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FILED
APR 2 [illegible] 2007
Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

IN THE MATTER OF: Regence BlueShield of Idaho, Inc. Idaho Certificate of Authority: 1903 NAIC Company Code: 60131	ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2005 Docket No. 18-2387-07

The above described Report of Examination of Regence BlueShield of Idaho, Inc. (Company) was completed by examiners of the Idaho Department of Insurance (Department), signed the 18th day of April 2007 by the examiner-in-charge, Lois Haley, CFE, CPA and a verified copy was filed with the Department effective April 18, 2007. A draft copy of the report was delivered to the Company previously, and the verified report was transmitted to the Company electronically (PDF file, via e-mail) on April 19, 2007 to Mr. John M. Stellmon, President, with a copy going to Jason Davidson, Manager, Idaho Financial Reporting. The verified Report of Examination and Affidavit of Examiner are attached hereto and incorporated herein as Exhibit A.

WAIVER

Attached hereto and incorporated herein as Exhibit B, is a Waiver signed by John M. Stellmon, President, dated and received (electronically via facsimile) on April 23, 2007. Based upon the Waiver/Exhibit B, this is a final order, and the Company has waived its rights to seek reconsideration and judicial review / appeal of this order.

RESPONSE

Regence responded to the examination report recommendations by letter from Ms. Karin Holsinger, Director of Financial Accounting Services, dated April 12, 2007. The Company requested in writing that this response be made part of the public record. Accordingly, the response is attached hereto and incorporated herein as Exhibit C.

ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto as Exhibit A, and good cause appearing therefor, it is hereby ordered that the above described report, which includes the findings, conclusions, comments and recommendations supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department under Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho this 25TH day of April 2007.

William W. Deal, Director
IDAHO DEPARTMENT OF INSURANCE

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CERTIFICATE OF SERVICE

I hereby certify that on this 26th day of April 2007, I caused to be served the foregoing document on the following parties in the manner set forth below:

John M. Stellmon	X	certified mail
President & CEO		first class mail
Regence BlueShield of Idaho, Inc.		hand delivery
1211 W. Myrtle St		facsimile
Boise, Idaho 83702	X	e-mail
e-mail: jstellmon.id@regence.com		
Jason Davidson		certified mail
Manager, Idaho Financial Reporting		first class mail
The Regence Group		hand delivery
200 S.W. Market Street		facsimile
Portland, Oregon 97201	X	e-mail
e-mail: jxdavid@regence.com		
Karin Holsinger		certified mail
Director, Financial Accounting Services		first class mail
The Regence Group		hand delivery
200 S.W. Market Street		facsimile
Portland, Oregon 97201	X	e-mail
e-mail: karin.holsinger@regence.com		
Georgia Siehl, CPA, CFE		certified mail
Bureau Chief / Chief Examiner		first class mail
Idaho Department of Insurance	X	hand delivery
700 W. State St., 3rd Floor		facsimile
Boise, Idaho 83720-0043	X	e-mail
e-mail: Georgia.Siehl@doi.idaho.com		

William R. Michels, MBA, CPA, CFE
Examination Supervisor
IDAHO DEPARTMENT OF INSURANCE

DEPARTMENT OF INSURANCE

STATE OF IDAHO

REPORT OF EXAMINATION

of

REGENCE BLUESHIELD OF IDAHO, INC.
(a domestic mutual insurer)
(NAIC Company Code 60131)

as of

December 31, 2005

FILED	4/18/07	GL
	date	initial
ADOPTED	4/26/07	GL
	date	initial

STATE OF IDAHO
Department of Insurance

EXHIBIT

A

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State of Idaho
DEPARTMENT OF INSURANCE

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WILLIAM W. DEAL
Director

Portland, Oregon
April 18, 2007

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720

Alfred W. Gross, Commissioner
Chair – NAIC Financial Condition Committee
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P. O. Box 1157
Richmond, Virginia 23218

Dear Sirs:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2005, of the financial condition and corporate affairs of:

<u>Regence BlueShield of Idaho, Inc.</u>
<u>1602 21st Avenue</u>
<u>Lewiston, Idaho 83501</u>

hereinafter referred to as the "Company," at the offices of The Regence Group in Portland, Oregon. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period January 1, 2001, through December 31, 2005, and included such prior transactions and any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The scope of this examination includes market conduct issues set forth in the target market conduct examination of the Company. These items were the subject of a separate prior examination report, which will be addressed in more detail under the caption, *PRIOR EXAMINATION.*

The examination was conducted in conjunction with and concurrently with the examination of Regence BlueCross BlueShield of Oregon, Regence Health Maintenance of Oregon, Inc., Regence HMO Oregon, Regence Life and Health Insurance Company (Oregon); Regence BlueShield, Asuris Northwest Health; Regence BlueCross BlueShield of Utah, and Healthwise by the Oregon, Washington, and Utah Departments of Insurance, respectively. The examination relied upon selected work performed by the States of Oregon, Washington, and Utah pursuant to a Memorandum of Understanding signed by all participating states.

The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, and the NAIC *Accounting Practices and Procedures Manual.* We performed our testing in order to achieve a confidence level commensurate with the risk assessed through utilization of the NAIC *Financial Condition Examiners Handbook.* Verification and valuation of assets, determination of liabilities and reserves, and an analysis and review of such other accounts and records as appropriate to the examination were also performed.

The actuarial review of reserves, related liabilities, and other actuarial items was performed by Lewis & Ellis, Inc., Actuaries & Consultants, Consulting Actuary, for the Idaho Department of Insurance. The results of the actuarial review are discussed under the captions, *REINSURANCE, ACCOUNTS AND RECORDS* and Note 4 to the Financial Statements.

There was some reliance on the 2005 independent Certified Public Accountant's statutory audit report and workpapers in this examination.

A letter of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

PRIOR EXAMINATION

The prior full-scope financial examination (with a limited-scope market conduct component) of the Company was conducted by the Idaho Department of Insurance covering the period January 1, 1997 through December 31, 2000. A target market conduct examination of the Company was performed for the selected periods January 1, 2000 through March 1, 2001, and September 1, 2002 through February 28, 2003.

Prior Financial Examination

Recommendations contained in the prior examination report and management's responses (noted in italics) to those recommendations are as follows:

It is recommended that, in the future, the Company state the purpose of its statutory deposit and report that securities on deposit are held for the protection of all policyholders and/or creditors in Schedule E – Part 2. It is further recommended that values reported in Schedule E – Part 2 reconcile to pertinent and/or related schedules and/or exhibits in future annual statements.

In a letter to the Idaho Department of Insurance, management stated that,

We concur with the recommendations and will ensure that comment is included and values reconciled in future annual statements.

It is recommended that Policy Form DC-10/98SL dental sales literature be submitted to the Department of Insurance for review.

We concur with the recommendation. Our Marketing and Contract departments prepared a filing that was submitted to the Department of Insurance on September 18, 2002.

It is recommended that the Company bring its group plan underwriting practices into compliance with the requirements of HIPAA with respect to waiting (probationary) periods.

We concur with the recommendation and will adjust our practices to meet the requirements of HIPAA.

It is recommended that the Company request and maintain documentation in the underwriting file to support modifications to the stipulated plan probationary period.

We concur with the recommendation. Our Membership Accounting department has commenced maintaining the appropriate documentation for changes to probationary periods.

It is recommended that the Company maintain records to indicate when new policies are either mailed or hand delivered to the Insured or the Agent.

We concur with your recommendation. For all Large Groups we now track the date when policies are delivered and booklets mailed. For Small Groups, we utilize our Onyx@ Customer Relationship Management (CRM) software to track this activity. For

Individual policies, we are building an application within our "Client Letter" software to save a record on the member's file on the date the policy is mailed.

It is recommended that a specific date of enrollment and/or beginning of waiting period be included in the Company's Certificate of Prior Coverage.

Utilizing our new Facets® claims & membership system, the HIPAA certificate for prior coverage does include the specific effective date of coverage.

It is recommended that, in the future, the Company obtain copies of the existing registered agents' licenses and those that are submitted by the independent agency and retain such in the agency's and/or agents' files.

We concur with the recommendation and have obtained copies of the (agent name deleted by examiner) *agent license. As we appoint new agents, we are requiring copies of their licenses.*

It is recommended that notification, indicating the reasons for termination, be maintained in the terminated agents' files pursuant to Section 41-1019 (previously Section 41-1049), Idaho Code.

We concur with your recommendation. The Finance department is now recording the reason for agent termination and recording the information as a notation in the agent's file.

It is again recommended that the Company review its policies and on-line system to bring language into uniform compliance with the Idaho Code and applicable federal laws.

We concur with your recommendation. We are working with our new Intranet/Internet and Facets® systems to ensure that language provided in any of our new on-line systems is in compliance with both the Idaho Code and applicable federal laws.

It is recommended that the Company's complaint register be expanded to include all information specified in Section 41-1330, Idaho Code, and to include all written complaints received directly from the pubic.

We concur with your recommendation and are working with our Legal and Benefits Administration departments to ensure that all information is consolidated and includes all written complaints.

It is recommended that the Company include the definition of pre-existing conditions in all sales brochures representing policies that contain waiting period or pre-existing condition language.

We concur with the recommendation and have included the definition of preexisting conditions in all sales brochures for policies that contain waiting period or preexisting condition language.

It is recommended that, in the future, all changes made to the Annual Statements that are filed with the NAIC should also be filed with the Department of Insurance.

We concur with the recommendation and will file all changes to the Annual Statements with the NAIC.

It is recommended that the opining actuary include accident and health premiums due and unpaid: premiums and annuity considerations received in advance; and unpaid claims adjustment expenses in the statement of actuarial opinion.

We concur with the recommendation and will work with our certifying actuaries to include the appropriate information.

It is recommended that the market value of securities loaned in the future meet the requirements of Section 41-735, Idaho Code.

We concur with the recommendation and have instructed our Treasury staff as well as our investment managers of the statutory limitations on securities lending.

It is again recommended that amortization be reported in Exhibit 2 and excluded from Exhibit 4 pursuant to NAIC Annual Statement Instructions.

We concur with the recommendation and will ensure that amortization be reported correctly on Exhibit 2.

Leasehold improvements of $1,062,182 should be reported as non-admitted assets at December 31, 2000. The Company properly reported leasehold improvements as non-admitted assets in the 2001 Statement.

We concur with the recommendation and will continue to report the assets as non-admitted.

It is recommended that the Unit Stabilization Reserve be included with the other accounts representing deferred compensation in future annual statements.

We concur and will report all deferred compensation assets together.

It is again recommended that the Company offset the amount of assets developed from "Accident and health premiums due and unpaid" by reporting liabilities for "Taxes, licenses and fees due or accrued".

We will review the most current guidance on reporting assets and liabilities to ensure that the associated liabilities are netted from assets where required.

It is again recommended that the Company offset the amount of assets developed from "Accident and health premiums due and unpaid" by reporting liabilities for cost of collection.

Anticipated costs for collection will be reported as an offset to the associated assets. To date the Company has not had additional costs specifically associated with collections on premiums due and unpaid

The Company should establish and report an unearned premium reserve for any premiums reported as paid from the date of valuation to the next modal paid to date, if appropriate.

We concur with the recommendation and will pursue required reporting enhancements to ensure that any qualifying, paid premiums are reported separately as noted.

It is recommended that the Company offset the amount of assets developed from "Accident and health premiums due and unpaid" by reporting an unearned premium reserve.

We concur with the recommendation and will report assets offset by the appropriate unearned premiums.

It is recommended that the Company reconcile paid claims reported in the general ledger accounts to paid claims shown in the lag studies and subsequently make necessary and timely corrections to balance the amounts.

We concur with the recommendation and have been preparing reconciliations of general ledger paid claims to paid claims in our lag studies' database.

It is also recommended that the Company consistently recognize that portion of litigation claims representing claims payments.

We concur with the recommendation and have been consistently recognizing these amounts as separate components when they arise.

The Company should continually review its lag studies and methodologies, and utilize those methods that will most closely estimate its claims unpaid liability.

We concur with the comment and note that our Actuarial department continually reviews their lag studies and is continually refining methods for more accurately estimating unpaid claims.

It is recommended that in the future, the Company calculate the UCAE ratio as of December 31st of each year. To calculate the UCAE liability, it is further recommended that the Company apply the ratio to the sum of insured plans unpaid claims and margin. In 2001, it appears the ratio used to determine UCAE was based on current year data and was applied to the sum of insured plans unpaid claims and margin.

We concur with the recommendation and will continue to determine UCAE as pointed out in the recommendation.

It is recommended that FEP receivables be reported as "Amounts receivable relating to uninsured accident and health plans" in future Annual Statements. In addition, a receivable should not be recorded for unpaid claims (IBNR receivable) related to uninsured business.

We concur with the recommendation to verify treatment of the FEP receivable and other elements of revenue and expense associated with the program. We are in contact with the National office of the FEP program to ensure consistent treatment of these items with that of other insurers across the country.

It is recommended that Exhibit 2 be prepared according to Annual Statement instructions in future annual statements. It is also recommended that Notes to the Financial Statements be consistent with various Annual Statement schedules and exhibits.

We concur with the recommendations and will ensure appropriate preparation of Exhibit 2 and Notes to the Financial Statements.

It is recommended that intangible assets be characterized as non-admitted assets in future annual statements pursuant to Section 41-603(1) Idaho Code. The intangible asset was properly reported as not admitted in the 2001 Annual Statement.

We concur with the recommendation and will continue to report the intangible asset as non-admitted.

It is recommended that premium taxes payable be reported as "Taxes, licenses and fees due or accrued" in future annual statements. The Company appropriately reported premium taxes payable in its 2001 financial statements.

We concur with the recommendation and will continue to report premium taxes payable as noted.

It may be more appropriate to report certain accounts included in "Remittances and items not allocated" elsewhere in the Annual Statement. The Company reported certain accounts as "Other Liabilities" in the 2000 Quarterly Statements.

We agree with the comment and will review each amount to ensure that we utilize the most appropriate reporting location for all items.

It is recommended that in the future, the Company follow NAIC Annual Statement instructions in preparing the Asset Valuation Reserve.

We concur with the recommendation and will more closely follow the Statement instructions in preparing the AVR.

Target Market Conduct Examination

The examination reviewed the following specific areas for which the Department had received complaints, and for compliance with Title 41, Idaho Code: Chapter 22, Group and Blanket Disability Insurance; Chapter 47, Small Employer Health Insurance Availability Act; and IDAPA 18.01.69, Rule to Implement the Small Employer Health Insurance Availability Act. Compliance with Title 41, Idaho Code: Chapter 21, Disability Insurance Policies; Chapter 52, Individual Health Insurance Availability Act; and IDAPA Rule 18.02.72, Rule to Implement the Individual Health Insurance Availability Act, were also reviewed.

Recommendations contained in the prior examination report and management's responses to those recommendations are as follows:

It is recommended the RBSI develop, update and maintain a complete individual rate manual in accordance with Idaho Code Section 41-5206(4)(a) and IDAPA Rule 18.01.72(036.01) and maintain that manual for a period of six years in accordance with IDAPA Rule 18.01.72(036.14).

As noted in the report, Regence BlueShield of Idaho provided the examiner and the Department a complete historical and current rate manual for individual products in July 2003. This rate manual is updated and maintained in accordance with the applicable laws and rules.

It is recommended that RBSI develop, update and maintain a complete small employer rate manual in accordance with Idaho Code Section 41-4706(5)(a) and IDAPA Rule 18.01.69(036.01) and maintain that manual for a period of six years in accordance with IDAPA Rule 18.01.69(036.13).

At the time of the report, a complete historical and current small employer rate manual was not provided to the examiner or the Department. Since that time, a historical rate manual for small employer products offered by Regence BlueShield of Idaho from 1995 through September 2002 has been completed. Efforts are in progress to produce an update to the small employer rate manual encompassing the time period October 2002 to date. Once completed, the entire small employer rate manual for Regence BlueShield of Idaho will be delivered to the Department. Also, in the future this rate manual will be updated and maintained in accordance with the applicable laws and rules.

It is recommended that all individual policy rating methodologies, utilized by the company, comply with Idaho Code Section 41-5206(1)(b), restrictions relating to premium rates, and the language of the "sum of". The Company may utilize whatever rating methodology it chooses so long as the ultimate rating result does not exceed the maximum increase that would be allowed by following the Idaho Code.

Regence BlueShield of Idaho incorporates rating logic to comply with maximum increase allowed by the Idaho Code 41-5206(1)(b).

It is recommended that RBSI make immediate, appropriate filings with the Department and/or amend all individual policies to include the required provisions of Idaho Code Section 41-2112. The company was so notified during the exam review.

Regence BlueShield of Idaho is actively working with the Department to resolve this issue and hopes to incorporate any appropriate information into the recently filed individual policies (effective February 2004).

It is recommended that the Company be more diligent in the retention of records that may prove pertinent during the course of a future examination.

Effective October 1, 2002 a process was implemented to maintain an electronic record of all documents.

It is recommended that all small employer policy rating methodologies comply with Idaho Code Section 41-4706(1)(c), restrictions relating to premium rates, and the language of the "sum of". The Company may utilize whatever rating methodology it chooses so long as the ultimate rating result does not exceed the maximum increase that would be allowed by following the Idaho Code.

