



MISSISSIPPI INSURANCE DEPARTMENT

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JACKSON, MISSISSIPPI 39201  
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MAILING ADDRESS  
Post Office Box 79  
Jackson, Mississippi 39205-0079  
TELEPHONE: (601) 359-3569  
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MIKE CHANEY  
Commissioner of Insurance  
State Fire Marshal

MARK HAIRE  
Deputy Commissioner of Insurance

December 1, 2010

**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

Mr. Richard J. Hale, President & CEO  
Blue Cross & Blue Shield of Mississippi,  
A Mutual Insurance Company  
3545 Lakeland Drive  
Flowood, MS 39232

**RE: Report of Examination as of December 31, 2008**

Dear Mr. Hale:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY  
COMMISSIONER OF INSURANCE

BY

A handwritten signature in cursive script, appearing to read "Christina J. Kelsey", written over a horizontal line.

Christina J. Kelsey  
Senior Attorney

MC/CJK/bs  
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE  
OF THE STATE OF MISSISSIPPI**

**IN RE:   REPORT OF EXAMINATION OF  
          BLUE CROSS & BLUE SHIELD OF MISSISSIPPI,  
          A MUTUAL INSURANCE COMPANY**

**CAUSE NO. 10-6197**

**ORDER**

**THIS CAUSE** came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

**JURISDICTION**

**I.**

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999).

**II.**

That Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, is a Mississippi-domiciled company licensed to write Accident and Health coverages.

## **FINDINGS OF FACT**

### **III.**

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), called for an examination of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, and appointed Joseph A. Rome, Examiner-In-Charge, to conduct said examination.

### **IV.**

That on or about March 31, 2010, the draft Report of Examination concerning Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, for the period of January 1, 2006 through December 31, 2008, was submitted to the Department by the Examiner-In-Charge, Joseph A. Rome.

### **V.**

That on or about September 8, 2010, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a 30-day period to submit any rebuttal to the draft report. On or about October 5, 2010, the Department received correspondence from the Company and, in response thereto, no revisions were made to the report.

## **CONCLUSIONS OF LAW**

### **VI.**

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 1999), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with

modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

**IT IS, THEREFORE, ORDERED**, after reviewing the Report of Examination, the Company's rebuttal, and all relevant examiner work papers, that the Report of Examination of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

**IT IS FURTHER ORDERED** that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

**IT IS FURTHER ORDERED** that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

**IT IS FURTHER ORDERED** that Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

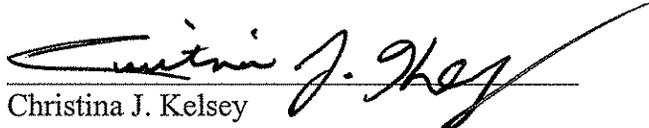
SO ORDERED, this the 1<sup>st</sup> day of December 2010.

  
\_\_\_\_\_  
MIKE CHANEY  
COMMISSIONER OF INSURANCE  
STATE OF MISSISSIPPI

**CERTIFICATE OF MAILING**

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 15<sup>th</sup> day of December 2010, to:

**Mr. Richard J. Hale, President & CEO  
Blue Cross & Blue Shield of Mississippi,  
A Mutual Insurance Company  
3545 Lakeland Drive  
Flowood, MS 39232**

  
Christina J. Kelsey  
Senior Attorney

Christina J. Kelsey  
Senior Attorney  
Counsel for the Mississippi Department of Insurance  
Post Office Box 79  
Jackson, MS 39205-0079  
(601) 359-3577  
Miss. Bar No. 9853



# **Mississippi Insurance Department**

## **Report of Examination**

**of**

### **BLUE CROSS & BLUE SHIELD OF MISSISSIPPI, A MUTUAL INSURANCE COMPANY**

**3545 Lakeland Drive  
Flowood, Mississippi 39232**

**As of December 31, 2008**

**NAIC Group Code 1126  
NAIC Company Code 60111  
NAIC ETS No. MS029-C55**

**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION**

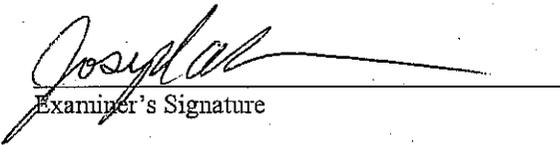
State of INDIANA,

County of MARION,

JOSEPH ROME, being duly sworn, states as follows:

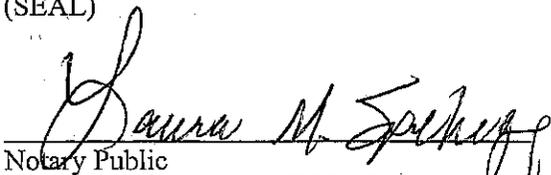
1. I have authority to represent Mississippi in the examination of Blue Cross & Blue Shield of Mississippi.
2. Mississippi is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Blue Cross & Blue Shield of Mississippi was performed in a manner consistent with the standards and procedures required by Mississippi.

The affiant says nothing further.

