)	<u>7,308,257</u>	
Net investment gains (losses)		\$ 25,683,274

Other Income

Aggregate write-ins for income and expense:		
Legal Contingency		\$ (5,000,000)
Net miscellaneous income and miscellaneous expenses		<u>(1,110,819)</u>
Net gain or (loss) before federal income taxes		\$ (25,019,815)
Federal and foreign income taxes incurred		<u>(31,113,355)</u>
NET INCOME		<u>\$ 6,093,540</u>

**Blue Cross Blue Shield of North Dakota
Reconciliation of Capital and Surplus
January 1, 2015 through December 31, 2019**

	2015	2016	2017	2018	2019
Capital and Surplus December 31, prior year	\$231,133,295	\$302,938,025	\$399,220,668	\$541,225,026	\$495,742,406
Net income or (loss)	63,821,907	70,307,676	51,020,324	(30,523,471)	6,093,540
Change in net unrealized capital gains or (losses)	9,256,657	18,379,909	27,038,893	(1,347,434)	14,649,978
Change in net deferred income tax	2,494,164	(15,565,023)	56,947,554	(22,280,179)	(16,431,701)
Change in nonadmitted assets	(20,524,632)	17,592,929	7,867,950	3,388,120	(10,701,636)
Aggregate write-ins for gains or (losses) in surplus	16,756,634	5,567,152	(870,363)	5,280,344	(44,512,478)
Net change in capital and surplus	71,804,730	96,282,643	142,004,358	(45,482,620)	(50,902,297)
Capital and Surplus December 31, current year	\$302,938,025	\$399,220,668	\$541,225,026	\$495,742,406	\$444,840,109

CONCLUSION

The financial condition of the Company, as of December 31, 2019, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$765,780,654</u>
Total Liabilities	\$320,940,545	
Total Capital and Surplus	<u>444,840,109</u>	
Liabilities, Capital and Surplus		<u>\$765,780,654</u>


No adjustments were made to the amounts reported by the Company in its 2019 annual statement as a result of this examination.

Since the last examination conducted as of December 31, 2014, the Company's admitted assets have increased \$252,307,507, its total liabilities have increased \$38,600,693, and its capital and surplus has increased \$213,706,814.

In addition to the undersigned, Jenny L. Jeffers, CISA, AES, CFE (Fraud), Joseph W. Detrick, CPA, CISA, CFE, AES, of Jennan Enterprises, LLC, Richard Nelson, CFE, CIE and Joel Tapsoba, CFE, of Johnson Lambert, LLP, Mike Presley, FSA, MAAA and Shumei Kuo, FSA, MAAA of Risk and Regulatory Consultants, LLC, and Department staff including Chief Examiner Matt Fischer, CFE, Financial Analyst Patrick Hendrickson, and Life and Health Actuary Colton Storseth, ASA, MAAA, PIR, participated in this examination.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

Respectfully submitted,



Colton Schulz, CFE, CFE (Fraud)
Supervising Examiner
North Dakota Insurance Department

SUMMARY OF RECOMMENDATIONS

It is recommended that the Finance Committee document its quarterly review of investment activity within its meeting minutes per N.D. Admin. Code § 45-03-12-05(4).

It is recommended that the Company only use licensed reinsurance intermediaries.