

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF
LIMITED-SCOPE EXAMINATION

OF

**BLUE CROSS AND BLUE SHIELD OF ALABAMA
BIRMINGHAM, ALABAMA**

AS OF

DECEMBER 31, 2009

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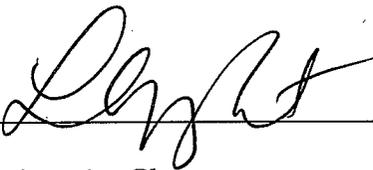
EXAMINER'S AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF JEFFERSON**

Lori Wright, CFE, being first duly sworn, states as follows:

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

The affiant says nothing further.



Examiner-in-Charge

Subscribed and sworn before me by Lori Wright on this
21st day of May, 2010.

(SEAL)



(Signature of Notary Public)

My Commission expires 8-11-14.



BOB RILEY
GOVERNOR

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May 21, 2010

Honorable Jim L. Ridling, Commissioner
State of Alabama
Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a limited-scope examination as of December 31, 2009 has been made of

Blue Cross and Blue Shield of Alabama
Birmingham, Alabama

at its home office located at 450 Riverchase Parkway East, Birmingham, Alabama 35244, to determine compliance with recommendations made in the 2007 Report of Examination.

Where the description "Company" or "BCBSAL" appears herein without qualification, it will be understood to indicate Blue Cross and Blue Shield of Alabama.

SCOPE OF EXAMINATION

The Company was last examined for the five years ended December 31, 2007 by examiners representing the Alabama Department of Insurance. The current limited-scope examination is as of December 31, 2009 and was conducted by examiners representing the State of Alabama. Where deemed appropriate, transactions subsequent to December 31, 2009 were reviewed.

This limited-scope examination was authorized pursuant to the instructions of the Alabama Insurance Commissioner and in accordance with the statutory requirements of the Alabama Insurance Code and the regulations and bulletins of the State of Alabama Department of Insurance in accordance with the guidelines and procedures promulgated by the NAIC and in accordance with generally accepted examination standards.

This limited-scope examination is not intended to communicate all matters of importance for an understanding of the Company's financial condition. The examination is limited to determining if the Company complied with recommendations made in the 2007 Report of Examination.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attests to the Company having valid title to all its reported assets, and that it did not have unreported liabilities as of December 31, 2009.

Within this report, discussion of the Company's accounts has been confined to those items for which a material change in the financial statements has been noted or for which comments and/or recommendations have been made.

ORGANIZATION AND HISTORY

Blue Cross and Blue Shield of Alabama is a non-stock not-for-profit corporation organized under ALA. CODE § 10-4-100 (1975), which provides that:

“Any non-stock corporations organized not for profit for the purpose of establishing, maintaining, and operating a health care service plan under which health services are furnished to such of the public who became subscribers to such plan pursuant to contracts are authorized and shall be governed by the provisions of this article.”

In March 2008, the Company adopted a new Governance Policy and Guidelines and amended the Bylaws.

As of December 31, 2009, the Company had four wholly-owned subsidiaries. Two of these entities each had a wholly-owned subsidiary. All six of the entities were domiciled in Alabama.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws and amendments thereto were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations. The Company Bylaws were amended March 26, 2008.