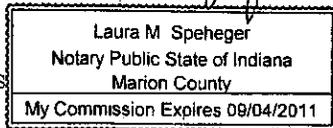
  
Examiner's Signature

Subscribed and sworn before me by JOSEPH ROME on this 29<sup>th</sup> day of NOV, 20 10.

(SEAL)

  
Notary Public

My commission expires \_\_\_\_\_ [date].



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**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

**MARK HAIRE**  
Deputy Commissioner of Insurance

April 1, 2010

Honorable Mike Chaney  
Commissioner of Insurance  
Mississippi Insurance Department  
1001 Woolfolk Building  
501 North West Street  
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2008, of the affairs and financial condition of:

**BLUE CROSS & BLUE SHIELD OF MISSISSIPPI,  
A MUTUAL INSURANCE COMPANY  
COMPANY LICENSE # 7700147  
NAIC COMPANY CODE 60111  
3545 Lakeland Drive  
Flowood, Mississippi 39232**

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 et seq. and was performed in Flowood, Mississippi, at the statutory home office of the Company. The report of examination is herewith submitted.

### **INTRODUCTION**

This examination was performed by examiners representing the Mississippi Insurance Department ("MID") and covered Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company's ("BCBSMS" or "Company") operations and financial condition from January 1, 2006 through December 31, 2008, including material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

For purposes of this examination report, the examination period is defined as January 1, 2006 through December 31, 2008, and the examination date is defined as December 31, 2008. The Company was previously examined by the MID as of December 31, 2005.

## **SCOPE OF EXAMINATION**

This examination was a full scope financial examination that included assessing the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, and compliance with the law. A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct.

Reporting in the comments and recommendations section of this report was by exception; therefore, items that were tested and deemed acceptable by the examiners without material change receive little or no comment.

We conducted this examination in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statements of Statutory Accounting Principles ("SSAP") and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. These key function areas were identified and risk and controls relating to these functions were included as part of our risk mitigation and residual risk assessment process. On a limited basis, the examiners relied upon work performed by the Company's independent auditor and internal audit department where appropriate.

All recommendations made in the prior report of statutory examination have been adequately addressed by the Company.

## **HISTORY OF THE COMPANY**

On November 13, 1947, the Company was formed under the laws of the State of Mississippi as Mississippi Hospital and Medical Service for the primary purpose of engaging in the business of a hospital and surgical service corporation. The following items include the amendments to the Company's Articles of Incorporation that were deemed noteworthy for examination purposes.

- On October 21, 1948, the Company was converted to a non-profit hospital, medical and surgical service membership corporation with a perpetual existence.
- On March 30, 1973, the Company changed its name from Mississippi Hospital and Medical Service to Blue Cross & Blue Shield of Mississippi, Inc.

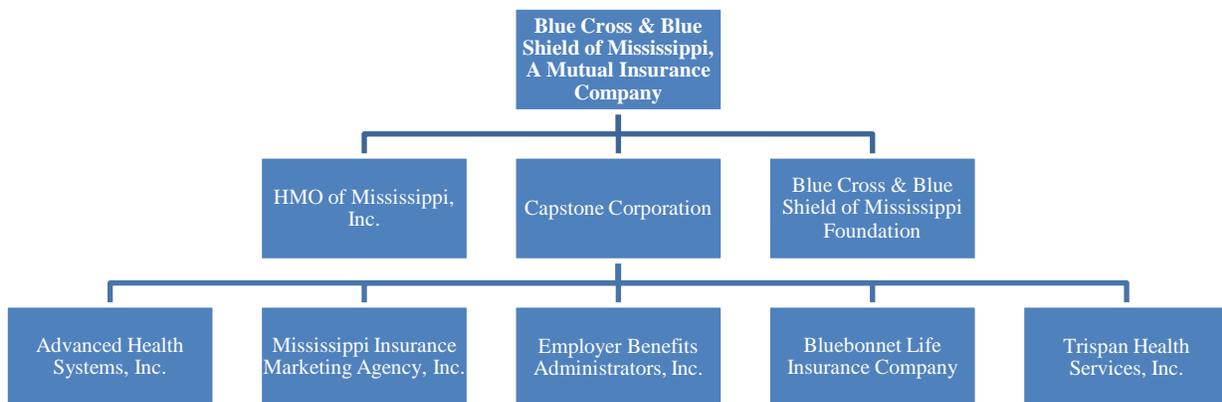
- On January 1, 1996, the Company converted from a non-profit membership corporation to a mutual insurance company and the name of the Company was changed to Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company.

## **HOLDING COMPANY STRUCTURE**

The Company is a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. The Company filed Holding Company Registration Statements with the MID in accordance with Miss. Code Ann. §§ 83-6-5 and 83-6-9. The statements and applicable amendments that were filed during the examination period were reviewed, and it appeared that any changes and material transactions between the Company and its subsidiaries were reported.

### **Organizational Chart**

The following chart depicts the Company’s organizational structure at December 31, 2008. A brief description of the Company’s subsidiaries, including their principal activities, follows the organizational chart.