Regence BlueShield of Idaho incorporates rating logic to comply with maximum increase allowed by the Idaho Code 41-4706(1)(c).

It is recommended that RBSI utilize one rating mode for all groups from 2 through 50 members.

...given the proprietary nature of the information in this response and pursuant to the Department's representations that this information shall remain confidential upon request by Regence BlueShield of Idaho, Regence requests the information contained in this response remain confidential.

It is recommended that RBSI make immediate, appropriate filings with the Department and/or amend <u>all</u> group policies to include the required provision of Idaho Code Section 41-2203(2). The company was so notified during the exam review.

Regence BlueShield of Idaho will include the appropriate language supporting the required provisions of Idaho Code Section 41-2203(2) for new and renewal group business beginning July 1, 2004.

It is recommended that the Company be more attentive to the specific parameters of the written requests received from the Department. If there are any questions regarding a specific issue, then follow up clarification from the Department should be obtained at the time the Company receives the Department correspondence.

The Company will seek clarification of requests from the Department as necessary.

It is recommended that the Company be more diligent in expediting its efforts to resolve its "system problems" and to provide complete explanations of the results of such ongoing efforts to the satisfaction of the Department.

Regence BlueShield of Idaho has been working diligently to expedite efforts to resolve its system problems. In August of 2003, we began an overall effort to identify remaining issues that were tied to our systems conversion. The project scope was broken down into a series of discrete sub-projects. Each sub-project had a defined scope and goal as well as an assigned project manager. These sub-projects included both business issues, such as process flow and error cleanup, as well as technical efforts. Efforts have been manage through a formal Project Management Office (PMO) that has monitored our overall milestone completion, project plan quality, deliverable completion and issues management. Weekly reports were also developed and provided to project staff and Regence executive management to monitor the overall project progress. As of January 16, 2004 94% of the project goals have been completed.

It is recommended that the Company continue to monitor and improve its claims payments so that all claims not requiring further information are processed within 30 days or less.

Regence BlueShield of Idaho continues to monitor and improve on claims timeliness. A productivity improvement plan was developed in the 3rd quarter of 2003. Our plan identified ways to improve our overall claims productivity to improve throughput, reduce backlogs and improve accuracy. We will continue to monitor and refine processes to ensure we meet the 30-business day parameter.

The recommendations and comments contained in the prior examination reports were addressed by the Company, unless otherwise noted within this report.

HISTORY AND DESCRIPTION

The Company was formed as a non-profit entity on February 23, 1946, and commenced business in the State of Idaho on April 15, 1946, as North Idaho District Medical Service Bureau, Inc. By a resolution dated January 12, 1977, the Board of Directors changed the Company's name to Medical Service Bureau of Idaho, Inc. The Company operated as a hospital and professional service corporation, and in 1994, converted to a nonprofit mutual insurer under Chapter 28, Idaho Code. Effective September 1, 1997, the name of the Company was changed to Regence BlueShield of Idaho, Inc.

During 1961, the Company became a member of the Blue Cross and Blue Shield Association. The Association serves as a national non-affiliated advisory organization for all BlueCross and BlueShield Plans in the United States.

The Company became subject to Federal income taxes beginning in 1987. Prior thereto, it had been exempt under Section 501(C)(4), Internal Revenue Code.

The Caring Foundation, Inc. was established in 1991 for the benefit of children in need of appropriate dental care in Idaho and Utah. The Company, along with Regence BlueCross BlueShield of Utah, is a member of the Foundation.

Prior to the Company's mutualization in 1994, it was exempt from Idaho State Premium Taxes, State Corporation Taxes, and participation in the Life and Health Guaranty Association. State taxation in lieu of Idaho premium taxes was provided under Section 41-3427, Idaho Code, which required an assessment at the rate of four cents per subscriber contract per month.

Beginning in 1995, the Company's lines of business were no longer exempt from Idaho premium taxes and participation in the Life and Health Guaranty Association. The exception from the Idaho premium tax was Healthsense, the Company's managed care line of business, which was started in 1994 and was subject to the assessment of four cents per subscriber contract per month. In addition, the Company's annual statement reporting was changed from a hospital, medical and dental or indemnity form to a life and accident and health form. HealthSense, a health maintenance organization, was formed in 1994 to deliver managed care services.

Also in 1995, the Company became a member of The Regence Group, formerly known as ENTRUST, and later The Benchmark Group, by entering into a Management and Administrative Services Agreement. The agreement was amended June 1, 1998 and December 10, 2001. Other members of The Regence Group include Regence BlueCross BlueShield of Oregon, Regence BlueShield, and Regence BlueCross BlueShield of Utah, collectively referred to as the Plans.

The Company acquired 100 percent of the capital stock of the Medical Service Life Agency, Inc., an Idaho corporation, from Medical Life Insurance Company, Cleveland, Ohio in October 1996. In consideration of $99,900, the Company received one thousand shares of MSLA common stock.

Effective April 1, 1999, Medical Service Life Agency and several related agencies were merged into Regence Coordinated Services, Inc. Regence Coordinated Services, Inc. is a wholly owned subsidiary of Regence Life and Health Insurance Company. Regence Life and Health Insurance Company, in turn, is owned by the member Plans of The Regence Group.

The Company received 571 shares of Regence Life and Health common stock in exchange for Medical Service Life Agency stock. The shares and value of Medical

Service Life Agency stock as a percent of the total transaction were 6.7 percent. After the merger, and at December 31, 2005, the Company owned approximately two percent of Regence Life and Health Insurance Company. Medical Service Life Agency was merged out of The Regence Group effective April 1, 1999.

In 1997, The Regence Group and affiliate Plans formed Regence Operating Company, LLC, for the purpose of providing shared services and the funding of capital investments common to The Regence Group and affiliate Plans.

Regence Insurance Services of Idaho, Inc. was organized and incorporated by the Company on April 12, 1999. Regence Insurance Services of Idaho, Inc. may own or operate various businesses or conduct activities that were complementary to the Company's business. Regence Insurance Services of Idaho, Inc. was dissolved as of July 7, 2003.

Effective February 4, 2000, the Company withdrew HealthSense's Idaho Certificate of Authority. At the same time, the Idaho Certificate of Authority for the Company was amended to reflect the addition of disability, including managed care. Also effective February 2000, all transactions applicable to HealthSense were reported by the Company. Previous to that, the financial condition and results of HealthSense were reported separately.

An equity grant of $10 million was made to the Company in 2003. The purpose of the grant was to improve and stabilize the Company's financial position.

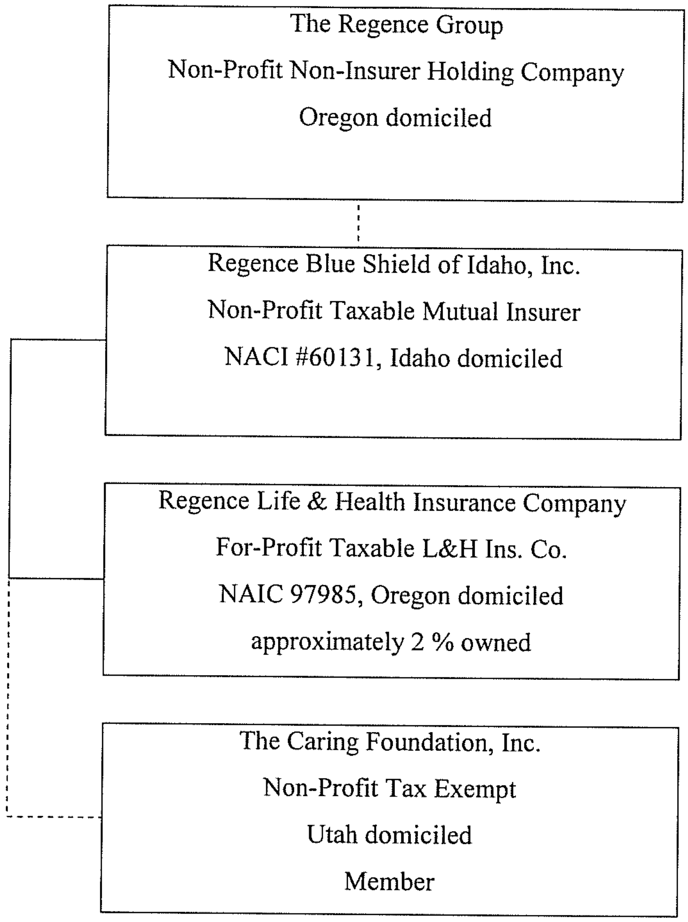
Accounting, actuarial, and investment operations were moved from Lewiston and Boise, Idaho to Portland, Oregon, and Seattle, Washington during 2004.

Subsequent to the examination date, the Company changed its reporting format from the NAIC Life, Accident and Health blank to the Health blank effective January 1, 2006.

MANAGEMENT AND CONTROL

Insurance Holding Company System

The Company is a member of a holding company system. The Regence Group is the ultimate controlling person, as noted in the abridged organizational chart:



<u>The Regence Group</u>

The Regence Group was incorporated as a nonprofit public benefit corporation and is a non-insurer holding company established to administer the Regence holding company system. The Regence Group was initially incorporated on April 17, 1995 as ENTRUST. Its name was changed to The Benchmark Group on May 25, 1995 and to The Regence Group effective April 1, 1997.

The Regence Group was organized without stock and without members and is governed by a self-perpetuating board of directors. Under the terms of affiliation (discussed below) between The Regence Group and its four affiliated health Plans, Regence BlueCross BlueShield of Oregon, Regence BlueShield, Regence BlueCross BlueShield of Utah, and the Company, each Plan has contractual rights to representation on The Regence Group's Board of Directors.

The Company participated in the initial capitalization of The Regence Group and in this connection issued a promissory note of $540,000 to The Regence Group. The note, dated June 1, 1995, is payable in 20 years with interest compounded annually at a commercial prime rate. The note and accrued interest may be paid any time during the 20-year period. However, in the event of termination of the Management and Administrative Services Agreement (discussed below), the note and accrued interest are due within 20 days after termination.

The Report of Examination as of December 31, 1996 recommended that the note be submitted to the Securities and Valuation Office for classification and valuation. However, the note was not submitted, as recommended; therefore, the promissory note and accrued interest thereon were not admitted in the 2001 through 2003 Annual Statements. The Company began reporting the promissory note in Schedule D – Part 1 in the 2004 and 2005 Annual Statements. The note had an NAIC designation of "1" and "2" in 2004 and 2005, respectively. The note was valued at $540,000 as of December 31, 2005, with accrued interest of $558,893.

The Company became affiliated with The Regence Group holding company system effective June 1, 1995 pursuant to the Plan and Agreement of Affiliation. Regence BlueShield, Regence BlueCross BlueShield of Oregon, Regence BlueCross BlueShield of Utah, and the Company, along with The Regence Group are party to the Agreement. Pursuant to the Plan, the Company and The Regence Group entered into a 20-year Management and Administrative Services Agreement effective June 1, 1995. The Regence Group maintains control of the Company by reason of its continuing contractual rights and powers under the agreement. However, the Company retains the independent legal structure and authority necessary to fulfill its fiduciary obligations to its policyholders.

The Plans are charged an annual license fee for use of the *Regence* mark in their names pursuant to the Regence Service Mark and Trade Name License Agreements effective October 1, 1999. The fee is calculated at $.30 per medical member on the annual renewal date.

Regence Operating Company, LLC

In 1997, The Regence Group and affiliate Plans formed Regence Operating Company, LLC, for the purpose of providing shared services and the funding of capital investments common to The Regence Group and affiliate Plans. As of December 31, 2000, Regence Operating Company did not have assets or liabilities.

Regence Insurance Services of Idaho, Inc.

Regence Insurance Services of Idaho, Inc. was organized and incorporated by the Company on April 12, 1999. Regence Insurance Services of Idaho, Inc. may own or operate various businesses or conduct activities that are complementary to the Company's business. Regence Insurance Services of Idaho, Inc. was dissolved as of July 7, 2003.

Regence BlueCross BlueShield of Oregon

During the examination period, Regence BlueCross BlueShield of Oregon acted as the common paymaster and payroll agent for The Regence Group, including the Company.

Regence Life and Health Insurance Company

Medical Service Life Agency, Inc. was merged out of The Regence Group through an exchange of shares with Regence Life and Health Insurance Company effective April 1,

1999. As a result, the Company owns 517 shares of Regence Life and Health Insurance Company common stock. This represents approximately 2 percent ownership. The book value/fair value of the stock was $250,144 at December 31, 2005.

TriWest Healthcare Alliance Corp.

TriWest Healthcare Alliance Corp. was incorporated in August of 1995 by 14 stockholders, including the Company, to establish provider networks for the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). The Company's initial investment of $1,015,000 is represented by its 4.06 percent ownership. Additional $1.5 million was required to be on deposit in cash or securities until March 31, 2002. However, the agreement requiring contingent funds was terminated during the current examination period. In the future, the stockholders of TriWest may authorize additional capitalization of $2.5 million. At December 31, 2005, the book value/fair value of Triwest common stock was $4,638,444.

The Caring Foundation, Inc.

The Caring Foundation, Inc. was formed in 1991 to provide free dental care to uninsured children within Idaho and Utah. In this connection, the Company has an agreement with the Foundation to provide dental care services. The Company raises money from the public and donates administrative services to benefit eligible uninsured children. The Company, along with Regence BlueCross BlueShield of Utah is a member of the Foundation.

Equity Grant

In 2003, a grant in the amount of $10 million (net $2 million tax) was made to the Company to improve and stabilize its financial condition. According to management, there were no agreements with respect to the grant. The Plans made the following contributions:

Regence BlueCross BlueShield of Oregon:	$ 900,000
Regence BlueCross BlueShield of Utah:	4,100,000
Regence BlueShield:	5,000,000
Total:	$10,000,000

Affiliated Contracts and Agreements

The following significant contracts and agreements were in effect with affiliated entities as of the examination date:

Management and Administrative Services Agreement

As previously noted, the Company entered into a Management and Administrative Services Agreement with The Regence Group effective May 25, 1995. Under this agreement, The Regence Group provided management and certain services such as strategic planning, budgeting, actuarial, and regional marketing, among other things. Also under the agreement, various common expenses are shared and spread across the

four Plans. The agreement was originally executed in 1995 and approved by the Department of Insurance on May 17, 1995.
The initial term of the agreement is four, five-year periods totaling 20 years. After the initial term, the agreement renews for one-year periods unless terminated by one of the parties. In the event of termination resulting from material default of the Company, a liquidation fee of $2 million is to be paid to The Regence Group. In the event termination is the result of a material default by The Regence Group, a liquidation fee of $1 million is to be paid to the Company.

Effective June 1, 1998, the agreement was amended to reflect corporate name changes for the Company and The Regence Group and certain changes that occurred in the bylaws of The Regence Group. Payment for services was also changed under the amendment. All other terms and conditions of the agreement remained unchanged. In a letter to the Company dated July 31, 1998, the amendment was approved by the Department of Insurance upon receipt of the executed agreement.

A second amendment to the Management and Administrative Services Agreement, effective December 10, 2001, was approved by the Board of Directors on April 17, 2002. The amendment recognized that The Regence Group had progressively undertaken more system-wide functions on an integrated basis on behalf of the Company and the member Plans in common, including finance, legal, information technology, human resource, fraud investigation and awareness, planning, actuarial and underwriting services. In this regard, The Regence Group has adopted and implemented more refined statistical methodologies to allocate the costs of those services which were provided by The Regence Group in common to the Company and the member Plans.

The second amendment also ratified and approved all methodologies by which costs of the common services and extraordinary services (defined in the agreement) have been allocated by The Regence Group to the Company and paid by the Company to The Regence Group during the current and any and all prior fiscal years. Further, all past actions of the officers of the Company were ratified and approved in implementing the allocation of the costs of the common services and the extraordinary services.

The second amendment of the Management and Administrative Services Agreement was not filed with the Idaho Department of Insurance in compliance with Sections 41-2838 and 3807(2)(d), Idaho Code. Therefore, it is recommended that the Company submit the second amendment to the Management and Administrative Services Agreement to the Department in compliance with Idaho law. It is further recommended that any future amendments be filed with the Department.

Under the amended agreement, allocation ratios to the Plans are determined based on the statistics, such as claims expense, membership, or employee headcount, among other things, and are fed into a formula (or allocation method) through the PeopleSoft system. For example "gross operating expenses" may be used as a determinant for allocating "executive salaries" to each Plan. The allocation ratios change monthly, because the data, statistics, or activities used in the formula change each month.

Exceptions to the allocation methodology are made when one Plan disproportionately benefits from a particular expense, in which case may be allocated a greater percentage. The expense allocation is used for corporate liability insurance policies; computer software licenses and hardware leases; licenses to the BlueCross BlueShield trade names and trademarks; and personal service costs (salaries and benefits). Administrative costs incurred by The Regence Group are allocated to the Company. Amounts allocated were $23,631,587 for the year ended December 31, 2005, and were reported as claims adjustment and general administrative expenses.

The cost allocation methodology set forth in the Management and Administrative Services Agreement, as amended, was reviewed and tested by the Washington Office of the Insurance Commissioner. The Washington Office determined that the cost allocation process, in general, is identical to all Plans. It was noted that a profit margin was not included in the allocated costs. It was further determined that costs were allocated among the Plans fairly and equitably.

