

# BEST'S RATING REPORT

## Health Care Service Corporation a Mutual Legal Reserve Company

300 East Randolph Street, Chicago, Illinois, United States 60601-5099

**AMB #:** 009193

**NAIC #:** 70670

**FEIN#:** 36-1236610

**Phone:** 312-653-6000

**Fax:** 312-540-0544

**Website:** [www.hcsc.com](http://www.hcsc.com)



# Health Care Service Corporation, a Mutual Legal Reserve Company

**Disclosure Information:** View A.M. Best's [Rating Disclosure Form](#)

**Ultimate Parent:** [009193 - Health Care Service Corporation, a Mutual Legal Reserve Company](#)

**A.M. Best Rating Unit:** [069154 - Health Care Service Corporation Group](#)

## Best's Credit Ratings:

Rating Effective Date: September 5, 2019

<b>Best's Financial Strength Rating:</b>	A	<b>Outlook:</b>	Positive	<b>Action:</b>	Affirmed
<b>Best's Issuer Credit Rating:</b>	a+	<b>Outlook:</b>	Positive	<b>Action:</b>	Affirmed

## Five Year Credit Rating History:

Date	Best's Financial Strength Ratings			Best's Issuer Credit Ratings		
	Rating	Outlook	Action	Rating	Outlook	Action
09/05/2019	A	Positive	Affirmed	a+	Positive	Affirmed
09/20/2018	A	Positive	Affirmed	a+	Positive	Affirmed
08/31/2017	A	Stable	Affirmed	a+	Stable	Affirmed
07/29/2016	A	Stable	Downgraded	a+	Stable	Downgraded
05/07/2015	A+	Stable	Affirmed	aa-	Stable	Affirmed
10/17/2014	A+	Stable	Affirmed	aa-	Positive	Affirmed

## Corporate Overview:

Health Care Service Corporation (HCSC) is a Mutual Legal Reserve Company that conducts business as Blue Cross and Blue Shield of Illinois/Texas/New Mexico/Oklahoma/Montana where it provides health insurance coverage to approximately 14.9 million members. HCSC is a leading provider of health insurance products and services to individuals and employer groups in each of its five core states. HCSC's life subsidiary, Dearborn National Life Insurance Company, and its insurance subsidiary, Dearborn National Life Insurance Company of New York, offer group life insurance and ancillary products and are collectively licensed in all 50 states and the District of Columbia. Dearborn National also administers Blue branded dental products written by HCSC and manages HCSC's dental network leasing operations. With the products available through Dearborn National, HCSC can provide a complete array of health, life and ancillary insurance products to employer groups.

HCSC's complementary group health and life product offerings are marketed through the distribution systems of HCSC as well as other Blue Cross and Blue Shield plans in numerous states. The life companies fulfill the product diversity goals of HCSC. Dearborn National has laid out an operating strategy that is designed to utilize the parent company's marketing position by leveraging its relationships within the Blue Cross Blue Shield system while maintaining selective distribution outside the "Blues" network. Dearborn National aligns its core complimentary group product offerings as well as its voluntary product base with its parent's medical products in its home states.

## Corporate Structure

AMB#	Company Name	Domicile	Percentage Own (%)
009193	<a href="#">Health Care Service Corp</a>	IL	
054109	<a href="#">BC and BS of New Mexico Ins Co</a>	NM	100
007322	<a href="#">Dearborn Life Insurance Co</a>	IL	100
068158	<a href="#">Dearborn Natl Lf NY</a>	NY	100
068932	<a href="#">GHS Health Maintenance Org</a>	OK	100

**Corporate Structure (Continued...)**

065089	<a href="#">GHS Managed Health Care Plans</a>	OK	100
011405	<a href="#">GHS Insurance Company</a>	OK	100
046535	<a href="#">HCSC Govt Programs Hldg Co NFP</a>	IL	
062150	<a href="#">BCBSIL GP HMO NFP</a>	IL	
062055	<a href="#">BCBSOK Govt Programs HMO Co</a>	OK	
062133	<a href="#">BCBSTX Govt Programs HMO</a>	TX	
062135	<a href="#">Montana Blue Govt Programs HMO</a>	MT	
007048	<a href="#">HCSC Insurance Services Co</a>	IL	100
062151	<a href="#">Illinois BCBS Insurance Co</a>	IL	100
062149	<a href="#">Montana Blue Insurance Company</a>	MT	100
062059	<a href="#">Oklahoma Blue Insurance Co</a>	OK	100
062134	<a href="#">Texas BCBS Insurance Company</a>	TX	100

**Rating Rationale:**

The following text is derived from Best's Credit Report on Health Care Service Corporation Group (AMB#069154)

**Balance Sheet Strength: Strongest**

- Strongest level of risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR).
- Over 70% capital and surplus growth during the last two years supported by strong underwriting and investment income as well as a \$1.7 billion Alternative Minimum Tax credit refund resulted from changes implemented by the Tax Cuts and Jobs Act.
- Exposure to higher-risk assets has grown due to increased allocation to NAIC Class 3 and 4 bonds and alternative assets. However, the exposure remains lower compared to some higher capitalized Blue Cross Blue Shield peers.
- Financial flexibility enhanced up to \$1.75 billion through Federal Home Loan Bank borrowing and a \$400 million line of credit with a consortium of banks. The current debt to capital ratio is below 2%, which is considered low.