*HMO of Mississippi, Inc. (“HMOMS”)*: HMOMS, a wholly owned subsidiary of BCBSMS, was incorporated on June 21, 1995, under the laws of the State of Mississippi, as a health maintenance organization whose products are included within BCBSMS’ managed care offerings. As of December 31, 2008, this entity had no enrollees.

*Capstone Corporation (“Capstone”)*: Capstone, a wholly owned subsidiary of BCBSMS, was incorporated on November 2, 1984, under the laws of the State of Mississippi, as a for-profit holding company for the interests of BCBSMS.

*Blue Cross & Blue Shield of Mississippi Foundation (“Foundation”)*: Foundation, a non-profit corporation incorporated on December 8, 2003, is a philanthropic affiliate of BCBSMS. It is a private, charitable foundation operated exclusively to fund and support 501(c)(3) organizations

and programs that positively impact the health of Mississippians. BCBSMS is the sole source of contributions to the Foundation.

Advanced Health Systems, Inc. (“AHS”): AHS, a wholly owned subsidiary of Capstone Corporation, was incorporated on December 14, 1984, under the laws of the State of Mississippi, as Automated Health Systems, Inc., with its business being the facilitation of electronic submission of claims by providers. The company’s name was changed to Advanced Health Systems, Inc., and, in 1994, its business purposes were expanded to include utilization management, managed care services for clients, employers and groups; the development and maintenance of provider networks; providing health care provider management and consulting; and providing computerized information management.

Mississippi Insurance Marketing Agency, Inc. (“MIMA”): MIMA, a wholly owned subsidiary of Capstone Corporation, was incorporated on September 19, 1986, under the laws of the State of Mississippi. The primary purpose of this company is that of a general insurance agency, which includes the selling and brokerage of insurance coverage and the administration of claims and other services.

Employer Benefits Administrators, Inc. (“EBA”): EBA, a wholly owned subsidiary of Capstone Corporation, was incorporated on September 18, 1986, under the laws of the State of Mississippi, as a third party administrator for self-insured, partially insured and insured employee benefit plans. EBA’s name was changed from Bluestone Administrative Services, Inc. in February 1987. EBA is currently licensed as a third party administrator with the MID.

Bluebonnet Life Insurance Company (“BBL”): BBL, a wholly owned subsidiary of Capstone Corporation, was incorporated on June 11, 1984, under the laws of the State of Louisiana, as a life and accident and health insurance company. On October 13, 1989, Capstone Corporation acquired BBL, and effective at the close of business on March 31, 1997, moved its domicile to Mississippi. The principal activity of this company is to provide life, cancer, and disability insurance coverage.

Trispan Health Services, Inc. (“THS”): THS, a wholly owned subsidiary of Capstone Corporation, was incorporated on April 21, 2005, under the laws of the State of Mississippi. The primary purpose of this company is to execute contracts related to federal and/or state government health care programs.

### **Related Party Transactions**

#### Tax Sharing Agreement with Affiliates:

The Company filed consolidated federal and state income tax returns with its affiliates. Income taxes were allocated to the subsidiaries based on their proportionate share of income, deductions, and credits that were reflected within the consolidated tax returns filed by the Company.

Service Agreement with Capstone Corporation:

The Company entered into a Service Agreement on January 1, 1985, with Capstone. Under the terms of this agreement, the Company agreed to provide business services as requested to Capstone. These services included accounting, printing, mailing, payroll, purchasing, legal, and other such services as Capstone and/or any subsidiary may request. In return for provided services, the Company received as compensation a prorated portion of the employee's salary that performed such services.

Property Lease with Capstone Corporation:

The Company entered into a Property Lease Agreement on January 1, 1985, with Capstone. This agreement provided for Capstone Corporation and its subsidiaries to lease certain office space, furnishings, and/or automobiles from the Company. This service agreement did contain a settlement date as required by NAIC SSAP No. 25 and SSAP No. 96.

Service and Lease Agreement with HMOMS:

Effective August 31, 1996, BCBSMS entered into a Service and Lease Agreement with HMOMS, whereby BCBSMS provided certain business services to HMOMS. These services included general management services, financial services, accounting, printing, mailing, corporate data systems and programming, public relations, personnel, payroll, purchasing, legal, and other services. BCBSMS allocated or directly charged HMOMS its portion of salaries, travel, fees, and expenses.

Insolvency Plan Agreement with HMOMS:

Effective September, 1, 1995, BCBSMS entered into an Insolvency Plan Agreement whereby BCBSMS guaranteed the solvency of HMOMS. Pursuant to this agreement, BCBSMS agreed to continue coverage for members of HMOMS in the event of insolvency.

Service Agreement with BCBS of Mississippi Foundation:

The Company entered into a Service Agreement on January 1, 2007, with the Foundation. Under the terms of this agreement, the Company shall provide employees to work on behalf of the Foundation. In return for the services provided, the Foundation shall reimburse the Company for the employees' time computed at rates by prorating the salaries paid to the employee during their respective payroll periods, together with the cost of fringe benefits and travel expenses. In addition, the Company shall provide non-professional goods such as pencils, stationery and other incidental supplies at no charge.