It should be noted that the other member Plans of The Regence Group did not have formal written cost allocation agreements.

Inter-Plan Cost Sharing Agreement

The Inter-Plan Cost Sharing Agreement between Regence BlueCross BlueShield of Utah and the Company effective August 1, 1998 and the FEP Amendment to this agreement effective April 1, 2000 were not filed with the Idaho Department of Insurance in Compliance with Sections 41-2838 and 3807(2)(d), Idaho Code. This agreement and the FEP amendment were also not disclosed in the Form B Fillings. The agreement was not in force as of December 31, 2005.

It is recommended that in the future, the Company file all affiliated agreements meeting the requirements of Chapter 38 with the Idaho Department of Insurance.

The Caring Foundation, Inc.

The Company executed an agreement with The Caring Foundation, Inc. effective April 1, 2001 to provide dental care services on behalf of the Foundation. This agreement was not approved by the Company's Board of Directors. Therefore, it is recommended that the Board of Directors approve all future affiliated agreements.

The Company provided administrative services to the Foundation at no cost. Transactions under this agreement did not meet the materiality thresholds set forth under Section 41-3807(1)(a)(I), Idaho Code. Therefore, the Company was not required to file the agreement with the Idaho Department under Chapter 38, Idaho Code.

Other Affiliated Transactions

Software Assets

In 2005, The Regence Group purchased software assets and incurred costs related to internally-customized software projects. The assets were then allocated to each of the four Plans in exchange for cash. Also included were costs related to internally-customized software for a Regence-wide common claims system, which is discussed under *ACCOUNTS AND RECORDS.* Portions of these projects, and others, were transferred to the Plans for cash. In this regard, $6,000,000 was transferred to the Company in accord with the methodology set forth in the Management and Administrative Services Agreement.

Claims Processing

Regence Blueshield provides and maintains the computer software claims system on behalf of The Regence Group for administration of the Federal Employee Health Benefit Plan (FEP shared system). Each Plan shares in the cost of maintaining and administering the shared system. In 2005, $47,300 was allocated to the Company in this regard.

Regence BlueCross BlueShield of Oregon and the Company have an agreement whereby the Company processes Medicare supplement, major medical drug and professional electronic claims on behalf of Regence BlueCross BlueShield of Oregon.

Regence BlueCross BlueShield of Oregon's government programs division processes Medicare Advantage claims for the Plans and Asuris, which is done under the auspices of the affiliation agreements. The cost is included in The Regence Group allocation to each Plan.

The Company processes out-of-area claims for Regence BlueCross BlueShield of Oregon and Regence BlueShield under various administrative service fee agreements. Regence BlueCross BlueShield of Oregon and Regence BlueShield also process out-of-area claims for the Company under various administrative fee agreements.

Miscellaneous

The Company files a separate Federal income tax return and does not join in the consolidated tax return filed by The Regence Group.

Amounts due to and due from affiliates, reported in the balance sheet, include the Company's net receipts and disbursements processed by affiliates, administrative services and pharmacy rebate transactions.

The Company pays certain expenses, including occupancy and certain employee benefits, on behalf of The Regence Group, its subsidiaries and affiliates. The basis of allocation is mainly driven by statistics used to measure the cost of The Regence Group employee's occupation of space in the Company's buildings. The main statistics used for these allocations are square footage, headcount and full-time equivalent. Administrative costs allocated to The Regence Group were $1,773,606 for the year ended December 31, 2005.

Many operational functions of the Plans have become functions of The Regence Group. As functions within The Regence Group are merged or consolidated, The Regence Group employees perform services on behalf of The Regence Group and the Plans and costs are allocated back to the Plans.

During 2004, the finance functions were centralized in Portland, Oregon, with statutory filings prepared by Portland staff. Chief financial officer positions for all of the Plans were eliminated effective December 31, 2003 as part of a strategic decision to centralize financial functions in Portland and Seattle.

Health Carrier Holding Company System Annual Registration Statement

The 2005 Health Carrier Holding Company System Annual Registration Statement (Form B) was filed on May 11, 2006. The 2005 Form B filing did not appropriately disclose all affiliated transactions. Specifically,

- The reinsurance contract with Fort Dearborn Life Insurance Company was disclosed in the 2004 Form B filing but not reported in the 2005 filing.

- The Company has loaned $540,000 to The Regence Group, yet the 2005 Form B filing incorrectly stated that the Company had no loans with affiliates.

It is recommended that the Company disclose all of the information required under Section 41-3806, Idaho Code when filing future holding company system annual registration statements. It is also recommended that the information contained therein be current, accurate, and complete.

Board of Directors

The business and affairs of the Company are managed by a Board of Directors consisting of thirteen directors, who are elected by the policyholders (members) and the president, who is elected by the Board. The number of directors serving on the Board at December 31, 2005 met the requirements of the Company's bylaws and Section 41-2835, Idaho Code. Subsequent to the examination date, the bylaws were amended to increase the number of potential directors from thirteen to fifteen.

The annual meeting of the members is held on the third Wednesday in April in Lewiston, Idaho. An annual meeting of the Board of Directors is held immediately following the annual membership meeting. The Board holds regular meetings of no less than four times a year.

Special meetings of the members may be called at any time by the president, by the vote of the Board of Directors, or upon written request by not less than one-tenth of the members of the Company. Special meetings of the Board may be called by the president whenever deemed proper or by any two directors.

The Regence Group has instituted a common Board of Directors for each Plan, except for the Company. Members of the Boards of each Plan are also members of The Regence Group's Board of Directors.

The following persons were the duly elected members of the Board of Directors at December 31, 2005:

Name and Business Address	Principal Occupation
James Russell Blackman, M.D. Middleton, Idaho	WWAMI Center For Clinical Medical Education
John Michael Gwartney Eagle, Idaho	President Political Consultants, Ltd.
Mary Ruth McFarland PhD. R.N. Spokane, Washington	Dean of Professional Studies Gonzaga University
Daniel Raymond Miller, M.D. Lewiston, Idaho	Retired Otolaryngologist
David Kurt Seppi, M.D. Twin Falls, Idaho	Family Practice
Marcy Marrs Timm Boise, Idaho	Financial Consultant Merrill Lynch
Gregory Lee Charlton Boise, Idaho	Senior Vice President Washington Trust Bank
Wayne Hollingshead Lewiston, Idaho	General Manager Lewiston Morning Tribune
Michael Kay McMurray Eagle, Idaho	Retired Boise Cascade
Jeffery George Nesset Lewiston, Idaho	Vice President D. A. Davidson & Co.
John Michael Stellmon Boise, Idaho	President Regence BlueShield of Idaho, Inc.
Nancy Kay Vannorsdel Boise, Idaho	President and Chief Executive Officer Boise Area Chamber of Commerce
Richard John White Lewiston, Idaho	Vice President and Owner Ray J. White & Sons

The Company did not report Richard John White as a Director in the Jurat Page of the 2005 Annual Statement. It is recommended the Company report the full Board of Directors in future financial statements.

Subsequent to the examination date, Marc C. Johnson was elected to replace John Michael Gwartney, whose term expires in 2006.

Officers:

The following persons were serving as Officers of the Company at December 31, 2005:

Principal Officers	
John Michael Stellmon	President
Marcy Marrs Timm	Secretary/Treasurer
John Michael Rusche, M.D.	Senior Vice President/Chief Medical Officer
Stephen Charles Colleran	Vice President

Committees:

The following schedule lists the Committees and the chairperson(s) serving as of the examination date:

Committee	Chairman
Executive	Gregory Lee Charlton
Nominating	Daniel Raymond Miller, M.D.

During the examination period, the Finance, Provider Affairs, Marketing, and Human Resources committees were moved to The Regence Group level. The Regence Group also has an Audit Committee.

Conflict of Interest

The Company had a conflict of interest policy in place that required the directors, officers, and all employees to annually complete conflict of interest questionnaires.

Conflict of interest statements that were completed for the period January 1, 2001, through December 31, 2005 appeared to appropriately disclose any possible conflicts of interest.

<u>CORPORATE RECORDS</u>

<u>Articles of Incorporation and Bylaws</u>

The Company's records indicated that the articles of incorporation were not amended during the period under examination.

The Company's bylaws were amended April 2004 to clarify that when a board member is appointed to fill the unexpired term of a previous board member such initial unexpired term shall not be counted as a term for purposes of determining term limits. The Board approved the amendment to the bylaws on April 21, 2004.

The amended bylaws were submitted to and reviewed by the Idaho Department of Insurance. Based on this review, the amended bylaws appeared to conform to the requirements of Section 41-2830, Idaho Code.

Subsequent to the examination date, the bylaws were amended to increase the number of potential directors from thirteen to fifteen. The Board of Directors approved the amendment on April 19, 2006. The number of directors is in compliance with Section 41-2835 (1), Idaho Code.

<u>Minutes of Meetings</u>

A review of the minutes of the meetings of the Policyholders, the Board of Directors, and the various committees for the period January 1, 2001 through December 31, 2005 and subsequent thereto, indicated compliance with the articles of incorporation and bylaws with respect to the election of the Board of Directors and Officers, and the election or appointment of Committee members.

This review of the minutes also indicated that a quorum was present at all Board of Directors' meetings held during the examination period. Investment transactions were approved by the Board of Directors or the Executive Committee, as required by Section 41-704, Idaho Code. Furthermore, the Company maintained records of its investments in conformity with Section 41-705, Idaho Code.

The review of corporate minutes indicated that Executive Sessions were held at various Board of Director meetings during the examination period. Yet, management has indicated that minutes of Executive Sessions are not maintained. Section 41-2839, Idaho Code states, in part, that every domestic insurer shall keep accurate and complete accounts and records of its assets, transactions, and affairs in accordance with the usual and accepted principles and practices of insurance accounting and record keeping. Furthermore, Chapter IV, No. 5, of the Company's bylaws state, "the secretary shall keep or cause to be kept a book of minutes at the principal office of the Corporation of all meetings of directors...and the proceedings thereof". By failing to record minutes of Executive Sessions, the Company is not in compliance with Idaho Code or its own bylaws.

To ensure full and open disclosure of Board activities and to comply with Idaho law and the Company's bylaws, it is recommended that all matters discussed in Executive Sessions be documented in the minutes to provide a complete and accurate record of all corporate proceedings.

The Board of Directors certified that they had received a copy of the Company's December 31, 2000 Report of Examination and Order Adopting the Report of Examination.

FIDELITY BOND AND OTHER INSURANCE

The Company, as a member of The Regence Group, was a named insured under a number of policies issued to The Regence Group. The coverages included property; commercial automobile and umbrella; financial institution bond; executive risk; computer crime, and workmans' compensation coverages.

The Company was covered under a financial institution bond which covered material acts of theft or dishonesty by bonded employees. The aggregate limits of coverage were $20 million and a single limit of $15 million, with a $100,000 deductible. The financial institution bond coverage maintained by the Company met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook.*

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Physician's Deferred Compensation Plan

The Company maintains a separate non-qualified deferred compensation plan covering certain member physicians who voluntarily defer payment of their billings. The Company funds the obligations primarily through the purchase of group flexible paid up life insurance contracts for active participants and annuity contracts for retired participants. The related assets and corresponding liabilities were appropriately disclosed in the Company's financial statements.

Deferred Compensation Plan

The Company offers a non-qualified deferred compensation program to certain key employees whereby they may defer a portion of their compensation. The Company has also adopted a Directors' Deferred Compensation Plan, which permits non-employee directors to receive their fees and retainers as members of the Board of Directors and committees of the Board in a form other than as direct payments. The asset and offsetting liability for this program were appropriately reported by the Company.

Employee Retirement Plan

The Company participates in a defined benefit pension plan sponsored by The Regence Group that covers substantially all full-time employees having one or more years of service. Benefits are based upon years of service and the employee's final average compensation. The Company also participates in a supplemental retirement plan to cover key employees meeting certain eligibility requirements. The supplemental plan has not been funded. The Company's share of net expense for the pension plan was $1,287,200 for 2005.

Postretirement Benefit Plan

The Company provides certain health care and life insurance benefits through postretirement health care and life insurance plans for retired employees. Ten years of continuous service are required for employees hired before January 1, 2004 and fifteen years are required for employees hired on or after January 1, 2004. The employees must participate in active health plans at the time of retirement. The Company's contribution to the cost of coverage is based on the retiree's age and years of service at retirement and is limited to a maximum dollar amount or cap per year. This amount is calculated based on the Company contribution percentage and applies to the Company funded health plan. If a retiree elects a medical or dental option that is more expensive than the Company funded health plan, the retiree must pay the additional cost for the more expensive plan. The Company's share of net expense for the postretirement benefit plan was $225,535 for 2005.

Effective December 31, 2005, the Company's postretirement benefits plan was consolidated to The Regence Group.

The Company's post employment benefits and compensated absences are accrued for in accordance with SSAP No. 11, Post employment benefits and Compensated Absences.

The Company did not state that it has no legal obligation or state the allocation method used regarding the defined benefit and defined contribution plans pursuant to SSAP No. 14, paragraph 15 and SSAP No. 89, paragraph 15 and NAIC *Annual Statement Instructions*. It is recommended that the Company make such disclosures in future financial statements.

TERRITORY AND PLAN OF OPERATION

The Company was licensed in the State of Idaho and in Asotin and Garfield counties in the State of Washington as a mutual insurer authorized to write disability, including managed care. In addition to the home office located in Lewiston, Idaho, the Company maintained marketing and sales offices in Boise, Coeur d'Alene, Pocatello, and Twin Falls.

The Company's sales force consisted of commissioned individually appointed producers in addition to Company employees and one large brokerage agency. The brokerage agency maintained a large sales force which was registered to operate under the brokerage agency's appointment with the Company. As of December 31, 2005, there were approximately 1,269 active company appointments.

The Company maintained contractual agreements with all hospitals doing business in Idaho and has relationships with most all of Idaho's physicians. Member care is primarily delivered by facilities and physicians through fee-for-service arrangements. The Company provided health care services to group and individual subscribers utilizing participating/contracting providers as a means of fulfilling their contractual obligations. In addition, the Company provided administrative services to approximately 25 companies, and participated in the Federal government employee plans.

During the examination period, the Company wrote traditional individual major medical and Medicare supplement plans, small and large group plans, Preferred Provider Organization (PPO) plans, and administered Administrative Service Contracts for self funded plans. The Company also wrote under age 65 Managed Care plans, which were discontinued in 2004; however, the Company still wrote over age 65 Managed Care plans. In addition, the Company wrote vision coverage and a traditional dental care plan was offered to large groups.

Agents and/or agencies produced business pursuant to agent contracts. The most current agent contract utilized by the Company contained standard contract provisions. The contract also specified that an agent is required to maintain errors and omissions insurance in a minimum amount of $250,000 per claim and an annual maximum of $750,000. Only one agent file reviewed contained current errors and omissions information and the Company advised they do not currently track such information.

Maintaining errors and omissions insurance is a requirement of the contract between the Company and the agent, therefore, it is recommended that the Company establish a method of tracking current errors and omissions information and maintain such in the agents' files.

The Department's listing of active and terminated agent appointments was compared to the Company's listing. It was determined that eight agent/producers on the Company's list were not appointed in accordance with Section 41-1018, Idaho Code.

Therefore, it is recommended the Company access the Department's website at least annually and update its agents' appointment status. The Company indicated they would immediately proceed with appointing the eight non-appointed agents.

A sample of active agent files was reviewed. Certain files did not contain current licensing information and some files contained copies of expired licenses.

It is recommended that the Company establish current licensing evidence to be in compliance with Section 41-1022, Idaho Code. The files should be reviewed and updated at least annually.

All agent files reviewed contained signed contracts except one. This file was for a single large brokerage agency with numerous agents that are registered with the Department to operate under the brokerage agency appointment with the Company. The Company eventually provided a very old signed contract; however, it did not have a current list in the file of those agent names or licensing information. In order to maintain and verify compliance with Idaho Code, Section 41-1022, the brokerage agency file should contain a copy of the most current registered agent listing. The prior examination noted the same finding, which apparently, was not addressed by the Company.

Therefore, it is again recommended that, at a minimum, the Department's website print out of agents currently registered to operate under the brokerage agency appointment should be obtained and maintained in the file. The file should be reviewed and updated on a periodic basis, at a minimum annually.

A sample from the Company's terminated agent list was reviewed. A substantial number of agent terminations in the sample had not been reported to the Department in accordance with Section 41-1019, Idaho Code, and were still listed as active agents on the Department's records. Therefore, it is recommended that the Company immediately notify the Department of its terminated agents.

A sample of inactive/terminated files was requested for a review as to the maintenance of appropriate copies of termination notices and the reasons for termination. Before the files were received, the Company advised that six named in the sample were "Still active with Regence BlueShield." However, all six agents had been terminated with the Department in 2005.

It is recommended that the Company immediately re-appoint the agents that are still active. It is also recommended that the Company immediately conduct a review of the Department's current termination list and re-appoint any agents on that list that are currently writing business for the Company.

The Company is now filing agent terminations via the Internet but copies of the vendor, Cratchit-Net, termination notices were not uniformly maintained in the terminated agent files. The termination notices do not reflect the reasons for termination pursuant to Section 41-1019, Idaho Code. All terminated files should contain sufficient documentation to determine who requested the termination, the date of termination and reasons for the termination. The prior examination noted the same finding, which apparently, was not addressed by the Company.