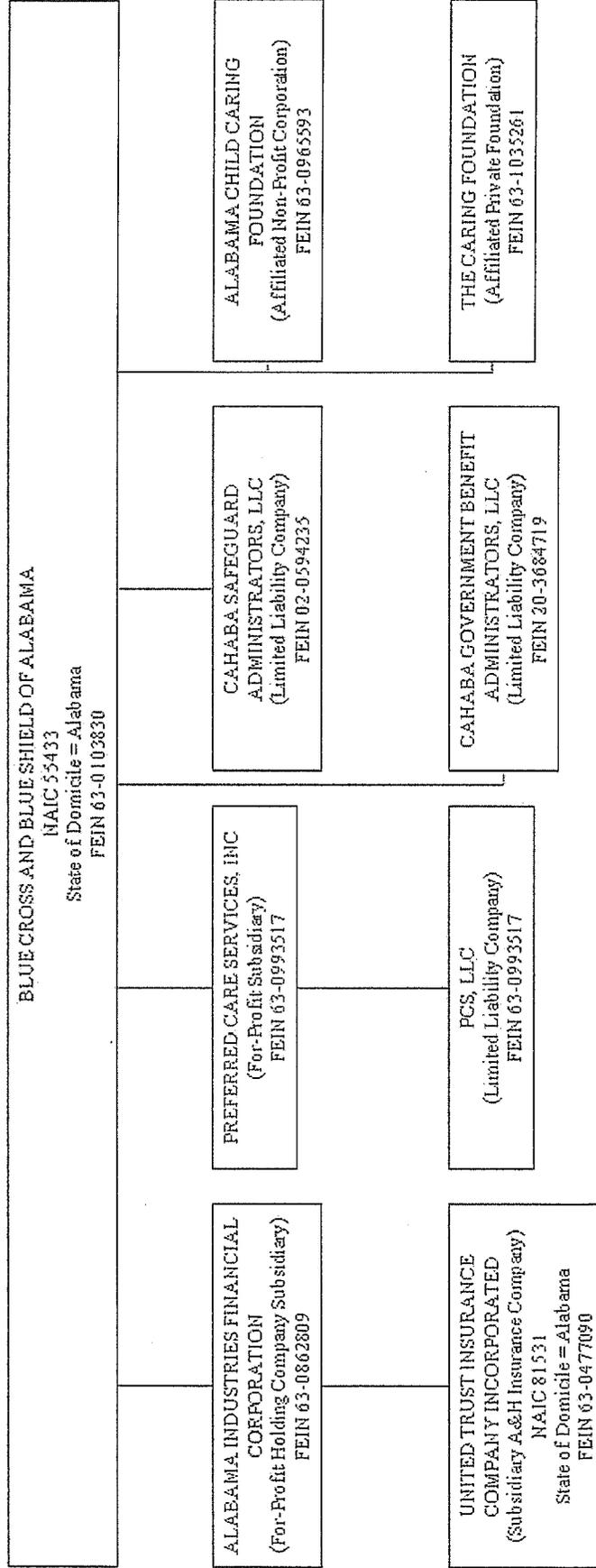
HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company

The Company is not subject to the Alabama Insurance Holding Company System Regulatory Act as defined in ALA. CODE § 27-29-1 (1975); however, its subsidiary, United Trust Insurance Company (UTIC) is registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System. UTIC is a wholly-owned subsidiary of Alabama Industries Financial Corporation (AFIC). AFIC is a wholly-owned subsidiary of the Company. See the Company's organizational chart, which presents affiliated corporate relationships.

Organizational Chart

The following chart presents the corporate affiliations of the Company as of December 31, 2009.



FINANCIAL STATEMENT INDEX

The Financial Statements included in this report were prepared on the basis of the Company's filed 2009 Annual Statement. The statements are presented in the following order:

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**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN
INTEGRAL PART THEREOF.**

Blue Cross and Blue Shield of Alabama
Statement of Assets
For the Year Ended December 31, 2009