Use Agreement with Employer Benefits Administrators, Inc.:

Effective September, 1986, the Company agreed to allow EBA to use the marketing area property located in the Service Center building, including furniture, fixtures and equipment and the use of any automobile currently in use by the marketing area personnel. Payments to the Company or Capstone Corporation for the use of the marketing area property shall be determined on the basis of the time of use and mileage in the case of automobiles. Payments shall be due on the fifteenth of the month following the previous quarter.

Service Agreement with Advanced Health Systems, Inc.:

AHS and BCBSMS may provide or otherwise make available to the other certain business services including (but not limited to) provider networks, general management services, general provider contracting services, financial services, accounting, printing, mailing, corporate data systems and programming, public relations, purchasing, claims administrative services, managed care services and other such services.

Blue Cross Blue Shield Association (“Association”):

The Association is a national federation of 39 independent, community-based and locally operated Blue Cross and Blue Shield companies. The Association is the owner and licensor of the Blue Cross and Blue Shield names and trademarks and also serves as a trade association and 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. The Company’s president served as Chairman of the Association’s board of directors in 2006 and was Chairman of the Association’s Compensation Committee for the subsequent two years.

## **MANAGEMENT AND CONTROL**

### **Membership**

The company is a mutual insurance company and is owned by its policyholders. As defined in the Bylaws each policyholder of an insurance policy issued by the corporation and in force shall be a member of the corporation. According to the Bylaws, each member of the corporation shall be entitled to one vote upon each matter coming to vote at meetings of members.

The annual meeting of the members shall be held each and every calendar year in the State of Mississippi for the purpose of conducting the business and affairs of the corporation and transacting such other business as may properly come before the meeting. The date for such annual meeting shall be determined by the Board of Directors.

Special meetings of the members may be called and held at the instance of the Board of Directors and in such manner as may be provided by said Board.

Notice to the membership of annual and special meetings of the members shall be accomplished by (a) resolution of the Board of Directors entered upon the minutes not less than sixty days

before such meetings, designating the time and place of such meeting, or (b) by the time and place of such meeting being fixed by resolution of the Directors, and notice thereof being mailed to the members at least fifteen days before the time fixed for such meeting.

A majority of the voting power represented at any meeting of members shall be necessary and sufficient to approve any given matter. At all meetings of members, a member may vote by proxy. Such proxy may be acknowledged in writing by the member, the member's agent or the member's duly authorized attorney-in-fact or by electronic transmission. By way of the proxy, the member appoints the corporation's President, Executive Vice President, Secretary, or any two of them, to cast the member's vote on all matters arising at membership meetings. The appointment shall remain in effect unless and until the member files a written revocation with the corporation's Secretary.

In the group enrollment scenario the proxy voting rights are conveyed by the employer for each eligible employee. The Employer contract states:

Employer acknowledges that its eligible employees, as a part of the enrollment process (whether through enrollment form or electronic transmission), will appoint Blue Cross & Blue Shield of Mississippi's President, Executive Vice President, and Secretary as proxies to cast the covered employee's vote, upon concurrence of at least two of them, on all matters arising at membership meetings. This Appointment shall remain in effect unless and until the covered employee files a written revocation with Blue Cross & Blue Shield of Mississippi's Secretary.

If enrollment is completed by electronic transmission on behalf of an eligible employee by someone other than the eligible employee, Employer shall use its best efforts to assure that the person making the electronic transmission has been duly authorized by the eligible employee or his agent or attorney-in-fact to appoint such proxies by electronic transmission

No dividends were paid to policyholders during the current examination period.

## **Board of Directors**

The Articles of Incorporation and Bylaws vest the management and control of the Company's business affairs with the Board of Directors ("Board"). The members of the duly elected Board, along with their place of residence, number of years as Director, and principal occupation, at December 31, 2008, were as follows:

Name and Residence	No. of Years as Director	Principal Occupation
Arthur Claiborne Kelly, Chairman Starkville, MS	29	Administrator/Chief Executive Officer, Oktibbeha County Hospital
Robert Mark Ledbetter, Vice Chairman Tupelo, MS	13	Vice President & General Manager, WTVA, Inc.
Carol Todd Puckett Jackson, MS	13	President, The Everyday Gourmet, Inc.
James Herbert Finley Morton, MS	5	President & Chief Executive Officer, Craft-Co Enterprises, Inc.
Richard John Hale Madison, MS	9	President & Chief Executive Officer, Blue Cross & Blue Shield of MS
Robin Young McCormick, CPA West Point, MS	3	Partner, Watkins, Ward & Stafford, CPAs, PLLC
Ralph Brooks Vance, M.D. Jackson, MS	5	Professor, University of MS Medical School

## **Committees**

The Company's bylaws provide, at Article VII, Section 1 (a), that the Board shall have four permanent committees, namely, an Executive Committee, a Finance Committee, a Public Accountability Committee, and a Governance and Organization Committee.