Therefore, it is again recommended that in accordance with Section(s) 41-1019 and/or 41-1016, Idaho Code and to facilitate future examinations of Company records, it is recommended that copies of all Internet vendor transaction termination forms document whether the termination is "not for cause", unless otherwise indicated, or list the actual reasons for termination. Furthermore, it is recommended that a copy of the Internet termination notice be printed out on the actual date the termination is submitted to the Department and be retained in the terminated agent's file.

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2005, the Company had provided the following deposit in trust for the protection of all its policyholders and/or creditors:

Description	Par Value	Statement Value	Market Value
U.S. Treasury Note, 4.25% due 10/15/2010	$1,100,000	$1,089,307	$1,094,246
Totals	$1,100,000	$1,089,307	$1,094,246

The deposit met the general requirements and provisions of Sections 41-316A, 41-803 and 41-804, Idaho Code.

GROWTH OF THE COMPANY

The Company's growth for the years indicated, as taken from the prior examination report and its Annual Statements, is shown in the following schedule:

Year	Admitted Assets	Liabilities	Capital & Surplus	Net Income(Loss)
2000*	$131,415,000	$83,986,024	$47,428,976	$ 4,223,366
2001	146,665,622	98,675,950	47,989,672	1,501,227
2002	164,547,233	128,353,219	36,194,014	(4,595,611)
2003	150,134,984	112,720,448	37,414,536	(9,702,916)
2004	144,047,231	79,046,283	65,000,948	22,352,913
2005*	198,077,285	102,295,943	95,781,342	28,789,647

*As determined by Examination.

The significant fluctuations in assets, liabilities, surplus, and net income (losses) were attributed to the following:

In 1997, a project was started to consolidate the claims and membership systems across the Washington, Oregon, Idaho, and Utah plans using the Washington claims system and the Oregon membership system. In late 1999, The Regence Group changed direction and instead of consolidating systems by using existing, internal applications, an outside, third-party vendor was selected to replace the software system. This software, referred to as the REMAC (Regence Membership and Claims) project was a system called "Facets®" which was developed by Trizetto. The initial conversion occurred in December 2001.

After the new claims and membership system was implemented, it did not interface correctly with MedPlus, the underwriting system which the Company implemented in 1999. The impact of this faulty interface resulted in premiums for certain lines of business to be underpriced relative to claims trends, which had the initial impact of increasing enrollment and contributed to underwriting losses between $4 and $4.6 million for the years 2000 through 2002. In early 2003, the Company corrected the interface and adjusted rates to more appropriately match the claims utilization trends, which specifically had an adverse impact on the Individual line of business, and enrollment in this segment began to decline.

The RBRVS professional fee schedule implemented in 1999 met with such resistance that physicians filed suit. Resulting gaps in the physician specialty areas contributed to the loss of about 13,000 Large Group and self-funded members between December 1999 and June 2001. The lawsuit was settled in 2001.

As a result of the foregoing, the Company took measures to address the poor underwriting performance and systems problems, improved efficiency and functionality of Facets®, rate increases, and reduction of the number of individual product offerings, among other things. Measures taken included reinsurance with affiliate Commencement Bay Life Insurance Company to reinsure 100 percent of a large group medical contract. This measure was approved and was put in place as of June 30, 2003 retroactive to January 2003, through June 2004. Finally, a grant of $10 million (net of $2 million tax) to improve and stabilize the Company's financial condition was made by the Washington, Oregon, and Utah Plans.

During 2003, the Company's financial condition continued to deteriorate as total admitted assets decreased approximately $14.4 million, or 8.8 percent (long-term investments and cash decreased substantially). Although total liabilities decreased by approximately $15.6 million or 12.2 percent, surplus only increased by approximately $1.2 million as the Company received the previously mentioned grant. The Company generated a loss from operations before taxes of approximately $10.6 million, which was lower than performance in 2002. The loss was primarily attributed to an increase in health care utilization and an increase in large claims. All four Plans wrote off $95,920,530 for software that could not be used in 2003. The Company's share of the write-off was $823,000. The 2003 Annual Statement was amended due to numerous errors and inconsistencies noted in the Department's review.

The major items affecting the Company in 2004, for the most part, were a continuation of prior problems, such as continuing large dollar investments in the EDP system, the ceding of a large group contract and ultimately, the loss of this contract to a competitor. The Company began ceding all prospectively rated traditional and PPO group insurance policies, excluding ASO, the large group contract, and experience refunding groups to Fort Dearborn Life Insurance Company in 2004. Continuing losses from operations due to problems of mispricing and lack of adequate information from the EDP system appear to have reversed in 2004. This was due to improved health care cost management and aggressive reduction in operating expenses. Assets and liabilities decreased by approximately $33.9 million and $33.7 million, respectively, while surplus increased approximately $27.6 million due to lower claims experience and improved operating performances from changes in business strategies.

In 2005, net income increased from $22.4 million in 2004 to $32 million. A net loss of $9.7 million was reported in 2003. The increases were due to a new business mix that resulted in higher margin business and better cost controls. Assets rose 36 percent in 2005, while liabilities increased approximately 24 percent, with the resulting 51 percent increase in surplus. This was due primarily to improved net income and to a lesser extent some changes in non admitted assets.

LOSS EXPERIENCE

The ratios of benefits and expenses to premium shown in the following schedule were derived from amounts reported in the Company's Annual Statements:

Year	Premiums Earned	Benefits Incurred	Other Expenses Incurred	Total Benefits and Expenses	Ratio of Benefits & Expenses to Earned Premium
2000*	$380,253,953	$326,676,182	$54,469,498	$381,145,680	100.23%
2001	405,211,971	346,486,684	63,208,946	409,695,630	101.10%
2002	451,283,777	395,850,185	67,047,430	462,897,615	102.57%
2003	357,121,101	306,701,643	74,252,463	380,954,106	106.67%
2004	206,356,932	127,415,269	58,542,821	185,958,090	90.11%
2005*	296,281,434	205,935,825	61,599,743	267,535,568	90.29%

*As determined by Examination.

REINSURANCE

The Company did not assume any reinsurance business during the examination period.

Effective July 1, 2001, the Company ceded 100 percent of the accidental death benefits included in individual and group medical policies to affiliate, Regence Life and Health Insurance Company. The agreement is unlimited in duration, subject to the insolvency provision and either party may terminate the agreement with 90 days written notice. Under the agreement, Regence Life and Health adjusts and settles claims and losses without compensation. The reinsurance agreement was filed with the Idaho Department of Insurance in compliance with Section 41-3807, Idaho Code.

The Company began ceding business effective January 1, 2003, to affiliate Commencement Bay Life Insurance Company, Seattle, Washington (a subsidiary of Regence BlueShield) under an indemnity agreement. Business ceded related to a large group contract. The Company received an expense allowance in exchange for premiums and losses ceded, plus a ceding commission. In a letter to the Company dated June 20, 2003, the Department stated it had no objections to the proposed transaction.

The reinsurance arrangement with Commencement Bay ceased effective June 30, 2004 to coincide with termination of the large group contract. The Company continued to provide administrative services for claims incurred prior to the termination date up through June 30, 2006.

An indemnity reinsurance agreement was executed with Fort Dearborn Life Insurance Company, Downers Grove, Illinois in 2004. Fort Dearborn is a subsidiary of Health Care Service Corporation, a BlueCross BlueShield Plan located in Illinois. Fort Dearborn in turn retroceded this business to Regence Life and Health Insurance Company under a separate agreement. Substantially all of the commercial lines of business were reinsured in 2004. Amounts recoverable arising from reinsurers was a new annual statement classification starting in 2004 due to this agreement. In 2005, $17.5 million was reported, which represented the experience refund receivable and unpaid claims that Fort Dearborn will refund to the Company at the end of the existing contract period.

In a letter to the Company dated December 22, 2003, the Department had no objections to the proposed agreement, providing that Fort Dearborn amend its Idaho Certificate of Authority to "Disability Including Managed Care" and a copy of the approval letter from the Illinois Department of Insurance for the retrocession agreement between Fort Dearborn and Regence Life and Health be received by February 1, 2004.

The agreement was amended effective January 1, 2005 whereby groups with 2 to 25 eligible contracts were ceded to Fort Dearborn instead of all prospectively rated traditional and PPO group insurance policies, excluding ASO, the large group contract, and experience refunding groups. Also, the assumption fee paid to Fort Dearborn was reduced from .40 percent to .39 percent of gross premium. Finally, 100 percent of premium was ceded with a commission allowance of 14 percent. Previously, 86 percent of premium was ceded and the agreement was silent with respect to the ceding allowance. The Department notified the Company that it had no objections to the proposed agreement on December 7, 2004. The Company ceased its reinsurance arrangement with Fort Dearborn effective December 31, 2005.

The Company did not disclose a $7,474,382 reserve credit taken for unpaid claims ceded to Fort Dearborn Life Insurance Company in its Annual Statement under Exhibit S, Part 3, Column 9. The NAIC *Annual Statement Instructions* state all reserve credits taken other than for unearned premiums shall be reported on this line. It is recommended that the Company comply with NAIC *Annual Statement Instructions* and report all reinsurance ceded portion of the claims reserve on Exhibit S, Part 3, Column 9 in future financial statements.

The Board of Directors' meeting minutes did not indicate the approval of the reinsurance agreement with Fort Dearborn Life Insurance Company. The Company clearly stated during the examination that it maintained a standard that required all reinsurance agreements to have a formal approval by the Board of Directors prior to execution.

It is recommended that the Company comply with its established internal controls and require the Board of Directors to approve all future reinsurance agreements prior to execution.

The Company participated in the Idaho Small Employer and Individual Health Reinsurance Program (State mandated plan). Under this program, a form of reinsurance is provided to the carriers as a means to divide the cost by the participating carriers. Effective January 1, 2001, the program began operating as two separate plans whereby individual risks are automatically ceded to the Idaho Individual High Risk Reinsurance Pool. Other risks eligible are ceded to the Idaho Small Employer Health Reinsurance Program. The Company ceded premium revenues of $184,469 to the pool and paid claims of $579,351 at December 31, 2005.

Subsequent to the examination date, a new reinsurance agreement was entered into effective January 1, 2006 with Regence Life and Health Insurance Company. Under the Medicare Part D Stand-Alone PDP Plan Reinsurance agreement, the Company will assume 100 percent of Regence Life and Health Medicare script insurance policies issued by Regence Life and Health to the Company's subscribers in Idaho.

The Consulting Actuary reviewed the reinsurance agreements with Regence Life and Health Insurance Company, Commencement Bay Life Insurance Company, Fort Dearborn Life Insurance Company, and other related documents to determine if the agreements transferred risk. The determination of risk transfer was performed in accordance with Appendix A of Issue Paper No. 74 as contained in the NAIC *Accounting Practices and Procedures Manual.* Appendix A establishes the criteria for risk transfer as well as conditions as to whether or not the reinsurance accounting procedures can be followed. Each contract was reviewed to ensure all of the conditions identified in Appendix A were met. Based on the Consulting Actuary's review, as well as correspondence with the Company, it is the Consulting Actuary's opinion that all of the contracts reviewed met the conditions, except as follows:

The treaty between Fort Dearborn Life Insurance Company and the Company contained a provision whereby the Company would be required to pay for negative experience under the agreement. The Company ceded 100 percent of the premium and risk. The agreement called for a ceding allowance of 14 percent. If claims exceed 86 percent of the reinsurance premium, the Company is required to pay a retrospective premium of up to 4 percent of the initial premium. This seems to imply that the Company would have to pay for negative experience. However, this is a retrospective rated group and, therefore, allows for retrospective rate adjustments. This agreement was terminated in 2006.

Two additional treaties met the risk transfer requirements, but the following were noted:

- The bulk accidental death benefits treaty between the Company and Regence Life and Health Insurance Company was signed, but the signatures were not dated.

- The treaty between the Company and Commencement Bay Life Insurance Company was signed, but the signatures were not dated.

INSURANCE PRODUCTS AND RELATED PRACTICES

A limited scope Market Conduct Examination was conducted in conjunction with the examination of the administrative affairs, books, records, and financial condition of the Company.

Policy Forms and Underwriting Practices

As previously reported, the Company wrote traditional individual major medical and Medicare supplement plans, small and large group plans, Preferred Provider Organization (PPO) plans, and administered Administrative Service Contracts for self funded plans. The Company also wrote under age 65 Managed Care plans, which were discontinued in 2004; however, the Company still wrote over age 65 Managed Care plans. The Company also made vision and dental coverages available to its policyholders.

Policy Form and Rate Filings

Individual and Group policy forms were reviewed as to content and mandatory provisions. The policies were in compliance with Section 41-2832(3), Idaho Code with respect to the Policyholders' annual meeting notice.

The Company utilized the Idaho Individual Application that contained the extensive definition of a Federally Eligible Individual Applicant. In addition, the Company had notified its agency force of the rights of the federally eligible individual in accordance with Idaho Bulletin 04-1.

The Company's and the Department's listings of policy form filings were manually compared as to policy form numbers, revision dates and actions taken by the Department for the years 2001, 2002, and 2003 with nothing exceptional noted. In accordance with a new Departmental requirement, insurers are now required to submit a forms filed listing to the Department by February 15th of the current year for each previous year. The subsequent Departmental reviews concurred with the Company's submission for 2004 and 2005; therefore, a manual comparison of the listings for the years was waived.

A company is required to file annual Actuarial Rate Certification letters for both Small Group and Individual insurance. It was determined that all filings had been made and received at the Department. In addition, a rate review was performed by the Department during the target market conduct examination covering the selected periods January 1, 2000 to March 1, 2001 and September 1, 2002 to February 28, 2003. The rates were sampled and tested during that examination and no exceptions were noted in the uniformity, calculation and application in processing procedures. Based on the foregoing, a rate review for the current examination was waived.

Underwriting Procedures and Manuals

The Company's underwriting tools are contained in its system. A review of the Company's system underwriting rating and procedures was performed during the target market conduct examination. Therefore, a review of the Company's underwriting procedures for the current examination was waived.

Declined Individual New Business – 2005

A sample of individual new business declined in 2005 was selected for review. The related applications and documentation were reviewed as to prior coverage, age at time of application, timeliness of processing, alternate offers of coverage and reasons for denial. Documentation provided for this review was adequate to support the denials and processing and/or that denials were handled in a timely manner. Premium payment refunds arising from declined new business were also reviewed. No exceptions were noted.

Group Policies Cancelled/Non-Renewed

A sample of group cancelled/non-renewed policies was selected for review. Code numbers were used to identify the reasons for cancellation/non-renewal. Some applied code numbers appeared to be incorrect and/or incomplete and the Facets® system comments could not provide more in-depth clarification. The Company acknowledged that some codes appeared incorrect and that it was a "training issue" that would be pursued.

If the group is requesting the termination then no additional reasons are required except that it needs to be clear that the group is making the request for termination. However, if the Company is doing the canceling/non-renewing then it is recommended that the Company be more specific with the coding of the reasons for termination.

Individual Policies Cancelled/Non-Renewed

A listing of individual policies cancelled/non-renewed during 2005 was provided by the Company. However, the list (population) provided was not what was requested in the data request, as it also included policyholder requests for policy changes such as adding or deleting dependents. A sample was taken from the policies that had actually been cancelled/non-renewed and the Company did provide valid reasons for those that had actually cancelled. No exceptions were noted in this review.

New Business Written in 2005

Statistical samples of New Business Individual, New Business Small Group, and New Business Medium to large group contracts written in 2005 were selected using Audit Command Language software. The sample of New Business Individual policies included various policies such as Preferred Provider Organization (PPO) plans, traditional individual products, Health Savings Account products, mandated individual products and Medicare Supplement policies.

Applications and other enrollment documentation were reviewed. Dates applications were received by the Company, subsequent quotes and follow up correspondence dates, crediting of prior coverage, verification of policy delivery and agents' appointments at the time of sale were also reviewed. No material exceptions were noted.

The New Business Small Group review included an examination of documents such as enrollment forms. Documents were reviewed from the date of receipt of application, subsequent quotations, employer applications and enrollment documentation, eligibility of prior coverage, participation requirements, census forms and waiver forms, verification of contract and group benefit booklet mailings and appointment of agents at time of sale. Initial first month's premium billings were reviewed to the extent of equality amongst employees by gender/age brackets. No exceptions were noted in this review.

The review of medium to large group new business included adequacy and uniformity of documentation. No exceptions were noted in this review.

Certificates of Creditable Coverage (Certificate of Health Plan Coverage)

Certificates of Creditable Coverage were reviewed for group, individual and short-term medical insurance plans. The Company issued separate certificates for each individual and/or dependents. The Company also attached a two page "Statement of HIPAA Portability Rights" to the certificate. The language and format of the certificates conformed to HIPAA and IDAPA Rules 18.01.69 and 18.01.72 with one exception. The group certificate did not contain a date of issue of the certificate as stipulated by Rule 69. Therefore, it is recommended that the Certificate of Health Plan Coverage for group insurance be amended to include the date of issue of the certificate thereon.