**Operating Performance: Adequate**

- Very strong underwriting results over the last two years and into 2019, driven by premium growth, favorable performance of group business, profitable earnings in the individual segment resulting from rate increases and product changes. Earnings growth has exceeded the projections in both 2017 and 2018 due to a lower than expected medical cost trend.
- Positive results in the commercial segment are partially offset by continued underwriting losses in Medicare Advantage and Medicaid segments. The company is building capabilities to improve results in government programs, including enhanced medical management, population risk scores reporting and addressing social determinants of health.
- Earnings are expected to remain strong in the near to medium term, however, moderate as the company is pricing closer to trend and making investments in the business.
- Recent history of underwriting losses related to poor performance of individual exchange business.

**Business Profile: Neutral**

- The recent unexpected top leadership changes may compromise the strategic long-term direction of the organization.
- The organization is a market leader in all five states in which it operates. HCSC posted membership growth in the last two years in its main markets driven by both government and commercial segments. The business is well diversified geographically and by product.

- While competition remains strong in all lines of business, the Blue Cross Blue Shield brand provides a significant competitive advantage for both network relationships and consumer outreach.
- HCSC is challenged to build value-based networks to meet the demand of the market and compete with national and provider-owned carriers, especially in Texas where HCSC's market share is lower.

## Enterprise Risk Management: Appropriate

- The ERM program is well developed with a comprehensive risk identification, monitoring and oversight process. The program is evolving to expand the risk assessment process by engaging lower level employees.
- The organization performs multiple stress scenario testing to determine impact on risk-adjusted capitalization.
- Risk appetite and tolerances extend to various areas of the organization, including operations, strategy, execution and financial condition.

## Outlook

The positive outlooks reflect the strongest balance sheet strength assessment and improvements in operating performance offset by uncertainty regarding further strategic direction related to the recent unexpected changes in top management.

## Rating Drivers

Negative rating movement could occur if there is a sustained decline in Health Care Service Corporation's operating performance.

Negative rating movement can occur if there is a material deterioration of risk-adjusted capitalization.

Negative rating movement can occur if there is continuous lack of clarity regarding the strategic direction of the organization.

Positive rating movement can occur if there is a smooth transition to a new leadership and strategy.

## Financial Statements:

### Balance Sheet:

#### Balance Sheet:

Admitted Assets	Year End - December 31	
	2018 (\$000)	2017 (\$000)
Bonds	10,558,079	9,276,154
Common Stocks	1,942,179	2,223,331
Real Estate	788,889	810,111
Cash & short-term investments	-317,561	-654,879
Federal income tax recoverable	1,574,366	...
Net Deferred Tax Asset	2,176,320	1,547,921
Premiums & consideration due	3,153,686	2,645,875
Healthcare & other receivables	880,393	820,169
Accrued investment income	77,400	63,018
Uninsured A&H plans	4,584,155	4,008,298
Other Assets	1,307,658	1,288,159
<b>Total Assets</b>	<b>26,725,564</b>	<b>22,028,156</b>

Liabilities & Surplus	Year End - December 31	
	2018 (\$000)	2017 (\$000)
Claims payable	2,981,075	2,981,722
Unpaid claims adjustment expenses	160,263	150,263
Accrued medical incentive pool	311,699	218,772
Advance premiums	540,993	348,629
Commissions, taxes & expenses	1,853,616	2,077,893
Unallocated items	723,343	570,109
Borrowed money	874,144	1,063,439
Health policy reserves	1,718,671	1,772,457
Other liabilities	702,421	795,907
<b>Total liabilities</b>	<b>9,866,225</b>	<b>9,979,191</b>
Unassigned surplus	16,858,463	11,470,205
Other surplus	876	578,761
<b>Total liabilities and Capital &amp; Surplus</b>	<b>26,725,564</b>	<b>22,028,156</b>

Source: Bestlink - Best's Statement File - Health, US

### Company History:

**Date Incorporated:** 10/01/1936

**Date Commenced:** 01/01/1937

**Domicile:** United States: Illinois

**Mergers:** Blue Cross Blue Shield of Texas, 1998; Blue Cross and Blue Shield of New Mexico, 2001; Group Health Service of Oklahoma, Oklahoma, 2005; HMO New Mexico, 2007; Blue Cross and Blue Shield of Montana, 2013.

## Company Management:

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Last significant update on 01/15/2019

### Officers

**President and CEO:** Paula A. Steiner

**President:** Kevin Cassidy (Enterprise National Accounts)

**SVP:** Michael E. Frank

**President:** Michael T. Haynes (Oklahoma Division)

**President:** Dan K. McCoy, M.D. (Texas Division)

**President:** Kurt B. Shipley (New Mexico Division)

**President:** Maurice S. Smith (Illinois Division)

**President and SVP:** Jeffrey R. Tikkanen (Plan Solutions & Market Development)

**SVP and CFO:** Eric A. Feldstein

**SVP:** Steven Betts

**SVP, Secretary and Chief Legal Officer:** Blair W. Todt

**SVP and Chief Actuary:** Douglas Lynch

**SVP:** James L. Kadela

**SVP:** Nazneed Razi

**SVP:** Opella F. Ernest, M.D. (Chief Clinical Officer)

**SVP:** Joel M. Farran (Strategy and Corporate Relations)

**SVP:** Stephen F. Hamman (Provider Partnership and Enterprise Network Solutions)

**SVP:** Thomas C. Lubben (Compliance and Audit)

**SVP:** Andre A. Napoli (Chief Customer Service Officer)

**Treasurer:** Carl R. McDonald

**President:** Robert T. Hitchcock (Govt & Consumer Solutions)

### Directors

Timothy L. Burke

Milton Carroll

Michelle L. Collins

Monte E. Ford

Dennis J. Gannon

Dianne B. Gasbarra, M.D.

Chase T. Hibbard

David J. Lesar

Elaine M. Mendoza

Marlin R. Perryman

Paula A. Steiner

Gregory D. Wasson

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