### **Executive Committee:**

In accordance with Article VII, Section 1.(a) of the BCBSMS bylaws, the Executive Committee "shall have full authority to manage the business, property, and affairs of the corporation during the interims between meetings of the full Board. The Executive Committee shall consist of the Chairman of the Board, the Vice Chairman of the Board, and the Chairmen of each of the Finance, Governance and Organization, and Public Accountability committees. Members of the Executive Committee shall serve until their resignation or removal by the Board. The committee will meet as often as necessary to fulfill its duties, but in no event less than once a year." (See Subsequent Event Section)

### **Finance Committee:**

In accordance with Article VII, section 1 (b.), of the BCBSMS bylaws, the Finance Committee shall be charged with "oversight of the corporation's auditing, financial reporting, and internal control functions. The duties of the Finance Committee shall include, without limitation (1)

ensuring the implementation by management of the most appropriate systems of internal controls and financial compliance; (2) ensuring the ability of the full Board to fulfill its fiduciary obligations by providing timely and relevant information to the full Board; (3) ensuring that the Committee's decisions and responsibilities are in alignment with the corporation's strategic and financial objectives; (4) analyzing budget and report findings to full Board; (5) recommending external auditors for Board approval. The Finance Committee shall consist of a minimum of three directors of the corporation who must be non-employee directors with sound financial management skills and who shall be chosen by the full Board. Members shall serve until their resignation or removal by the Board. The Finance Committee shall meet at least four times each year."

*Public Accountability Committee:*

Article VII, Section 1.(c) of the Blue Cross & Blue Shield of Mississippi bylaws provides that the Public Accountability Committee "shall be charged with promoting and endorsing the corporation's social responsibilities and ethical business conduct by acknowledging and addressing public policy issues and ensuring the integrity of current and future business relationships. The committee shall establish and assure that the corporation operates in a manner consistent with its Code of Business Conduct policy and its prohibition against conflicts of interest and monitors compliance issues involving federal and regulatory entities. The committee shall also review annually statements from directors, officers, and employees for potential conflicts of interest and shall make recommendations to the full Board concerning any action necessary related to such matters. The Public Accountability Committee will consist of a minimum of three directors of the corporation who must be non-employee directors and who shall be chosen by the full Board. The Public Accountability Committee shall meet at least once each year."

*Governance and Organization Committee:*

In accordance with Article VII, Section 1.(d) of the Blue Cross & Blue Shield of Mississippi bylaws the Governance and Organization Committee "shall ensure that the organizational and Board structure of the corporation are compatible with the corporate business needs and objectives; shall identify, review and recommend candidates for election to the Board; and shall review and recommend to the full Board the compensation policies and decisions for the CEO and executive officers, including salary, bonus, and all other compensation or perquisites. The Governance and Organization Committee shall consist of a minimum of three non-employee directors chosen by the full Board and the President/CEO who shall serve as a non-voting member. The committee shall meet as often as necessary to fulfill its duties, but in no event less than twice a year."

## Committee Structure

<b>Executive</b>	<b>Finance</b>	<b>Public Accountability</b>	<b>Governance &amp; Organization</b>
Arthur Kelly, Chairman	Robin McCormick, Chairman	Carol Puckett, Chairman	Robert Ledbetter, Chairman
James Finley, Vice Chairman	James Finley	James Finley	James Finley
Robin McCormick	Arthur Kelly	Arthur Kelly	Richard Hale
Robert Ledbetter	Robert Ledbetter	Robert Ledbetter	Arthur Kelly
Carol Puckett	Carol Puckett	Robin McCormick	Robin McCormick
	Ralph Vance	Ralph Vance	Carol Puckett
			Ralph Vance

### **Officers**

The following officers were duly elected by the Board and held the following offices:

Richard John Hale	President and Chief Executive Officer
Mary Carol Pigott	Chief Operating Officer
Jeffery Thomas Leber	Chief Financial Officer
Robert Clark Williams	Legal and Corporate Secretary
Thomas Carroll Fenter, M.D.	Corporate Medical Advisor
Sheila B. Grogan	Vice President, Service Operations
Marcus H. Ransier	Vice President, Finance and Pricing
John Hamiter Proctor, III	Vice President, Human Resources, Audit and Compliance
Bryan Arthur Lagg	Vice President, Sales
William Vandy Morris, III	Vice President, Government Programs
Ronald Scott Stringer	Vice President, Technology and Development

(See Subsequent Event Section for newly elected officers)

### **Conflict of Interest**

The Company maintained a policy whereby disclosure was made to the Board of any material interest or affiliation on the part of any officer or director that was a conflict, or would likely be a conflict, with the official duties of such persons. Written statements were signed annually by all officers and members of the Board.