Gramm-Leach-Bliley (GLB) & Health Insurance Portability & Accountability Act (HIPAA) - Privacy Policies and Procedures

A review was performed of the Company privacy policies and procedures such as, but not limited to, personal information disclosures and/or non-disclosure, individual rights, administration, privacy safeguards on e-mail, phone calls and walk-ins and other permitted disclosures. Job Aids are provided for further employee clarification or they can contact the Regence Privacy Official and/or Privacy Office. A copy of The Regence Group Corporate Procedure regarding the Notice of Privacy Practices (NOPP) was also reviewed. Numerous consumer aids at the Company website are available on the HIPAA information and the NOPP and the disclosure of individual personal information. A copy of the NOPP is included with the individual contract issued to policyholders on an annual basis.

The Company appears to be acting in accordance with HIPAA, GLB, Section 41-1334, Idaho Code, and IDAPA 18.01.48.

Rescinded Individual Policies

All policies that were rescinded during the exam time period were reviewed. All were in accordance with Section 41-1811, Idaho Code and no exceptions were noted.

Retention Limits

With the exception of the mandated plans (both small employer and Individual High Risk Plans), all insured policies have a $1,000,000 lifetime maximum. The Regence NowSelect product has a $2,000,000 lifetime maximum; however, it was not in place until February 1, 2006.

Effective January 1, 2006, the Company began offering Medicare Part D in conjunction with its other Medicare products. Stand-alone benefits are offered through a reinsurance arrangement with Regence Life and Health Insurance Company.

Treatment of Policyholders

General Handling of Direct Complaints and Timeliness of Processing

The Company maintained a record of all complaints in a format that complied with Section 41-1330, Idaho Code.

The Department's listing and the Company's listing of complaints were reviewed and compared. There were no exceptions noted in this review.

General Handling of Department of Insurance Complaints and Timeliness of Processing

It was noted that the actual complaint files were maintained in the Lewiston, Idaho office. Based upon the response times cited in the Company's complaint logs and a review of the Department's complaint records, it was determined that a review of the Company's actual complaint files was not necessary, and was therefore, waived.

General Handling of Managed Care Grievances

The Company did not produce a managed care grievance log or any minutes of managed care grievance advisory board meetings, grievance appeals, and procedures. The Company has acknowledged that no filings of grievance logs and/or procedures were made to the Department after 2001 in accordance with Sections 41-3918(1)(a)(b) and 41-3918(2), Idaho Code. Thus, a Managed Care grievance file review was not performed. The Company also provided evidence it was effectively out of the managed care under age 65 business as of May 1, 2004. At this date, there was no managed care groups left enrolled in the Small Group or Medium-Large Groups.

The Company has filed for an exemption of its Preferred Provider Organization (PPO) policies from Chapter 39 on Managed Care in accordance with Section 41-1846, Idaho Code.

General Handling Paid Claims and Time Studies Review – Individual and Group

Three categories of paid claims were reviewed: Individual & Medicare Supplement, Medium to Large Groups, and Small Groups. Statistical samples of each claim category were selected for review using Audit Command Language software. Claims were reviewed for eligibility, application of deductibles, co-insurance and co-payments, benefits and limitations of coverage including in or out of Network, and mathematical accuracy. No exceptions were noted in the processing of the individual claims.

For group claims, it was noted that in the original paid claims population provided, some of the billed and paid amounts did not match the amounts recorded in the Facets® system. The Company determined that this was caused by an error in its original query of the data warehouse. Subsequently, the Company re-queried the data warehouse using corrected parameters and a new population was provided to the Department for group and individual paid claims. Statistical samples were selected by the Department from the corrected population query and reviewed. In the re-test, both individual and group paid amounts agreed with the Facets® system documentation. No exceptions were noted in the re-testing review.

Timeliness of Processing and Payment of Paid Claims

A time study of the three categories of paid claims was also conducted. All of the sampled claims were processed in less than 30 days of receipt as required by Section 41-5602, Idaho Code. No exceptions were noted in the timeliness of paid claims.

Claims Denied as Pre-existing

A sample of claims denied as pre-existing was reviewed. The entire processing procedure was reviewed including effective dates, dates of service, received and processed dates, electronically submitted claim forms, pertinent letters, and prior coverage, among other things. Nothing exceptional was noted in the review of claims denied as pre-existing.

Litigated Claims Review

The Company provided a list of litigated claims for review. There were seven recorded cases in 2001, nine in 2002, eight in 2003, three in 2004 and three in 2005. All were closed except for four that are ongoing. No patterns or other exceptions were noted.

Fraudulent Claim Reporting

The Company had established procedures to report fraudulent claims as required under Section 41-290, Idaho Code. During the examination period and subsequent thereto, the Company reported suspected fraudulent claims to the Department of Insurance in compliance with Idaho laws.

National standard claim forms are accepted and medical providers submit claims on CMS 1500 or UB92 forms. Super bills and receipts are accepted as long as they contain all information necessary to process the claim and claims may be submitted electronically or by sending in paper claims. Claims are processed daily with payment going out to providers and members once a week on Fridays.

Advertising and Sales Material

The Company maintained an advertising file in accordance with IDAPA 18.01.24 (024.01). The advertisements consisted of newspaper ads, such as *The Idaho Statesman* and association periodicals such as Chamber of Commerce directories. The ads were standard type, either product or good health care ads or notices of public health educational meetings. The Company Advertising and Web Site Guidelines for Broker and Agents were also reviewed. The guidelines detailed the use of the Company name and logo and that the Company must review all ads and approve before use. Television and radio ads were maintained in the Portland office. A listing of those ads was provided, however, it was determined to waive this review based upon no adverse advertising problems.

Information about the Company was available to members, agents, medical providers, and to the general public on the Company's website at http://www.id.regence.com.

The review of the Company's advertising indicated that the Company was in compliance with Section 41-1304, Idaho Code and Idaho Rule IDAPA 18.01.24 (024.01) and (024.02).

Certificate of Compliance

IDAPA 18.01.24 (024.02) requires that an insurer file a Disability Advertising Certificate of Compliance signed by an officer of the Company, along with the Annual Statement. The Certificate for calendar year 2005 was filed with Department as required.

ACCOUNTS AND RECORDS

General Accounting

In 2001, the Plans within The Regence Group used IVIS, a mainframe based system, as the general ledger and financial reporting system. In 2003, the Company converted its finance system to PeopleSoft for general accounting and internal financial reporting. The system's inputs are generated by manual journal entries and interfaces from peripheral systems for payroll, accounts payable, asset management, claims disbursement system (CDS), cash management (miscellaneous cash), and Facets®, the claims, membership and billing system. The Company's premium and claims data warehouse is known as the Rewards Data Warehouse.

The general ledger and supporting accounting records were maintained on a GAAP basis and then adjusted to a Statutory basis of accounting through adjusting journal entries. The Annual Statements were compiled utilizing the AS 2000 Annual Statement Preparation System software package, developed by FiServ, the NAIC *Annual Statement Instructions* and the NAIC *Accounting Practices and Procedures Manual*.

The Company maintained a hosting and application maintenance services arrangement with Trizetto for the Facets® system.

The Regence Group is currently developing a system that will be common for all state Plans which will utilize Facets® version 4.3 and will be implemented in phases. Facets® will support new products and new processes so that eventually the products and processes for each Plan will be similar. Claims, customer service, product development, and benefit processing will be on the new system. It is anticipated that Facets® implementation will begin in 2007.

In general, the Company responded to documentation requests in a timely manner. However, certain records, specifically data supporting premium samples, uncollected premiums, and managed care grievance logs/records were not provided until weeks or months after the initial requests for documents were made.

According to Section 41-223(3), Idaho Code, every person being examined shall make freely available the accounts, records, documents, files, and information relating to the examination to facilitate the examination. Furthermore, Section 41-247, Idaho Code states that every insurer being examined shall promptly furnish to the Director all requested information. Therefore, it is recommended that requested documents and records be provided in a more timely manner for future examinations.

Independent Accountants

The annual independent audits of the Company for the years 2001 through 2003 were performed by Deloitte & Touche LLP, Salt Lake City, Utah. The annual independent audits for 2004 and 2005 were performed by Deloitte & Touche, Portland, Oregon. The financial statements in each report were on a statutory basis. There was some reliance on the 2005 audit report and workpapers in this examination of the Company.

Actuarial Opinion

The Company submitted a statement of actuarial opinion of the loss reserves, actuarial liabilities, and related items.
The actuarial items were calculated by the Company and reviewed by David O. Thoen, FSA, MAAA, of Deloitte Consulting, LLP. The December 31, 2005 statement of actuarial opinion issued stated that the amounts carried in the balance sheet:

(i) Are in accordance with presently accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles;

(ii) Are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the Statement was prepared;

(iii) Meet the requirements of the laws of the State of Idaho;

(iv) Make good and sufficient provision for all unpaid claims and other actuarial liabilities of the corporation under the terms of its contracts and agreements;

(v) Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the proceeding year end (note that the unpaid claims liability of $30,579,865 does not include self-insured ASC claims); and

(vi) Include provision for all related actuarial items which ought to be established.

The identified actuarial items in the 2005 Annual Statement were as follows:

Claims Unpaid (Page 3, Line 4.2)	$30,579,865
Uncollected premiums and agents' balances in the course of collection (Page 2, Line 13.1)	10,767,738
Unpaid Claims Adjustment Expenses	1,339,109
Premiums and Annuity Considerations Received in Advance (Page 3, Line 8)	22,218
Experience Rated Refunds (Page 3, Line 9.2)	16,764,838

For 2005 annual reporting, the Company filed its financial statements in the NAIC Life and Accident and Health blank format. In reviewing the actuarial opinion submitted by the Company, the 2005 Statement of Actuarial Opinion filed was in the NAIC Health Blank format, and therefore, failed to follow the guidelines of Chapter 77 18.01.77 of the Idaho Administrative Code. Under the Idaho Administrative Code, the actuarial opinion should include but not necessarily be limited to the following:

A. Aggregate Reserve for Life Contracts (Exhibit 5).
B. Aggregate Reserve for Accident and Health Contracts (Exhibit 6).
C. Aggregate Reserve for Deposit Type Contracts (Exhibit 7).

D. Net deferred and uncollected premiums.
E. Contract Claims-Liability End of Current Year (Exhibit 8, Part 1).

It is recommended that the Company file its statement of actuarial opinion consistent with the financial statement and in accordance with all applicable Idaho regulations. Additional actuarial findings are discussed under Note 4 to the Financial Statements.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet as of December 31, 2005

Summary of Operations, for the Year Ending December 31, 2005

Reconciliation of Examination Changes to the Balance Sheet as of December 31, 2005

Capital and Surplus Account for the Year Ending December 31, 2005

Reconciliation of Capital and Surplus Account, December 31, 2001, through December 31, 2005.

Balance Sheet
As of December 31, 2005

ASSETS

	Per Company Assets	Per Company Nonadmitted Assets	Examination Adjustments	Per Examination Net Admitted
Bonds (Note 1)	$122,452,726	$ 0	$ 0	$122,452,726
Preferred stocks (Note 1)	100,000	0	0	100,000
Common stocks (Note 1)	22,496,102	0	0	22,496,102
Real estate (Note 2)				
Properties occupied by the company less $1,764,046 encumbrances)	5,204,123	0	0	5,204,123
Properties held for sale (less $0 encumbrances)	1,304,108	0	0	1,304,108
Cash, cash equivalents and short-term investments (Note 1)	2,751,519	0	0	2,751,519
Receivables for securities	23,054	0	0	23,054
Other invested assets				
Investment income due and accrued	1,624,217	0	0	1,624,217
Uncollected premiums and agents' balances in the course of collection (Note 3)	10,779,202	11,464	0	10,767,738
Amounts recoverable from reinsurers (Note 4)	17,536,288	0	287,208	17,823,496
Amounts receivable relating to uninsured plans (Note 4)	4,661,533	49,284	0	4,612,249
Current federal and foreign income tax recoverable and interest thereon (Note 5)	1,148,024	0	962,981	2,111,005
Net deferred tax asset (Note 5)	2,109,386	0	526,828	2,636,214
Electronic data processing equipment and software	13,765,826	13,765,826	0	0
Furniture and equipment, including health care delivery assets	978,596	0	0	978,596
Receivables from parent, subsidiaries and affiliates	957,917	0	0	957,917
Health care and other amounts receivable	1,391,785	953,089	0	438,696
Aggregate write-ins for other than invested assets:			0	
Deferred compensation	1,795,518	0	0	1,795,518
Prepaid Expenses	293,074	293,074	0	0
Other Assets	79,787	79,787	0	0
Rounding	7	0	0	7
Totals	$211,452,792	$15,152,524	$1,777,017	$198,077,285

Balance Sheet
As of December 31, 2005 (Continued)

LIABILITIES, SURPLUS AND OTHER FUNDS

	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for accident and health contracts (Note 4)	$ 9,908,108	$ 0	$ 9,908,108
Contract claims: Accident and health (Note 4)	30,579,865	3,693,691	34,273,556
Premiums and annuity considerations for life and accident and health contracts received in advance (Note 6)	22,218	0	22,218
Contract liabilities not included elsewhere:			
Provision for experience rating refunds (Note 4)	16,764,838	0	16,764,838
Other amounts payable on reinsurance	414,192	0	414,192
Interest maintenance reserve	2,031,119	0	2,031,119
Commissions to agents due or accrued (Note 3)	1,414,759	550,720	1,965,479
General expenses due or accrued (Note 7)	8,391,280	(5,115,736)	3,275,544
Taxes, licenses and fees due or accrued, excluding federal income taxes (Note 8)	18,029	0	18,029
Current federal and foreign income taxes	0	236,307	236,307
Remittances and items not allocated	6,671,972	0	6,671,972
Borrowed money (Note 7)	0	5,000,000	5,000,000
Miscellaneous liabilities:			
Asset valuation reserve	3,246,563	0	3,246,563
Payable to parent, subsidiaries and affiliates	16,116,593	0	16,116,593
Liability for amounts held under uninsured accident and health plans (Note 9)	321,000	25,000	346,000
Payable for securities	47,482	0	47,482
Aggregate write-ins for liabilities:			
Unclaimed Property	162,425	0	162,425
Deferred Compensation Plan	1,795,518	0	1,795,518
Total liabilities	$ 97,905,961	$ 4,389,982	$102,295,943
Unassigned funds (surplus)	$ 98,394,307	($2,612,965)	$95,781,342
Total capital and surplus	$ 98,394,307	($2,612,965)	$95,781,342
Total Liabilities, capital and surplus	$196,300,268	$ 1,777,017	$198,077,285

SUMMARY OF OPERATIONS

For the Year Ending December 31, 2005

	Per Company	Examination Adjustments	Per Examination
Premiums and annuity considerations for life and accident and health contracts	$296,281,434	$ 0	$296,281,434
Net investment income	6,934,130	0	6,934,130
Amortization of interest maintenance reserve	504,143	0	504,143
Commissions and expense allowances on reinsurance ceded	(369,679)	0	(369,679)
Miscellaneous other income (Note 4)	576,996	287,208	864,204
Total	$303,927,024	$ 287,208	$304,214,232
Disability benefits and benefits under accident and health contracts	$199,620,450	$ 0	$199,620,450
Increase in aggregate reserves for life and accident and health contracts (Note 4)	2,621,685	3,693,691	6,315,376
Totals:	$202,242,135	$ 3,693,691	$205,935,826
Commissions on premiums, annuity considerations, and deposit-type contract funds (Note 3)	$ 17,486,547	$ 550,720	$ 18,037,267
General insurance expenses (Note 7)	36,593,338	(115,736)	36,477,602
Insurance taxes, licenses and fees, excluding federal income taxes	6,967,159	0	6,967,159
Miscellaneous other expense (Note 9)	92,715	25,000	117,715
Totals	$263,381,894	$ 4,153,675	$267,535,569
Net gain from operations before federal income taxes	$ 40,545,130	($3,866,467)	$ 36,678,663
Federal and foreign income taxes incurred (Note 5)	$ 8,601,841	($ 726,674)	$ 7,875,167
Net gain from operations after federal income taxes and before realized capital gains or (losses)	$ 31,943,289	($3,139,793)	$28,803,496
Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR)	(13,849)	0	(13,849)
Net income	$ 31,929,440	($3,139,793)	$ 28,789,647

RECONCILIATION OF EXAMINATION CHANGES

TO THE BALANCE SHEET

As of December 31, 2005

Capital and surplus per Company				$ 98,394,307
Account	Per Company	Per Examination	Increase/ (Decrease) in Surplus	
Amounts recoverable from reinsurers (Note 4)	$17,536,288	$17,823,496	$ 287,208	
Current federal and foreign income tax recoverable and interest thereon (Note 5)	1,148,024	2,111,005	962,981	
Net deferred tax asset (Note 5)	2,109,386	2,636,214	526,828	
Contract claims: Accident and health (Note 4)	30,579,865	34,273,556	(3,693,691)	
Commissions to agents due or accrued – life (Note 3)	1,414,759	1,965,479	(550,720)	
General expenses due or accrued (Note 7)	8,391,280	3,275,544	5,115,736	
Current Federal and foreign income taxes (Note 8)	0	236,307	(236,307)	
Borrowed money (Note 7)	0	5,000,000	(5,000,000)	
Liability for amounts held under uninsured accident and health plans (Note 9)	321,000	346,000	(25,000)	
Net increase (decrease) in surplus			$2,612,965	
Capital and surplus per Examination				$95,781,342

