

# MONTANA STATE AUDITOR

EXHIBIT 4  
DATE 4/18/05  
HB 154

JOHN MORRISON  
STATE AUDITOR



COMMISSIONER OF INSURANCE  
COMMISSIONER OF SECURITIES

To: SB 154 Conference Committee Members

From: State Auditor's Office

Date: April 15, 2005

Good afternoon, members of the committee. The State Auditor's Office has received a request to provide information to members of the committee regarding insurer solvency issues and statutory requirements for insurers. Specifically this memo will address capital and surplus for BlueCross/BlueShield of Montana. This information has been prepared for the committee by our Examinations Division, and Chief Financial Examiner, Steve Matthews, can be available to the committee for questions during their deliberations.

Discussion of Total Capital and Surplus (Net Worth) of Blue Cross and Blue Shield of Montana as of December 31, 2004

## **Background:**

Requirement for Capital and Surplus: By Montana statute insurers are required to maintain capital and surplus to ensure that policyholder claims will be paid in the event that actual results do not meet expected results. If claims exceed the insurer's expectations reserves must be available to pay those claims.

Determination of Capital and Surplus Adequacy: Regulators take several factors into consideration when judging the adequacy of capital and surplus. Some of the factors are: premium volume, retained risk, reinsurance contracts, asset quality/mix, past underwriting results, and actuarial assessments, etc.

In addition, the National Association of Insurance Commissioners (NAIC) has developed a Risk Based Capital (RBC) formula that calculates the authorized control level of capital and surplus. The authorized control level is the level at which State Regulators are authorized to assume control of the insurer. The RBC formula is a complex formula that takes into account the underwriting, financial, and investment risk of the insurer. Under Montana law, Risk Based Capital became applicable to Blue Cross Blue Shield of Montana in 2003. The authorized control level for Blue Cross Blue Shield of Montana is \$13,600,000. This is the absolute minimum allowed by statute, any less would require an intervention by the State Auditor's Office.

## **Blue Cross Blue Shield of Montana specific financial data:**

Phone: 1-800-332-6148 / (406) 444-2040 / Fax: (406) 444-3497

840 Helena Avenue Helena, MT 59601 Website: [www.discoveringmontana.com/sao](http://www.discoveringmontana.com/sao) E-Mail: [stateauditor@state.mt.us](mailto:stateauditor@state.mt.us)



December 31, 2004 Financial Status:

Total Assets:	\$200,500,000
Total Liabilities:	<u>106,000,000</u>
Total Capital and Surplus	\$94,500,000

Premium Received	\$381,000,000
Claims Paid	309,000,000
Claims and Admin Expense	<u>73,000,000</u>
Underwriting Loss	(\$1,000,000)

Investment Income/Fed Tax	<u>4,000,000</u>
Net Income for 2004	\$3,000,000

**Comparison to other "Blues"**

	Risk Based Capital*	Premium to Surplus**
<u>Montana</u>	<u>695%</u>	<u>4.0 to 1</u>
Arizona	1,451	2.7 to 1
Massachusetts	620	4.5 to 1
Michigan	793	2.5 to 1
South Carolina	950	1.4 to 1
Tennessee	1,198	2.4 to 1
Vermont	667	3.8 to 1
Wisconsin	555	3.4 to 1
Wyoming	1,101	1.8 to 1
Florida	879	2.8 to 1
Kansas	1,096	2.9 to 1
Mississippi	<u>1,178</u>	<u>2.8 to 1</u>
Average	932%	2.9 to 1

\*Risk Based Capital: RBC results are expressed as the percentage of actual capital compared to the authorized control level calculated by the formula. For example, the actual total capital and surplus of Blue Cross Blue Shield of Montana is 695% of the authorized control level. Per the RBC laws adopted by this State and virtually all other states, regulatory review is required when the RBC level is less than 200% and control by the State is mandatory should the RBC result fall to 70% or less. While this percentage looks large, when compared with the other states in the illustration, it is lower than the average.

Premium to Surplus: Premium to surplus represents premium divided by total capital and surplus. The sample illustrates that when compared to premium volume, the total capital and surplus of Blue Cross Blue Shield is less than average. While it is well within the acceptable limits other states in the illustration are higher with the average at 2.9 to 1. (in this illustration the lower numbers represent more surplus available, while the higher number represents a lower surplus)

**Conclusion**: The capital and surplus level of Blue Cross Blue Shield of Montana appears appropriate and are neither inadequate nor unreasonably excessive.