### **Corporate Governance**

The examiner's assessment of the Company's corporate governance was considered moderate. The examiners found that oversight of operational processes, business planning, non-routine transactions, and material events are vetted through appropriate levels of management and the

Board. Management maintains effective controls over its IT environment and maintains frequent correspondence with its external auditors, Carr, Riggs & Ingram LLC. The Finance Committee members are independent from management. The management structure of the Company shows clear assignment of responsibilities within the Company and authorization for transactions is clearly established at appropriate levels.

The cause for the examiner's moderate assessment was that the Company is a mutual insurance company and is owned by its policyholders, yet as part of the application approval process the policyholder signs the application indicating they accept the President, Executive Vice President and Secretary, as their proxies to cast their vote, thereby, providing all the proxy ballots to the President, Executive Vice President and Secretary. However an Executive Vice President was not elected during the period of our examination, consequently, the President and Secretary are the only proxy voters. This process provides the management of BCBSMS and its affiliates a higher degree of control.

### **Enterprise Risk Management**

The Company's enterprise risk management is informal. Risk management is practiced by all levels of management. Risk management is discussed in regular meetings by management and plans are developed to manage and mitigate those risks. Departments interact and communicate with each other frequently. Management reports are sufficiently detailed to allow management to make sound decisions.

### **Internal Audit**

The internal audit department is subdivided into three distinct units:

- *Internal Audit* - This unit performs the normal functions of an internal audit department including operational audits, Model Audit Law testing, audit coordination with external auditors and other audits.
- *Quality Assurance* - This unit provides an internal quality review of various operational areas within the Company. Claims processing, enrollment and membership are monitored for accuracy and timeliness.
- *Plan Performance* - This unit is independent from Operations. This unit is responsible for monitoring the Company's performance with regard to the Association reporting requirements, which are codified in the Member Touchpoints Measure Program ("MTM"). The MTM requires that the Company monitor and report to the Association on a quarterly basis the timeliness and accuracy of processes that impact all customers, including the Self-Funded Groups. The review encompasses enrollments, claims and inquiries. All processes are audited based on completed transactions.

The Vice President, Legal & Audit presents the testing plan and results to the Finance Committee, which are active in their input into the scope and results of the work. The Board of Directors and the Finance Committee have an active role in overseeing the Company's operations and results.

## **CORPORATE RECORDS**

The Articles of Incorporation, Bylaws, and minutes of the Annual Membership and Board meetings, prepared during the period under examination, were reviewed and appeared to be complete with regard to the matters brought up at the meetings for deliberation, which included approval of the Company's investment transactions and actions of the Company's officers.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained a comprehensive corporate insurance program. This program included commercial general liability, and commercial property, as well as other policies, as deemed appropriate by the Company's management. The Company maintained a financial institution bond with a \$2,000,000 aggregate limit of liability, which exceeded the minimum fidelity coverage suggested by the NAIC for a company of this size.

## **OFFICERS', EMPLOYEES' AND AGENTS' WELFARE**

The Company provided a health and welfare program for its officers and employees. It appears that adequate and/or reasonable provisions were made within the financial statements for the Company's obligations under such plans. The following is a brief description of the plans offered.

### *Non-Contributory Retirement Program for Certain Employees:*

This program is a qualified, defined benefit pension plan for all employees who meet eligibility requirements. The plan was amended to only include those employed prior to January 1, 2007. The program has a beneficial interest in the Blue Cross & Blue Shield National Retirement Trust. Contributions to the program are made by the Company upon determination of any applicable amount by the program's actuary.

### *Retirement Benefit Restoration Program:*

This program is a non-contributory, non-qualified, defined benefit retirement plan for key executives as designated by the Company's Governance and Organization Committee. Benefits under this program are based on years of service and the participant's history of earnings.

The Company also established an irrevocable Rabbi Trust for the benefit of executives in which BancorpSouth Bank serves as Trustee and the Company pays all administrative and Trustee's fees and expenses. The Company has funded this obligation through 2008.

*Deferred Compensation Plan:*

The Company sponsored a contributory, tax-favored savings program 401(K) for all eligible employees where the Company matched 100% of each employee's contribution, up to 3% of their salary and 50% of each employee's contribution for 4% and 5% of their salary. The Company may also contribute discretionary amounts.

The Company also established an irrevocable Rabbi Trust for the benefit of officers and directors in which BancorpSouth Bank serves as Trustee and the Company pays all administrative and Trustee's fees and expenses.

In addition, the Company offered life and health insurance benefits to retired employees. Employees are eligible for this coverage if they retire with at least 10 years of service.

## **TERRITORY AND PLAN OF OPERATION**

The Company is the largest provider of health care coverage in the State of Mississippi. Its marketing system included its internal sales and independent agent sales forces, as well as products through the Mississippi Manufacturing Association, the Jackson Metro Chamber (ChamberPlus Program), and the Mississippi Farm Bureau Federation. Through these distribution channels, the company provided, either on an individual or group basis, insurance coverage for hospital, medical and prescription drug services, as well as Medicare supplement products.

In addition to its underwritten business operations, the Company provided administrative and claims processing services to self-funded plans, the State of Mississippi Health Care Program and other various programs. The Company has secured the State Health Plan's claims administrator contract through 2011.