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2005

	Per Company	Examination Changes	Per Examination
Capital and surplus, December 31, 2004	$65,000,948	$ 0	$65,000,948
GAINS AND LOSSES TO CAPITAL & SURPLUS			
Net income	$31,929,440	($3,139,793)	$28,789,647
Change in net unrealized capital gains (losses)	619,041	0	619,041
Change in net deferred income tax	(5,445,583)	526,828	(4,918,755)
Change in nonadmitted assets and related items	7,428,884	0	7,428,884
Change in asset valuation reserve	(1,138,421)		(1,138,421)
Rounding	0	0	(2)
Net change in capital and surplus	$33,393,361	($2,612,965)	$30,780,394
Capital and surplus, December 31, 2005	$98,394,309	($2,612,965)	$95,781,342

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT

December 31, 2000 through December 31, 2005

	2001	2002	2003	2004	2005
Capital and surplus, December 31, previous year	*$47,428,976	$47,989,672	$36,194,014	$37,414,536	$65,000,948
Net income	1,501,227	(4,595,611)	(9,702,916)	22,352,913	$28,789,647
Change in net unrealized capital gains (losses)	2,994,150	175,002	1,201,873	(2,017,318)	619,041
Change in net deferred income tax	(753,330)	14,655,069	(3,668,467)	(4,510,138)	(4,918,755)
Change in nonadmitted assets and related items	(1,616,465)	(31,812,246)	1,290,557	46,162,838	7,428,884
Change in asset valuation reserve	300,934	(70,766)	227,573	(673,006)	(1,138,421)
Cumulative effect of changes in accounting principles	1,859,340	0	0	0	0
Aggregate write-ins for gains and losses in surplus:					
Change in Non-ledger assets	923,909	0	0	0	0
Non-Admitted Items Not Effecting Surplus	(4,700,564)	9,120,728	(5,023,324)	0	0
Rounding	(1)	0	1	0	(2)
Cash-Held by Special Contract	0	732,166	9,019,950	(19,903,738)	0
Grant, net of tax	0	0	8,000,000	0	0
Reverse Capital Lease Depreciation	0	0	(124,725)	(201,354)	0
Reporting difference	**51,496	0	0	0	0
ASC Payable	0	0	0	(15,047,334)	0
Retiree Life & Health	0	0	0	1,423,549	0
Net change in capital and surplus	$ 560,696	$(11,795,658)	$ 1,220,522	$27,586,412	$30,780,394
Capital and surplus, December 31, current year	$47,989,672	$ 36,194,014	$37,414,536	$65,000,948	*$95,781,342

*Per examination

**The Company filed an amended copy of the 2001 Annual Statement on May 15, 2002. It appears that the preparer reversed the $51,498 (non-ledger assets) on preferred stocks in the prior year column, 2000. The Company does not have records to support the reason for the change in the prior year column nor the reason for the change.

NOTES TO THE FINANCIAL STATEMENTS

Note (1) – Bonds	$122,452,726
Preferred stocks	100,000
Common stocks	22,496,102
Cash, cash equivalents and short term investments	2,751,519

The Company has a repurchase agreement with Wells Fargo Bank. The repurchase agreement did not stipulate for collateral having a fair value in compliance with Section 41-719, Idaho Code or SSAP No. 91, paragraph 71.a. Section 41-719, Idaho Code provides that insurers may *lend and thereby invest funds upon the pledge of securities eligible for investment under this chapter. As at date made, no such loan shall exceed in amount ninety percent (90%) of the market value of such collateral pledged.* The market value of the collateral pledged, expressed as a percent of the loan (repurchase amount) is 111 percent. SSAP No. 91, paragraph 71.a stipulates that collateral have a fair value at least equal to 102 percent of the purchase price paid by the reporting entity. Under the Preamble to the Statements of Statutory Accounting Principles (SSAP), state legislative and regulatory authority preempts SSAP guidance. Therefore, it is recommended that the repurchase agreement with Wells Fargo Bank be amended to comply with Section 41-719, Idaho Code.

The Company incorrectly reported that it had not entered into a repurchase agreement in Note 5.E to the Financial Statements. It is recommended the Company prepare future financial statements in accordance with NAIC *Annual Statement Instructions*.

The Company has maintained a security lending program during the examination period. As of December 31, 2005, the Company did not report loaned securities because the program is structured to call back all loaned securities before the year-end. Regardless of materiality of year-end balances, SSAP No. 91, (superseded SSAP No. 18) paragraph 88.h provides that a reporting entity shall disclose the description of any loaned securities, including the amount, a description of, and the policy for, requiring collateral, and whether or not the collateral is restricted.

The Company did not make the proper disclosures required under SSAP No. 91 in its 2005 Annual Statement. Therefore, it is recommended that the Company follow NAIC *Annual Statement Instructions* when preparing future financial statements.

The Company reported external costs billed to outside parties only in Exhibit 2 – General Expenses. None of the internally accumulated investment costs were allocated to the Company's investment activities in this Exhibit. It is recommended that internally accumulated investment costs be appropriately disclosed in future financial statements.

The Company does not have adequate procedures for the safekeeping of private placement securities. The following security certificates were lost, or misplaced, and had to be replaced:

Triwest Healthcare Alliance Corp. - Stock certificate representing 1,015.21 shares of which 30.977 shares, 984.023 shares, and .21 shares, were originally issued on March 26, 1996, September 1, 1996, and April 23, 1997, respectively; and replaced on July 13, 2006.

It is recommended that the Company provide adequate safeguards over private placement securities, which are kept on-site, to prevent stock certificates from being lost or misplaced.

Note (2) – Properties occupied by the company	$5,204,123
Properties held for sale	1,304,108

According to SSAP No. 40, paragraph 12, *For all properties held for sale, an appraisal shall be obtained at the time such property is classified as held for sale, and subsequently an appraisal shall be maintained that is no more than five years old as of the reporting date.* The Company classified properties that originally were classified as properties occupied by the Company to properties held for sale in January 2003 without obtaining appraisals as required by SSAP No. 40 paragraph 12.

On Schedule A, Part 1, of the Company's 2005 Annual Statement, the Company left the Date of Last Appraisal column blank. In addition, the Date of Last Appraisal for property occupied by the reporting entity is erroneously listed as "1/1/3000".

It is recommended that the Company prepare its annual statement in accordance with the NAIC *Accounting Practices and Procedures Manual* and *Annual Statement Instructions* as required by Section 41-335 (1), Idaho Code.

Note (3) – Uncollected premiums and agents' balances in the course of collection	$10,767,738
Commissions to agents due or accrued	1,965,479

SSAP No. 54, paragraph 12 requires that the value of unpaid commissions, premium taxes, and the cost of collection associated with due and unpaid premiums must be carried as offsetting liabilities.

Uncollected premiums were reported gross of any unpaid commissions, unpaid premium taxes, and unpaid costs of collection at year-end 2005. However, the Company established an offsetting liability for unpaid premium taxes and, according to management, The Regence Group rarely sends delinquent accounts to outside collection. Therefore the cost of collection, if any, would be insignificant. The Company, however, did not establish an offsetting liability for unpaid commissions on the related uncollected premium balances. Therefore, surplus was overstated by the value of unpaid commissions at December 31, 2005.

To properly state the accounts at December 31, 2005, the value of unpaid commissions associated with uncollected premiums was determined by the examination. A ratio of commission expenses to earned premiums was developed using data from the Company's

Annual Statements and was applied to the year end 2005 uncollected premium balance. The resulting liability determined by the examination was $550,720 and is included within *Commissions to agents due or accrued* in the financial statements of the examination report.

It is recommended that the Company follow SSAP No. 54, paragraph 12 and establish the off-setting liabilities specified therein in future financial statements.

Note (4) – Reinsurance: Amounts recoverable from reinsurers	$17,823,496
Amounts receivable relating to uninsured plans	4,612,249
Aggregate reserve for accident and health contracts	9,908,108
Contract claims: Accident and health	34,273,556
Provision for experience rating refunds	16,764,838

As previously reported, the actuarial review of the above-captioned items was performed by Lewis & Ellis, Inc., Actuaries & Consultants, Consulting Actuary, for the Idaho Department of Insurance. The following were noted in their review:

1. An asset in the amount of $17,536,288 was reported for amounts recoverable from reinsurers at December 31, 2005.

This recoverable related to the Company's reinsurance agreement with Fort Dearborn Life. The Company's calculation of the experience refund is shown below:

Total recoverable	$26,783,381
Unpaid claims	(7,474,382)
Payable to Fort Dearborn Life	(1,772,711)
Net recoverable	$17,536,288

The Company indicated the amount settled in March of 2006 was $27,070,589. This compares to the total recoverable set as of year-end 2005 of $26,783,381. Therefore, the total recoverable established as of December 31, 2005 was understated by $287,208. The asset balance was re-stated to include the additional recoverable amount in the financial statements of the examination report.

2. Amounts receivable related to uninsured plans was $4,612,249 at December 31, 2005. This amount related to accounts receivable for which the Company performed administrative services for a third party. The Company provided the Consulting Actuary with the detail supporting the calculation as of December 31, 2005.

A majority of the receivable related to the Company's administrative service contract business for multiple groups. Based on the detail provided for the receivable, the Company does not set up a receivable for unpaid claims and nonadmitted receivables greater than 90 days in accordance with SSAP No. 47.

The Consulting Actuary concluded the receivable for uninsured plans as of December 31, 2005 was appropriate.

3. The Company supplied the Consulting Actuary with a summary of the amounts reported in Exhibit 6 – Aggregate Reserve for Accident and Health Contracts. This summary showed that of the $9,908,108 of Exhibit 6 reserves, $5,030,764 related to unearned premium reserves while another $2,291,000 related to issue age rated liabilities. The issue age rated liability relates to additional contract reserves associated with the Company's Medicare Supplement business. It is recommended the Company appropriately reflect unearned premium reserves on line 1, Unearned premium reserve, of Exhibit 6 and additional contract reserves on Line 2 of Exhibit 6 as opposed to lumping all of these items into line 12, Reserve for future contingent benefits. Overall, the total Exhibit 6 reserves reported as of year-end 2005 were appropriate.

4. As of year-end 2005, the Company reported an Accident and Health claim liability in the amount of $30,579,865.

To test the Company's claim reserves, the Consulting Actuary independently developed completion factors based on historical claim information provided by the Company through May 2006. Completion factors were developed for the ten different claim lags provided by the Company. Based on these completion factors, ultimate claims were calculated for each incurral month. Based on these ultimate claims, outstanding liabilities were then developed using the historical claim information through May 2006. The remaining liability for claims incurred in 2005 and prior was calculated. The remaining total liability calculated was then added to the claims paid through May 31, 2006 for incurrals in 2005 and prior years.

The Consulting Actuary's estimate of the Company's December 31, 2005 in course of settlement (ICOS) and incurred but not reported (IBNR) liability as of May 31, 2006 was $34,273,556. The Consulting Actuary had the benefit of reviewing the actual claim payments for the last five months for claims incurred in 2005 and prior. As a result, a predominant amount of the restated December 31, 2005 ICOS and IBNR reserve was known claims paid through May 31, 2006.

The Company utilized the claim lag method to establish its ICOS and IBNR reserve. The Consulting Actuary believes the method utilized by the Company was appropriate, however, based on data through May, 2006, the ICOS and IBNR reserve as of December 31, 2005 was understated by $3,693,691.

The tax effect of the increase in the reserves was determined with the assistance of the Company's tax department. The financial statements of the examination report have been adjusted to include the increase in reserves and the tax effect thereon.

5. A claims adjustment expense (CAE) reserve is appropriate for any expected future cost of settling a current liability. The typical primary source of such a CAE reserve is the future cost of adjudicating ICOS and IBNR claims. An appropriate percentage of

applicable current liabilities with which to calculate CAE for the Company's line of business range from 3 percent to 5 percent.

The Company utilized a rate of 3.76 percent for their claims adjustment expense. This ratio was derived based on Company experience. The 3.76 percent the Company is using is in line with expectations for this type of business. Overall, the CAE reserve held by the Company as of December 31, 2005 was adequate.

6. As of year end 2005, the Company established a liability for experience rating refunds in the amount of $16,764,838.

A majority of the experience rated refund liability related to six groups. The Company supplied the Consulting Actuary with the detailed experience rated refund calculations for each group for each month of 2005. The group with the largest experience refund liability was reviewed. Based on this review of the Company's calculations of the experience rated refund, no discrepancies were found in the Company's calculations and the amounts reported by the Company were appropriate.

Note (5) – Current federal and foreign income tax recoverable and interest thereon	$2,111,005
Net deferred tax asset	2,636,214

As previously noted, the ICOS and IBNR reserve as of December 31, 2005 was understated by $3,693,691. The tax effect of the increase in reserves was determined with the assistance of the Company's tax department and is reported in the financial statements of the examination report. See Note 4 for further discussion.

The current federal and foreign income tax recoverable balance also included $236,307, which is discussed in Note 8.

Note (6) – Premiums and annuity considerations for life and accident and health contracts received in advance	$ 22,218

The Company writes accident and health insurance business only. However, it was filing on the NAIC's Life and Accident and Health annual statement blank up through year end 2005. In addition, the Company was using the "life" definition of advance premium set forth in SSAP No. 51, paragraph 25. The definition of advance premium should follow the nature of the underlying business written, not the statement blank utilized by the insurer. Therefore, the Company should have used the definition of advance premium set forth in SSAP No. 54, paragraph 6 in reporting advance premiums. It was determined that premiums received in advance that were not reported in page 3, line 8, were considered unearned premium, and as such were reported within aggregate reserves in page 3, line 2. The Consulting Actuary reviewed unearned premium and did not note anything exceptional. Therefore, it appears that the combined liability for advance and unearned premium was not understated at the balance sheet date.

Subsequent to the examination date, the Company began reporting advance premium using the definition set forth in SSAP No. 54. When filing its 2006 quarterly statements, the year end 2005 balance was restated to conform to SSAP No. 54, paragraph 6. The restated balance for year ended 2005 was $4,038,718 as opposed to $22,218. A reclassification entry was not made in the financial statements of the examination report.

Note (7) – General expenses due or accrued	$3,275,544
Borrowed money	5,000,000

During a search for unrecorded liabilities, it was noted that several invoices were either improperly included or excluded from the year end 2005 accrual. As a result, the year-end trade accounts payable accrual was not accurately stated. The net amount of the over-accrual was $115,736, which was reported in the financial statements of the examination report.

Based on the sample conducted, it is recommended that the Company more accurately state its year-end trade accounts payable accrual by only including amounts incurred prior to year-end and paid subsequent to year-end, and by excluding amounts incurred subsequent to year-end.

The Regence Group maintained a revolving credit line to supplement short-term cash flows at Key Bank. The maximum available line of credit was $30,000,000 for The Regence Group, with no specific limits set for the Plans. The interest rate was calculated based on LIBOR plus 90 basis points for the term of the loan. The outstanding balance on the line of credit as of December 31, 2005 was $5,000,000. The outstanding balance was incorrectly reported within *General expenses due or accrued.* According to the NAIC *Annual Statement Instructions*, this outstanding liability should have been reported as *Borrowed Money.* Therefore, a reclassification entry was made in the financial statements of the examination report. It is recommended that the Company follow NAIC *Annual Statement Instructions* when preparing future financial statements.

The outstanding line of credit balance, plus interest for January and February of $1,465 and $7,644, respectively was repaid on February 2, 2006.

In October, 2005, the Company obtained a revolving line of credit to supplement construction at the Company's home office. The maximum available line of credit was $8,000,000. The interest rate was calculated based on LIBOR plus 100 basis points for the term of the loan. The outstanding balance on the line of credit as of December 31, 2005 was $1,764,046 and was properly recorded as an encumbrance against real estate in line 4.1, page 2 of the 2005 Annual Statement.

Note (8) – Taxes, licenses and fees due or accrued	$ 18,029
Current federal and foreign income taxes	236,307

Workpapers provided by the Company indicated that the December 31, 2004 balance in the Federal and Foreign taxes recoverable account contained overpayment of 2003 federal taxes of $670,579 and an overpayment of premium taxes of $889,669. This total recoverable of $1,560,248 was netted with the Federal and Foreign Taxes Payable account of $2,163,602, showing a net payable of $603,355. This balance was reported in *Taxes, licenses and fees due or accrued* in the 2004 Annual Statement. Premium taxes payable/receivable should not be co-mingled with federal and foreign income taxes payable. Therefore, it is recommended that the Company report premium taxes, paid and unpaid on the proper lines in future financial statements.

Federal and foreign taxes payable showed that the December 31, 2005 debit balance of $1,136,604 was composed of the following:

Tax Cushion	($ 236,307)
Recoverable of 2004 taxes	178,619
Provision for 2005 taxes	(8,755,708)
2005 estimated tax payments	9,950,000
Sub total	$1,136,604
Entry	$ 11,420
Current FIT recoverable reported	$1,148,024

This balance was transferred to the recoverable reported in the 2005 Annual Statement as *Current federal and foreign income tax recoverable and interest thereon.* The recoverable of 2004 taxes and the overpayment of the 2005 liability for taxes was properly transferred to the recoverable account. NAIC *Annual Statement Instructions*, however, specifically prohibit the netting of taxes recoverable with taxes payable. Therefore, the credit balance of $236,307 was re-classified to *Current federal and foreign income taxes* and the recoverable balance was grossed up in the same amount in the financial statements of the examination report. See Note 5 for further discussion.