	<u>Assets</u>	<u>Nonadmitted</u>	<u>Net Admitted</u>
	<u>Assets</u>	<u>Assets</u>	<u>Assets</u>
Bonds	\$ 890,153,697	\$ -	\$ 890,153,697
Stocks: Common stocks - Note 1	230,261,481	-	230,261,481
Real estate: Properties occupied by the Company	148,590,210	39,421,653	109,168,557
Cash, cash equivalents and short-term investments	<u>204,832,293</u>	<u>-</u>	<u>204,832,293</u>
Subtotal, cash and invested assets	\$ 1,473,837,681	\$ 39,421,653	\$ 1,434,416,028
Investment income due and accrued	9,279,475	-	9,279,475
Premium considerations:			
Uncollected premiums and agents' balances in the course of collection	277,450,331	414,541	277,035,790
Amounts receivable relating to uninsured plans	169,268,153	657,336	168,610,817
Net deferred tax asset	163,743,960	150,711,593	13,032,367
Electronic data processing equipment and software	25,139,534	20,516,508	4,623,026
Furniture and equipment, including health care delivery assets	6,811,273	6,811,273	-
Receivable from parent, subsidiaries and affiliates	6,439,595	-	6,439,595
Health care and other amounts receivable	100,479,056	26,647,310	73,831,746
Other assets nonadmitted	36,413,675	36,413,675	-
Premium tax recoverable	3,194,836	-	3,194,836
Accrued premium tax	<u>25,505</u>	<u>-</u>	<u>25,505</u>
TOTAL	<u>\$ 2,272,083,074</u>	<u>\$ 281,593,889</u>	<u>\$ 1,990,489,185</u>

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN
INTEGRAL PART THEREOF.**

**Blue Cross and Blue Shield of Alabama
Statement of Liabilities, Capital and Surplus
For the Year Ended December 31, 2009**

<u>LIABILITIES</u>	<u>2009</u>
Claims unpaid	\$ 385,902,641
Unpaid claims adjustment expenses	13,255,316
Aggregate health policy reserves	390,513,500
Premiums received in advance	57,021,055
General expenses due or accrued	310,234,768
Current federal and foreign income tax payable and interest thereon	5,823,241
Amounts withheld or retained for the account of others	59,279,007
Amounts due to parent, subsidiaries and affiliates	1,101,333
Liability for amounts held under uninsured plans	117,302,798
Deferred gain in unassigned funds	<u>1,020,543</u>
TOTAL LIABILITIES	\$ 1,341,454,202
<u>CAPITAL AND SURPLUS</u>	
Unassigned funds (surplus)	<u>649,034,983</u>
TOTAL LIABILITIES, CAPITAL AND SURPLUS	<u>\$ 1,990,489,185</u>

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN
INTEGRAL PART THEREOF.**

Blue Cross and Blue Shield of Alabama
Statement of Revenue and Expenses
For the Years Ended December 31, 2009, 2008 and 2007

	2009	2008	2007
Net premium income	\$ 4,320,066,040	\$ 3,992,026,178	\$ 3,495,234,465
Change in unearned premium reserves	<u>(36,496,909)</u>	<u>(24,627,010)</u>	<u>11,506,011</u>
Total revenues	<u>\$ 4,283,569,131</u>	<u>\$ 3,967,399,168</u>	<u>\$ 3,506,740,476</u>
Hospital and Medical:			
Hospital/medical benefits	\$ 2,736,756,634	\$ 2,401,906,058	\$ 2,031,325,650
Other professional services	598,366,548	592,604,079	571,077,182
Emergency room and out-of-area	276,754,651	241,494,466	220,009,700
Prescription drugs	<u>446,647,707</u>	<u>435,562,093</u>	<u>402,756,922</u>
Subtotal	<u>\$ 4,058,525,540</u>	<u>\$ 3,671,566,696</u>	<u>\$ 3,225,169,454</u>
Less:			
Net reinsurance recoveries	\$ 886,346	\$ (61,649)	\$ 1,070,159
Total hospital and medical	4,057,639,194	3,671,628,345	3,224,099,295
Claim adjustment expenses	106,635,124	94,434,400	71,452,694
General administrative expenses	<u>231,458,539</u>	<u>225,001,547</u>	<u>191,596,923</u>
Total underwriting deductions	\$ 4,395,732,857	\$ 3,991,064,292	\$ 3,487,148,912
Net underwriting gain or (loss)	(112,163,726)	(23,665,124)	19,591,564
Net investment income earned	48,650,677	62,916,795	62,029,290
Net realized capital gains (losses)	(25,283,216)	(1,013,461)	9,246,275
Net investment gains (losses)	23,367,461	61,903,334	71,275,565
Net income or (loss) after capital gains tax and before other federal income taxes	(88,796,265)	38,238,210	90,867,129
Federal income taxes incurred	<u>\$ (36,237,759)</u>	<u>\$ 9,631,937</u>	<u>\$ 19,216,276</u>
Net income (loss)	<u>\$ (52,558,506)</u>	<u>\$ 28,606,273</u>	<u>\$ 71,650,853</u>