Effective January 1, 2000, the Company began offering a Children's Health Insurance Program (CHIP) in response to a bid request from the State of Mississippi. This program is jointly funded by the federal and state governments and has the potential to cover 85,000 children in the State of Mississippi. The Company has secured the CHIP contract through 2009. (See Subsequent Event Section)

The Company segments its group business into three primary marketing groups: Small group (50 or fewer employees), large group (51 or more employees) and self-funded or administrative services contracts (groups with more than 100 employees). Marketing regions are defined as Northern, Central and Southern. In July 2000, the Company introduced Blue Care, an individual product for those under age 65. All plans are preferred provider organization (PPO) plans and include physician co-pay, prescription drug co-pay, and a wellness benefit, along with a variety of deductible options.

In 2005, the Company implemented the *Healthy You! Wellness Benefits* program for the Company's underwritten business at no additional cost to policyholders. This program coincided with the Company's promotional campaign to facilitate health and wellness throughout Mississippi.

The Company participates in the Federal Employee Program ("FEP"). The FEP is a Blue Cross Blue Shield program which services the Federal Employees Health Benefit Program for federal employees, retirees, and their families. The Blue Cross Blue Shield Association's FEP Director's Office works contractually with the Office of Personnel Management and the Company to administer the Service Benefit Plan. Contract negotiations, program policies and enrollment business rules are also determined by the Association's FEP Director's Office.

### **GROWTH OF COMPANY**

The Company's total revenues and medical and hospital expenses for the three year period as a percentage of surplus is as follows:

Year	Total Revenues	Percentage of Surplus	Total Medical and Hospital Expense	Percentage of Surplus	Surplus
2008	1,183,150,793	246.66%	1,061,002,836	221.19%	479,670,714
2007	1,124,184,321	247.10%	963,731,319	211.83%	454,945,338
2006	1,042,888,833	255.67%	904,113,365	221.65%	407,906,420

The above revenue and expenses does not include administrative only business for which the Company receives a fee for servicing. These amounts are included in the underlying net income amount and surplus increases over the period.

### **REINSURANCE**

BCBSMS did not have any reinsurance assumed. BCBSMS has one reinsurance ceded contract but takes no reserves credits pursuant to this treaty. In addition, as the claims administrator for certain self-funded groups, BCBSMS assisted in placing reinsurance coverage with reinsurers that had a business association with BCBSMS.

### **ACCOUNTS AND RECORDS**

The 2008 trial balance of the Company's accounts was reconciled to the balance sheet of the Company's statutory annual statement filed with the MID, with no material exceptions noted. The Company was audited annually by an independent CPA firm.

The Company maintained its accounting records electronically through the utilization of an IBM model 2064-104 mainframe that was running the IBM z/OS operating system. The primary applications used during the examination period were CAS for claims processing, MABIL for membership, CARMS for billing, and WALKER for financial systems.

## **FINANCIAL STATEMENTS**

The following financial statements, as determined by the examination, consist of a Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2008, a Summary of Operations for year ended December 31, 2008, a Reconciliation of Capital and Surplus for the examination period ended December 31, 2008, and a Reconciliation of Examination Adjustments to Surplus at December 31, 2008.

Note: Beginning with the 2007 annual statement, the MID required the Company to file utilizing the official NAIC Health Annual Statement Blank. All previous years were filed using the NAIC Life Annual Statement Blank. While it has no effect on the financial statements presented on the following pages, various components/exhibits of the annual statements are different for years prior to 2007 compared to subsequent years.

**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS  
DECEMBER 31, 2008**

**ASSETS**

Bonds	\$ 490,728,211
Preferred stocks	2,063,860
Common stocks	55,426,542
Real estate: Property occupied by the Company	30,494,835
Cash, cash equivalents and short-term investments	77,288,162
Investment income due and accrued	4,333,879
Uncollected premiums in the course of collection	25,257,868
Amounts recoverable from reinsurers	874,808
Amounts receivable relating to uninsured plans	18,133,678
Current federal tax recoverable	2,008,144
Net deferred tax asset	4,446,687
Electronic data processing equipment and software	1,420,215
Health care and other amounts receivable	2,197,020
Aggregate write-in for other than invested assets	<u>7,062,332</u>
<b>Total Assets</b>	<b><u>\$ 721,736,241</u></b>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Claims unpaid	\$ 115,728,831
Unpaid claims adjustment expenses	2,511,502
Aggregate health policy reserves	5,140,278
Premiums received in advance	5,848,917
General expenses due or accrued	52,642,621
Ceded reinsurance premiums payable	1,025,254
Amounts withheld or retained for the account of others	3,139,864
Remittances and items not allocated	1,427,036
Amounts due to parent, subsidiaries and affiliates	2,655,024
Payable for securities	1,194,248
Liability for amounts held under uninsured plans	300,369
Aggregate write-ins for liabilities	<u>50,451,583</u>
<b>Total Liabilities</b>	<b><u>\$ 242,065,527</u></b>
Unassigned funds (surplus)	<u>479,670,714</u>
<b>Total Liabilities, Surplus and Other Funds</b>	<b><u>\$ 721,736,241</u></b>