NAIC *Annual Statement Instructions* for Federal and Foreign Taxes Payable specifically states to exclude taxes recoverable from federal and foreign taxes payable. Therefore, it is recommended that the Company not net federal taxes recoverable against federal taxes payable in future financial statements.

Note (9) – Liability for amounts held under uninsured accident and health plans	$346,000

Management has indicated that CMS overpaid the Company $25,000. Therefore, a liability for this overpayment has been established in the financial statements of the examination report.

COMMITMENTS AND CONTINGENT LIABILITIES

The Company has been named in two lawsuits filed by physicians and other providers against the Blue Plans alleging improper practices related to payment of providers. The Company properly disclosed the litigation in the 2005 Annual Statement.

SUBSEQUENT EVENTS

The Company changed its reporting format from the NAIC Life, Accident and Health blank to the NAIC Health blank effective January 1, 2006. Under the Health blank, the Company is no longer required to maintain the Interest Maintenance Reserve or the Asset Valuation Reserve liabilities.

The BlueCross BlueShield Association created HealthBenefit Bank d/b/a Blue Healthcare Bank, to assist in the administration of Consumer Driven Health Plans, such as Health Savings Accounts. The Company is a proposed shareholder of the holding company that will own the Bank.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of December 31, 2005, the Company had net admitted assets of $198,077,285, liabilities of $102,295,943, and unassigned funds (surplus) of $95,781,342. Therefore, the Company's total capital and surplus exceeded the $2,000,000 minimum prescribed by Section 41-313, Idaho Code.

Comments and Recommendations

Page

16 It is recommended that the Company submit the second amendment to the Management and Administrative Services Agreement to the Department in compliance with Sections 41-2838 and 3807(2)(d), Idaho Code. It is further recommended that any future amendments be filed with the Department.

17 It is recommended that in the future, the Company file all affiliated agreements meeting the requirements of Chapter 38 with the Idaho Department of Insurance.

17 The agreement with the Caring Foundation, Inc. was not approved by the Company's Board of Directors. Therefore, it is recommended that the Board of Directors approve all future affiliated agreements.

19 It is recommended that the Company disclose all of the information required under Section 41-3806, Idaho Code when filing future holding company system annual registration statements. It is also recommended that the information contained therein be accurate, current and complete.

22 It is recommended the Company report the full Board of Directors in future financial statements.

24 It is recommended that all matters discussed in Executive Sessions be documented in the minutes to provide a complete and accurate record of all corporate proceedings.

25 It is recommended that the Company make disclosures required under SSAP No. 14, paragraph 15 and SSAP No. 89, paragraph 15 and follow NAIC *Annual Statement Instructions* when preparing future financial statements.

26 It is recommended that the Company establish a method of tracking current errors and omissions information and maintain such in the agents' files.

26 It is recommended the Company access the Department's website at least annually and update its agents' appointment status to be in compliance with Section 41-1018, Idaho Code. The Company indicated they would immediately proceed with appointing the eight non-appointed agents.

26 It is recommended that the Company establish current licensing evidence to be in compliance with Section 41-1022, Idaho Code. The files should be reviewed and updated at least annually.

27 It is again recommended that, at a minimum, the Department's website print out of agents currently registered to operate under the brokerage agency appointment should be obtained and maintained in the file. The file should be reviewed and updated on a periodic basis, at a minimum annually.

27 It is recommended that the Company immediately notify the Department of its terminated agents pursuant to Section 41-1019, Idaho Code.

27 It is recommended that the Company immediately re-appoint the agents that are still active.

It is also recommended that the Company immediately conduct a review of the Department's current termination list and re-appoint any agents on that list that are currently writing business for the Company.

27 It is again recommended that in accordance with Section(s) 41-1019 and/or 41-1016, Idaho Code and to facilitate future examinations of Company records, it is recommended that copies of all Internet vendor transaction termination forms document whether the termination is "not for cause", unless otherwise indicated, or list the actual reasons for termination. Furthermore, it is recommended that a copy of the Internet termination notice be printed out on the actual date the termination is submitted to the Department and be retained in the terminated agent's file.

31 It is recommended that the Company comply with NAIC *Annual Statement Instructions* and report all reinsurance ceded portion of the claims reserve on Exhibit S, Part 3, Column 9 in future financial statements.

32 It is recommended that the Company comply with its established internal controls and require the Board of Directors to approve all future reinsurance agreements prior to execution.

34 If the group is requesting a policy termination, then no additional reasons are required except that it needs to be clear that the group is making the request for termination. However, if the Company is doing the canceling/non-renewing then it is recommended that the Company be more specific with the coding of the reasons for termination.

35 It is recommended that the Certificate of Health Plan Coverage for group insurance be amended to include the date of issue of the certificate thereon.

39 It is recommended that requested documents and records be provided in a timelier manner for future examinations in accordance with Sections 41-223(3) and 41-247, Idaho Code.

41 It is recommended that the Company file its statement of actuarial opinion consistent with the financial statement and in accordance with all applicable Idaho regulations. Additional actuarial findings are discussed under Note 4 to the Financial Statements.

48 It is recommended that the repurchase agreement be amended to comply with Section 41-719, Idaho Code.

48 It is recommended that the Company follow SSAP No. 91 and NAIC *Annual Statement Instructions* when preparing future financial statements with respect to the repurchase agreement and securities lending program.

48 It is recommended that internally accumulated investment costs be appropriately disclosed in Exhibit 2 – General Expenses in future financial statements.

49 It is recommended that the Company provide adequate safeguards over private placement securities, which are kept on-site, to prevent stock certificates from being lost or misplaced.

49 It is recommended that the Company prepare its Schedule A in accordance with the NAIC *Accounting Practices and Procedures Manual* and *Annual Statement Instructions* as required by Section 41-335 (1), Idaho Code.

50 It is recommended that the Company follow SSAP No. 54, paragraph 12 and establish the off-setting liabilities specified therein in future financial statements.

51 It is recommended the Company appropriately reflect unearned premium reserves on line 1, Unearned premium reserve, of Exhibit 6 and additional contract reserves on Line 2 of Exhibit 6 as opposed to lumping all of these items into line 12, Reserve for future contingent benefits.

53 It is recommended that the Company more accurately state its year-end trade accounts payable accrual by only including amounts incurred prior to year-end and paid subsequent to year-end, and excluding amounts incurred subsequent to year-end.

53 The Company erroneously reported an outstanding line of credit totaling $5,000,000 within *General expenses due or accrued.* This outstanding liability should be reported as *Borrowed Money.* It is recommended that the Company follow NAIC *Annual Statement Instructions* when preparing future financial statements.

54 Premium taxes payable/receivable should not be co-mingled with federal and foreign income taxes payable. Therefore, it is recommended that the Company report premium taxes, paid and unpaid on the proper lines in future financial statements.

54 NAIC *Annual Statement Instructions* for Federal and Foreign Taxes Payable specifically states to exclude taxes recoverable from federal and foreign taxes payable. Therefore, it is recommended that the Company not net federal taxes recoverable against federal taxes payable in future financial statements.

CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Company's officers and employees in conducting the examination.

In addition to the undersigned, Claudia Schwartz, CIE, of the Idaho Department of Insurance, participated in the examination. Lewis & Ellis, Inc., Actuaries and Consultants conducted the actuarial portion of the examination. Other work was performed by the States of Oregon, Washington, and Utah. Selected work performed by these States was relied upon for this examination.

Respectfully submitted,

Lois Haley

Lois Haley, CFE
Senior Insurance Examiner
State of Idaho
Department of Insurance

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

Lois Haley, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of Regence BlueShield of Idaho, Inc. for the period from January 1, 2001 through December 31, 2005, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.

Lois Haley
Lois Haley, CFE
Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 18th day of April, 2007, at Boise, Idaho

Notary Public

My commission Expires: Feb. 17, 2013

THOMAS A. DONOVAN
NOTARY PUBLIC
STATE OF IDAHO

State of Idaho
DEPARTMENT OF INSURANCE
700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

C.L. "BUTCH" OTTER
Governor

WILLIAM W. DEAL
Director

WAIVER

In the matter of the Report of Examination as of December 31, 2005, of:

Regence BlueShield of Idaho, Inc.
1602 21st Avenue
Lewiston, Idaho 83501

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 18th day of April 2007, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 23 day of April, 2007

REGENCE BLUESHIELD OF IDAHO, INC.

JOHN M. STELLMON
Name (print)

John M. Stellmon
Name (signature)

President - RBSI
Title

EXHIBIT
B

Regence
BlueShield
of Idaho
An Independent Licensee of the Blue Cross and Blue Shield Association
1602 21st Avenue • P.O. Box 1106
Lewiston, ID 83501-1106 • Tel (208) 746-2671

April 12, 2007

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720

Re: Regence BlueShield of Idaho, Inc. – Report of Examination as of December 31, 2005

Dear Mr. Deal,

Enclosed please find for your consideration, our responses to be included in the final Report of Examination for Regence BlueShield of Idaho, Inc. We ask that these responses be part of the public record of the examination. We appreciate the opportunity to respond and comment on the Report.

Finding: Management and Administrative Services – Filing Missing

The second amendment of the Management and Administrative Services Agreement, effective December 10, 2001, was not filed with the Idaho Department of Insurance.

It is recommended that the Company submit the second amendment to the Management and Administrative Services Agreement to the Department in compliance with Sections 41-2838 and 3807(2)(d), Idaho Code. It is further recommended that any future amendments be filed with the Department.

Company Response:
The Company agrees with the finding. The Company will file the 2001 amendment to the Management and Administrative Services Agreement with the Idaho Department of Insurance.

Finding: Inter-Plan Cost Sharing Agreement

The Inter-Plan Cost Sharing Agreement between Regence BlueCross BlueShield of Utah and the Company effective April 1, 2000 were not filed with the Idaho Department of Insurance in Compliance with Sections 41-2838 and 3807(2)(d), Idaho Code. This agreement and the FEP amendment were also not disclosed in the Form B Filings. The agreement was not in force as of December 31, 2005.

It is recommended that in the future, the Company file all affiliated agreements meeting the requirements of Chapter 38 with the Idaho Department of Insurance.

Company Response:
The Company agrees with the finding. The Company will file all affiliated agreements meeting the requirements of Chapter 38 beginning in 2007 and going forward.

Finding: The Caring Foundation, Inc – Affiliate Agreement

The Company executed an agreement with The Caring Foundation, Inc. effective April 1, 2001 to provide dental care services on behalf of the Foundation. This agreement was not approved by the Company's

EXHIBIT
C

Board of Directors. Therefore, it is recommended that the Board of Directors approve all future affiliated agreements.

Company Response:
The Company agrees with this finding and notes that this issue is fairly isolated. The Company will continue to ensure that inter-company agreements are disclosed to and approved by the requisite board of directors, except in those instances where authority to enter into inter-company agreements has been delegated.

Finding: Error in 2005 Form B Filing

The 2005 Health Carrier Holding Company System Annual Registration System (Form B) was filed on May 11, 2006. The 2005 Form B filing did not appropriately disclose all affiliated transactions. Specifically,

- *The reinsurance contract with Fort Dearborn Life Insurance Company was disclosed in the 2004 Form B filing but not reported in the 2005 filing.*
- *The Company has loaned $540,000 to The Regence Group, yet the 2005 Form B filing incorrectly stated that the Company had no loans with affiliates.*

It is recommended that the Company disclose all of the information required under Section 41-3806, Idaho Code when filing future holding company system annual registration statements. It is also recommended that the information contained therein be accurate, current and complete.

Company Response:
The Company agrees with the finding. Beginning in 2007, the Company will ensure that all information reported on the holding company annual registration statement is complete, accurate and in compliance with Section 41-3806, of the Idaho Code.

Finding: Board of Directors – Director Not Listed

The Company did not report Richard John White as a Director in the Jurat Page of the 2005 Annual Statement.

It is recommended that the Company report the full Board of Directors in future financial statements.

Company Response:
The Company agrees with the finding. For future filings, the Company will implement a reconciliation procedure, which will compare members of the Board of Directors to what is reported on the Jurat.

Finding: Executive Sessions – Minutes Not Maintained

The review of corporate minutes indicated that Executive Sessions were held at various Board of Director meetings during the examination period. Yet, management has indicated that minutes of Executive Sessions are not maintained. Section 41-2839, Idaho Code states, in part, that every domestic insurer shall keep accurate and complete accounts and records of its assets, transactions, and affairs in accordance with the usual and accepted principles and practices of insurance accounting and record keeping. Furthermore, Chapter IV, No. 5, of the Company's Bylaws states that the secretary shall keep or cause to be kept a book of minutes at the principal office of the Corporation of all meetings of directors...and the proceedings thereof. By failing to record minutes of Executive Sessions, the Company is not in compliance with Idaho Code or its own Bylaws. To ensure full and open disclosure of Board activities and to comply with Idaho law and its Bylaws, it is recommended that all matters discussed in Executive Sessions be documented in the minutes to provide a complete and accurate record of all corporate proceedings.

Company Response:
The Company disagrees with this exception, but will change its current practice as described below.

The Company's practice with respect to its executive sessions does not violate Idaho law. The Idaho Code requires insurers to keep records "in accordance with the usual and accepted principles and practices of insurance accounting and record keeping." IC 41-2839(1). Until recently, it was a common corporate governance practice to not keep minutes of executive sessions. Michael Peregrine, a nationally known corporate governance expert, has stated the following with respect to the issue: "The interest in having a written record of an Executive Session must be balanced against the policy objective of fostering candor and open dialogue in such sessions." In his opinion, an "emerging perspective is that it may be unnecessary to take detailed minutes of Executive Sessions as long as some written record is kept confirming the session was held, its participants, and a date, time, location and duration of the meeting." *See* Michael W. Peregrine and Russell Hayman, "Corporate Minute Taking: A General Counsel's Guide," *Health Lawyers News*, Vol. 10, No. 1 (Jan. 2006).

Accordingly, the Company will adopt a procedure for executive session board minutes that balances the competing interests described above. This procedure will ensure that minutes of executive sessions routinely include the following: The fact that an executive session was held; the time and duration of the executive session; who was present (including any members of management who were invited to remain); the subjects discussed; specific actions taken (unless extremely sensitive or confidential in nature); and any directions for providing feedback to management.

Finding: Postretirement Benefit Plans – Allocation Methodology, Legal Obligations

The Company did not state that it has no legal obligation or state the allocation method used regarding the defined benefit and defined contribution plans pursuant to SSAP No. 14, paragraph 15 and SSAP No. 89, paragraph 15 and NAIC Annual Statement Instructions.

It is recommended that the Company make such disclosures required under SSAP No. 14, paragraph 15 and SSAP No. 89, paragraph 15 and follow NAIC Annual Statement Instructions when preparing future financial statements.

Company Response:
The Company agrees with this finding. The disclosure in the Company's Annual Statement related to the Postretirement Health Care and Life Insurance benefit plans did not include the expense allocation methodology or a statement regarding legal obligations. However, legal obligations were disclosed in the 2005 Annual Audited Statutory Statement. Beginning in 2007, the Company will revise its filings to include the appropriate disclosures in all documents.

Finding: Errors and Omissions in Agents' Files

Agents and/or agencies produced business pursuant to agent contracts. The most current agent contract utilized by the Company contained standard contract provisions. The contract also specified that an agent is required to maintain errors and omissions insurance in a minimum amount of $250,000 per claim and an annual maximum of $750,000. Only one agent file reviewed contained current errors and omissions information and the Company advised they do not currently track such information.

Maintaining errors and omissions insurance is a requirement of the contract between the Company and the agent, therefore, it is recommended that the Company establish a method of tracking current errors and omissions information and maintain such in the agents' files.

Company Response:
The Company agrees with this finding. The Company's Sales and Finance team is developing procedures that will satisfy this recommendation. It is expected that this process will be in place by 2007.

Finding: Agents' Appointment Status

The Department's listing of active and terminated agent appointments was compared to the Company's listing. It was determined that eight agent/producers on the Company's list were not appointed in accordance with Section 41-1018, Idaho Code.

Therefore, it is recommended the Company access the Department's website at least annually and update its agents' appointment status. The Company indicated they would immediately proceed with appointing the eight non-appointed agents.

Company Response:
The Company agrees with this finding. A process has been developed to ensure that the DOI website is accessed on an annual basis in order to update the appointment status of all agents, beginning January 2007. The eight exceptions identified in this examination have been corrected.

Finding: Licensing Information Needed

A sample of active agent files was reviewed. Certain files did not contain current licensing information and some files contained copies of expired licenses.

It is recommended that the Company establish current licensing evidence to be in compliance with Section 41-1022, Idaho Code. The files should be reviewed and updated at least annually.

Company Response:
The Company agrees with this finding. The Company's Sales and Finance team is developing procedures that will satisfy this recommendation. It is expected that this process will be in place by 2007.