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN
INTEGRAL PART THEREOF.**

NOTES TO FINANCIAL STATEMENTS AND RESULTS OF THE LIMITED-SCOPE EXAMINATION

Note 1 – Common Stocks

\$230,261,481

The above captioned amount is the same as reported by the Company in its 2009 Annual Statement.

The prior two examination reports noted that the Company did not file its SUB 2-form filings for its Subsidiary Controlled Affiliate (SCA) Investments in accordance with Part 8, Section 2 (c)(ii) of the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*, which requires, “By June of each year, any insurance company that has made a SUB 2-form filing in a previous year must update the information by filing an updated SUB 2-form filing.” The Company filed SUB 2 forms for Cahaba Safeguard Administrators, LLC (CSA) on July 20, 2009.

The prior two examination reports also recommended that the Company file all necessary forms with the SVO in a timely manner as is required by Part 5, Section 4 (a) (ii) of the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*. Because the SUB 2 forms were not filed for CSA within a timely manner, the Company again did not comply with this recommendation. The amount of this security was \$6,006,682. If the Company continues to not file SUB 2-form filings in a timely manner, this security should be non-admitted until such time that the Company complies with this recommendation.

Accounts and Records

In the prior two examination reports, there were employees with multiple active identification cards. Recommendations were made for each employee to have only one active identification card. Company management continued to state that they had made a business decision to allow select executives to have two identification cards.

Producers/Representatives

It was noted in the previous Report of Examination that the Company had 31 employees with an active producer's license that were acting on behalf of the Company but were not appointed by the Company. It was recommended that the employees be appointed as a Service Representative in accordance with ALA. CODE § 27-7-1 (18) (1975). Service Representatives can only be appointed for property and casualty companies; therefore, the Company, in conjunction with the Alabama Department of Insurance, determined that this was not necessary.

However, the Company should appoint these employees with active producer's licenses in accordance with ALA. CODE § 27-7-4 (b) which states, "No producer shall act on behalf of any insurer for which an appointment is not held under this chapter." The examiner reviewed the Company's listing of 181 licensed producers and determined that two were not appointed.

SUBSEQUENT EVENTS

Effective April 1, 2010, Terry Dee Kellogg, FSA became the Company's President and Chief Operating Officer. Gary Phillip Pope will remain the Company's Chief Executive Officer until his retirement on June 30, 2010.

COMMENTS AND RECOMMENDATIONS

Common Stocks – Page 9

It is again recommended that the Company file a SUB 2 form with the NAIC Securities Valuation Office by June of each year after the filing of the SUB 1 form for each of its SCAs, as is required by the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*.

It is again recommended that the Company file all necessary forms with the Securities Valuation Office in a timely manner as required by the *Purposes and Procedures Manual of the NAIC Securities Valuation Office* Part 5, Section 4 (a) (ii).

Accounts and Records - Page 9

It is again recommended that there only be one active identification card for each employee.

Agents/Representatives – Page 10

It is recommended that the Company appoint all employees with active producer's licenses that are acting on behalf of the Company in accordance with ALA. CODE § 27-7-4 (b) which states, "No producer shall act on behalf of any insurer for which an appointment is not held under this chapter."

CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by all persons representing Blue Cross and Blue Shield of Alabama during the course of this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent deemed appropriate in connection with this limited-scope examination.

In addition to the undersigned, Rhonda Ball, CFE, examiner for the State of Alabama Department of Insurance participated in this examination of Blue Cross and Blue Shield of Alabama.

Respectfully submitted,



Lori Wright, CFE
Examiner-in-charge
State of Alabama
Department of Insurance