**SUMMARY OF OPERATIONS  
FOR YEAR ENDED DECEMBER 31, 2008**

Premiums and annuity considerations	\$ 1,183,209,744
Change in unearned premium reserves and reserve for rate credits	<u>(58,951)</u>
<b>Total Income</b>	<b>\$ <u>1,183,150,793</u></b>
Hospital/medical benefits	\$ 756,799,355
Emergency room and out-of-area	127,052,352
Prescription drugs	<u>177,151,129</u>
<b>Total Hospital and Medical</b>	<b>\$ 1,061,002,836</b>
Claims adjustment expenses, including \$1,337,617 cost containment expenses	\$ 6,794,017
General insurance expenses	94,070,446
Increase in reserves for life and accident and health contracts	<u>(7,619,080)</u>
<b>Total Underwriting Deductions</b>	<b>\$ <u>1,154,248,219</u></b>
Net underwriting gain or (loss)	\$ 28,902,574
Net investment income earned	30,892,784
Net realized capital gains (losses) less capital gain tax of (\$228,531)	<u>(424,416)</u>
Net investment gains (losses)	\$ 30,468,368
Aggregate write-ins for other income or expenses	<u>20,754</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	59,391,696
Less: federal income taxes incurred	<u>8,812,228</u>
Net income (loss)	<b><u>\$ 50,579,468</u></b>

**RECONCILIATION OF CAPITAL AND SURPLUS  
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2008**

	<b>2006</b>	<b>2007</b>	<b>2008</b>
Capital and surplus, beginning of the year	\$370,638,954	\$407,906,420	\$454,945,338
Net income	36,819,663	44,473,667	50,579,468
Change in net unrealized capital gains (losses)	3,084,483	2,599,648	(8,342,141)
Change in net deferred income tax	(5,603,607)	4,729,278	(1,277,684)
Change in non-admitted assets	1,797,411	(4,156,638)	8,960,889
Aggregate write-ins for gains and losses in surplus	1,169,516	(607,037)	(25,195,156)
Examination adjustments	-0-	-0-	-0-
Capital and surplus, end of the year	\$407,906,420	\$454,945,338	\$479,670,714

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS  
DECEMBER 31, 2008**

As a result of this examination, there have been no adjustments made to the admitted asset, liability, and surplus balances reported by the Company in the 2008 annual statement. The surplus reported by the Company of \$479,670,714 is accepted as reasonably stated for purposes of the balance sheet per the examination.

## **MARKET CONDUCT ACTIVITIES**

A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct which included: Policyholder Service, Underwriting and Rating, and Claims Handling. No significant issues were noted.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

As of the examination date, the Company was named as a defendant in certain litigation that was still pending at the report date. The Company intends to contest these claims and believes that meritorious defenses exist. The ultimate outcome of this litigation could not be reasonably determined for examination purposes; however, management of the Company does not anticipate any significant losses or costs to result.

## **SUBSEQUENT EVENTS**

The Company filed with MID on August 17, 2009, Amendment #1 to the Form B Holding Company Registration Form providing notification of three newly elected officers. The three new officers and their positions are:

Sandra M. Griffith, Vice President, Care Management  
Amy R. Ayers, Vice President, Customer and Employee Services  
Jennifer J. Allen, Vice President, Provider Networks Services

The Company filed with MID on September 29, 2009, Amendment #2 to the Form B Holding Company Registration Form whereby notification was given of the resignation of Robert C. Williams, Vice President, Legal and Corporate Secretary and John H. Proctor III, JD, CIA, CFE was named Interim Corporate Secretary.

Effective January 1, 2010, the Company is no longer the servicing carrier for the Children's Health Insurance Program.

Effective January 1, 2010, the Company is no longer the servicing carrier for the Mississippi Comprehensive Health Insurance Risk Pool Association.

On March 23, 2010, President Obama signed comprehensive health care reform, the Patient Protection and Affordable Care Act, into law. While it is still uncertain what specific impact this law will have, it is certain that it will have a significant effect on the Company and the health insurance industry as a whole.

## **COMMENTS AND RECOMMENDATIONS**

The examination did not identify any material comments and recommendations. All items were addressed in a management letter.

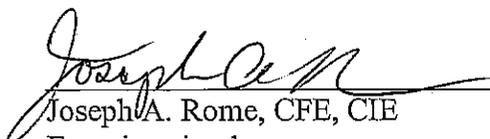
## ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner:	Richard McKnight, CFE
Examiner:	Don Sanders, CFE
Supervising Examiner:	Don Carbone, CPA, CFE
Actuary:	Joseph C. Higgins, FSA, MAAA, INS Consultants, Inc.

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,

  
\_\_\_\_\_  
Joseph A. Rome, CFE, CIE  
Examiner-in-charge