Finding: Active Agents File Maintenance

All agent files reviewed contained signed contracts except one. This file was for a single large brokerage agency with numerous agents that are registered with the Department to operate under the brokerage agency appointment with the Company. The Company eventually provided a very old signed contract; however, it did not have a current list in the file of those agent names or licensing information. In order to maintain and verify compliance with Idaho Code, Section 41-1022, the brokerage agency file should contain a copy of the most current registered agent listing. The prior examination noted the same finding, which apparently, was not addressed by the Company.

Therefore, it is again recommended that, at a minimum, the Department's web-site print out of agents currently registered to operate under the brokerage agency appointment should be obtained and maintained in the file. The file should be reviewed and updated on a periodic basis, at a minimum annually.

Company Response:
The Company agrees with this finding. The Company's Sales and Finance team is developing procedures that will satisfy this recommendation moving forward. The Company has printed a current agent list for the single large brokerage agency and placed it in the file. Additionally, in 2007, the Company is working to develop a process to have notices auto generated when licenses and E&O's are expiring to comply with the recommendation for annual review.

Finding: Agent Terminations

A sample from the Company's terminated agent list was reviewed. A substantial number of agent terminations in the sample had not been reported to the Department in accordance with Section 41-1019, *Idaho Code, and were still listed as active agents on the Department's records. Therefore, it is recommended that the Company immediately notify the Department of its terminated agents.*

Company Response:
The Company agrees with this finding. A process has been developed to ensure that agent records are reviewed on an annual basis, beginning January 2007.

Finding: Re-appoint Active Agents

A sample of inactive/terminated files was requested for a review as to the maintenance of appropriate copies of termination notices and the reasons for termination. Before the files were received, the Company advised that six named in the sample were "Still active with Regence BlueShield." However, all six agents had been terminated with the Department in 2005.

It is recommended that the Company immediately re-appoint the agents that are still active. It is also recommended that the Company immediately conduct a review of the Department's current termination list and re-appoint any agents on that list that are currently writing business for the Company.

Company Response:
The Company agrees with this finding. A hard copy of the inactive list was requested from the DOI on March 13, 2007, and received on March 14, 2007. A thorough agent review (including the 6 agents in question) was conducted, and all necessary adjustments were made. Once again, a procedure has been implemented to request this list from the DOI on an annual basis.

Finding: Internet Vendor Transaction Termination Forms

The Company is now filing agent terminations via the Internet but copies of the vendor, Cratchit-Net, termination notices were not uniformly maintained in the terminated agent files. The termination notices do not reflect the reasons for termination pursuant to Section 41-1019, Idaho Code. All terminated files should contain sufficient documentation to determine who requested the termination, the date of termination and reasons for the termination. The prior examination noted the same finding, which apparently, was not addressed by the Company.

Therefore, it is again recommended that in accordance with Section(s) 41-1019 and/or 41-1016, Idaho Code and to facilitate future examinations of Company records, it is recommended that copies of all Internet vendor transaction termination forms document whether the termination is "not for cause", unless otherwise indicated, or list the actual reasons for termination. Furthermore, it is recommended that a copy of the Internet termination notice be printed out on the actual date the termination is submitted to the Department and be retained in the terminated agent's file.

Company Response:
The Company agrees with this finding. The Company's Sales and Finance team is developing procedures that will satisfy this recommendation. It is expected that this process will be in place by 2007.

Finding: Exhibit S Did Not Disclose Reserve Credit

The Company did not disclose a $7,474,382 reserve credit taken for unpaid claims ceded to Fort Dearborn Life Insurance Company in its Annual Statement under Exhibit S, Part 3, Column 9. The NAIC Annual Statement Instructions state all reserve credits taken other than for unearned premiums shall be reported on this line.

It is recommended that the Company comply with NAIC Annual Statement Instructions and report all reinsurance ceded portion of the claims reserve on Exhibit S, Part 3, Column 9 in future financial statements.

Company Response:
The Company agrees with the finding. This activity was eliminated via the statutory adjustment process to remove the ceded business from the Company. Beginning in 2007, the Company will report any credits taken related to unpaid claims ceded appropriately on Schedule S, Part 3, Section 2, Column 9, per the NAIC Annual Statement Instructions.

Finding: Reinsurance Agreement Approval

The Board of Director's meeting minutes did not indicate the approval of the reinsurance agreement with Fort Dearborn Life Insurance Company. The Company clearly stated during the examination that it maintained a standard that requires all reinsurance agreements to have a formal approval by the board of directors prior to execution.

In the future, it is recommended that the Company comply with its established internal controls and require the Board of Directors to approve all reinsurance agreements prior to execution.

Company Response:
The Company agrees with this finding. The Company's board knew of the reinsurance agreement between the Company and Fort Dearborn Life Insurance Company. It was discussed at the October 8, 2003 board meeting, including the Finance, Audit, and Compliance Committee meeting. However, it does not appear that the actual approval of the arrangement was recorded in the minutes. In the future, the Company will ensure that its minutes reflect the actions taken at its board meetings.

Finding: Group Policy Termination

A sample of group cancelled/non-renewed policies was selected for review. Code numbers were used to identify the reasons for cancellation/non-renewal. Some applied code numbers appeared to be incorrect and/or incomplete and the Facets® system comments could not provide more in depth clarification. The Company acknowledged that some codes appeared incorrect and that it was a "training issue" that would be pursued.

If the group is requesting a policy termination then no additional reasons are required except that it needs to be clear that the group is making the request for termination. However, if the Company is doing the canceling/non-renewing then it is recommended that the Company be more specific with the coding of the reasons for termination.

Company Response:
The Company agrees with this finding. The Company has taken measures to ensure that coding for all terminations is specific and clear. If the group requests a termination, the code will reflect that the group has requested to terminate. If the Company has initiated the termination, a more descriptive coding methodology will be used in place of the generic codes currently being used. This process should be completed by July 1, 2007.

Finding: Certificate of Health Plan Coverage

Certificates of Creditable Coverage were reviewed for group, individual and short-term medical insurance plans. The Company issued separate certificates for each individual and/or dependents. The Company also attached a two page "Statement of HIPAA Portability Rights" to the certificate. The language and format of the certificates conformed to HIPAA and IDAPA Rules 18.01.69 and 18.01.72 with one exception. The group certificate did not contain a date of issue of the certificate as stipulated by Rule 69. Therefore, it is recommended that the Certificate of Health Plan Coverage for group insurance be amended to include the date of issue of the certificate thereon.

Company Response:
The Company agrees with this finding. The date will be added to the group certificate no later than May 1, 2007

Finding: Accounts and Records Not Provided Timely

In general, the Company responded to documentation requests in a timely manner. However, certain records, specifically data supporting premium samples, uncollected premiums, and managed care grievance logs/records were not provided until weeks or months after the initial requests for documents were made.

It is recommended that requested documents and records be provided in a timelier manner for future examinations in accordance with Sections 41-223(3) and 41-247, Idaho Code.

Company Response:
The Company agrees with the finding. The Company recognizes the importance of the exam, and appreciates the time and effort the examiners put forth during this process. The Company shall endeavor to provide the requested documents in a timely manner in future exams, in accordance with the Idaho Code.

Finding: Statement of Actuarial Opinion Incorrectly Reported

For 2005 annual reporting, the Company filed its financials statements in the NAIC Life and Accident and Health blank format. In reviewing the actuarial opinion submitted by the company, the 2005 Statement of Actuarial Opinion filed was in the NAIC Health Blank format, and therefore, failed to follow the guidelines of Chapter 77 18.01.77 of the Idaho Administrative Code. Under the Idaho Administrative Code, the actuarial opinion should include but not necessarily be limited to the following:

A. Aggregate Reserve for Life Contracts (Exhibit 5)
B. Aggregate Reserve for Accident and Health Contracts (Exhibit 6)
C. Aggregate Reserve for Deposit Type Contracts (Exhibit 7)
D. Net deferred and uncollected premiums
E. Contract Claims-Liability End of Current Year (Exhibit 8, Part 1).

It is recommended that the Company file its statement of actuarial opinion consistent with the financial statement and in accordance with all applicable Idaho regulations

Company Response:
The Company agrees with the finding that the Statements of Actuarial Opinion filed with the 2004 and 2005 Annual Statements were not in the proper Life Blank format, as described in the NAIC Annual Statement Instructions, page 33 section 5, rather they were in the Health Blank format.

In its 2007 filings, the Company will ensure that the Statements of Actuarial Opinion are correct in both format and content, as defined by the NAIC Annual Statement Instructions.

Finding: Repurchase Agreement - ID – Collateral Required Per SSAP #91

The Wells Fargo Repurchase Agreement in place for RBSI (ID) does not stipulate for collateral having a fair value at least equal to 102 percent of the purchased price paid by the reporting entity ('Buyer,' in contrast to bank as 'Seller') in accordance with SSAP No. 91 paragraph 71.a.

It is recommended that the repurchase agreement with Wells Fargo Bank be amended to comply with Section 41-719, Idaho Code.

Company Response:
The Company agrees with the finding. While our current repurchase agreements require 100% collateral, this is below the prescribed levels set forth in SSAP No.91. We will take the necessary steps to either modify the agreements or cease to utilize this method of investing overnight funds should Wells Fargo be unable to accommodate our requirements.

Finding: Error on 2005 Annual Statement Note Disclosure

The Company incorrectly reported that it had not entered into a repurchase agreement in Note 5.E to the Financial Statements. The Company did not make the proper securities lending program disclosures required under SSAP No. 91 in its 2005 Annual Statement.

It is recommended that the Company follow SSAP No. 91 and NAIC Annual Statement Instructions when preparing future financial statements with respect to the repurchase agreement and securities lending program.

Company Response:
The Company agrees with this finding. Beginning in 2007, the Note to Financial Statements No 5(e) will include the above disclosures.

Finding: Error 2005 Disclosure – Internally Accumulated Investment Costs

The Company reported external costs billed to outside parties only in Exhibit 2- General Expenses. None of the internally accumulated investment costs were allocated to the Company's investment activities in this Exhibit.

It is recommended that internally accumulated investment costs be appropriately disclosed in Exhibit 2 – General Expenses in future financial statements.

Company Response:
The Company agrees with this finding. Beginning in 2007, the Company will review and take the steps necessary to collect and report internal costs associated with investment activity in accordance with SSAP No. 70.

Finding: Safekeeping-Private Placement Securities

The Company does not have adequate procedures for the safekeeping of private placement securities. The following security certificates were lost, or misplaced, and had to be replaced:

> *-Triwest Healthcare Alliance - Stock certificate representing 1,015.21 shares of which 30.977 shares, 984.023 shares, and .21 shares, were originally issued on 3/26/1996, 9/1/1996, and 4/23/1997, respectively; replaced on 7/13/2006.*

It is recommended that the Company provide adequate safeguards over private placement securities, which are kept on-site, to prevent stock certificates from being lost, or misplaced.

Company Response:
The Company agrees with the finding. However, it should be noted that these certificates are non-negotiable and that the corporate assets they represent were never at risk from loss or theft. Subsequent to this finding, measures were taken to comply with the recommendation and all private placement stock certificates have been placed in a safety deposit box at a Bank of America branch in Seattle.

Finding: Real Estate Held for Sale – Appraisal Required

According to SSAP No. 40, paragraph 12, for all properties held for sale, an appraisal shall be obtained at the time such property is classified as held for sale, and subsequently an appraisal shall be maintained that is no more than five years old as of the reporting date. The Company classified properties held for sale in January 2003 without obtaining appraisals as required by SSAP No. 40 paragraph 12.

On Schedule A, Part 1, of the Company's 2005 Annual Statement, the Company left the Date of Last Appraisal column blank. In addition, the Date of Last Appraisal for property occupied by the reporting entity is erroneously listed as "1/1/3000".

It is recommended that the Company prepare its Schedule A in accordance with the NAIC Accounting Practices and Procedures Manual and Annual Statement Instructions as required by Section 41-335 (1), Idaho Code.

Company Response:
The Company agrees with the finding. The Company will enact a more comprehensive review of the Schedule A to ensure the information provided is complete and accurate. In addition, beginning in 2007, when a property is listed as held for sale, the Company will order an appraisal to accompany such a reclass, in accordance with the NAIC instruction and the Idaho Code.

Finding: Off-setting Liabilities

The Company did not establish an offsetting liability for unpaid commissions on related uncollected premium balances. Therefore, the surplus was overstated by the value of the unpaid commissions at December 31, 2005.

To properly state the accounts at December 31, 2005, the value of unpaid commissions associated with uncollected premiums was determined by the examination. A ratio of commission expenses to earned premiums was developed using data from the Company's Annual Statements and was applied to the year-end 2005 uncollected premium balance. The resulting liability determined by the examination was $550,720 and is included within Commissions to agents due or accrued in the financial statements of the examination report.

It is recommended that the Company follow SSAP No. 54, paragraph 12 and establish the offsetting liabilities specified therein in future financial statements.

Company Response:
The Company agrees with the finding. Currently, the Company does not have a systems process which will allow it to report commissions payable related to premiums receivable. The Company will review the recommendation and will work to formulate a process to more accurately report these liabilities beginning in 2007, in accordance with SSAP No. 54, paragraph 12.

Finding: Exhibit 6, Unearned Premium Reserves – Category Misclassification

The Company supplied the Consulting Actuary with a summary of the amounts reported in Exhibit 6 – Aggregate Reserve for Accident and Health Contracts. This summary showed that of the $9,908,108 of Exhibit 6 reserves, $5,030,764 related to unearned premium reserves while another $2,291,000 related to issue age rated liabilities. The issue age rated liability relates to additional contract reserves associated with the Company's Medicare Supplement business.

It is recommended the Company appropriately reflect unearned premium reserves on line 1, Unearned premium reserve, of Exhibit 6 and additional contract reserves on Line 2 of Exhibit 6 as opposed to lumping all of these items into line 12, Reserve for future contingent benefits.

Company Response:
The Company agrees with the finding. However, this schedule is only applicable to entities filing the Life Blank. Beginning with the 1st quarter 2006 filing, the Company switched from the Life Blank to filing a Health Blank.

Finding: Search for Unrecorded Liabilities

During a search for unrecorded liabilities, it was noted that several invoices were either improperly included or excluded from the year-end 2005 accrual. As a result, the year-end trade accounts payable accrual was not accurately stated. The net amount of the over-accrual was $115,736, which was reported in the financial statements of the examination report.

It is recommended that the Company more accurately state their year-end trade accounts payable accrual by only including amounts incurred prior to year-end and paid subsequent to year-end, and excluding amounts incurred subsequent to year-end.

Company Response:
The Company agrees with the finding. The Company continuously strives to ensure the accuracy of the accrued liabilities by reviewing the processes involved for year-end reporting. The Company recognizes that, at times, errors stemming from manual review will occur. When these errors occur, the Company assesses the failing control point and routinely adjusts the process. Beginning in 2007, the Company will continue to assess the review process, and make necessary adjustments, as needed.

Finding: Error 2005 Annual Statement – Line of Credit

The Company erroneously reported an outstanding line of credit totaling $5,000,000 as General Expenses Due or Accrued. This outstanding liability should be reported as Borrowed Money

It is recommended that the Company follow NAIC Annual Statement Instructions when preparing future financial statements.

Company Response:
The Company agrees with this finding. Although the amount was $0 in 2006, the Company will ensure that any future draws on lines of credit are recorded as "Borrowed Money" instead of General Expenses Due or Accrued, per NAIC instructions.

Finding: Co-mingling of Federal Taxes Recoverable/Payable

Workpapers provided by the Company indicated that the December 31, 2004 balance in the Federal and Foreign taxes recoverable account contained overpayment of 2003 federal taxes of $670,579 and an overpayment of premium taxes of $889,669. This total recoverable of $1,560,248 was netted with the Federal and Foreign Taxes Payable account of $2,163,603 showing a net payable of 4603,355. This balance was reported in Taxes, licenses and feeds due or accrued in the 2004 Annual Statement. Premium taxes payable /receivable should not be co-mingled with federal and foreign income taxes payable.

It is recommended that the Company report Premium taxes, paid and unpaid on the proper lines of the financial statements.

Company Response:
The Company agrees with this finding. The Company did report paid and unpaid premium taxes on the proper lines of the financial statement filings for 2006.

Finding: Netting of Federal Taxes Payable/Recoverable

Reconciliation of GL account Federal and Foreign Taxes Payable, provided by the company showed that the 12/31/05 debit balance of $1,136,604 which was composed of the following:

Tax Cushion	*(236,308)*
Recoverable of 2004 taxes	*178,619*
Provision for 2005 taxes	*(8,755,708)*
2005 estimated tax payments	*9,950,000*
	1,136,604

This balance was transferred to the Recoverable account (see page 1 of same reference). Annual Statement instructions specifically prohibit the netting of taxes recoverable with taxes payable. Therefore the ending balance in this account should be a credit of $236,308, a potential liability. The recoverable of 2004 taxes and the overpayment of the 2005 liability for taxes is properly transferred to the recoverable account.

It is recommended that the Company not net federal taxes recoverable against federal taxes payable.

Company Response:
The Company agrees with this finding. Beginning in 2007, the Company updated internal processes to comply with this recommendation and is no longer netting federal taxes recoverable against the payable.

Please feel free to contact me at (503) 226-5922 with any further questions or concerns that you have regarding our responses.

Sincerely,

Karin Holsinger
Director, Financial Accounting Services