Health Care Service Corporation Group

AMB #: 069154

Associated Ultimate Parent: AMB # 009193 - Health Care Service Corporation, a Mutual Legal Reserve Company

Best's Credit Rating Effective Date
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Information

Best's Credit Rating Methodology

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Financial Data Presented

Financial data in this report: (i) includes data of affiliated entities that are not rating unit members where analytics benefit from inclusion; and/or (ii) excludes data of rating unit member entities if they operate in different segments or geographic areas than the Rating Unit generally. See list of companies for details of rating unit members and any such included and/or excluded entities.

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
A	**a+**
Excellent	**Excellent**
Outlook: **Positive**	Outlook: **Positive**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

Balance Sheet Strength	**Strongest**
Operating Performance	**Adequate**
Business Profile	**Neutral**
Enterprise Risk Management	**Appropriate**

Rating Unit - Members

Rating Unit: Health Care Service Corp Group | AMB #: 069154

AMB #	Rating Unit Members	AMB #	Rating Unit Members
007322	Dearborn Life Insurance Co	007048	HCSC Insurance Services Co
068158	Dearborn Natl Life Ins of NY	009193	Health Care Service Corp
068932	GHS Health Maintenance Org	068771	Health Care Service-IL LOB
011405	GHS Insurance Company	068718	Health Care Service-Texas LOB

Rating Rationale

Balance Sheet Strength: Strongest

- Strongest level of risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR).
- A large portion of the recent capital and surplus growth is supported by strong underwriting and investment income and an Alternative Minimum Tax credit refund resulting from the Tax Cuts and Jobs Act, which was accelerated as part of the CARES Act, as well as the recovery of the amount owed by the federal government for the risk corridors under the Patient Protection and Affordable Care Act (ACA).
- Financial flexibility has been enhanced by the organization's recent issuance of $2 billion senior unsecured notes, $400 million line of credit with a consortium of banks and access to $1.75 billion of borrowing capacity under the Federal Home Loan Bank of Chicago (FHLB). The current debt-to-capital ratio is below 10%, which is considered low.
- Exposure to higher-risk assets has grown due to an increased allocation to NAIC Class 3 and 4 bonds and alternative assets.

Operating Performance: Adequate

- Sustained trend of strong net operating performance, particularly in the commercial line of business. Earnings moderated in 2019 as the organization priced closer to trend and made investments in the business. However, earnings improved in 2020 driven by several factors: broad-based deferral of care due to COVID-19 that exceeded the cost of COVID-19 testing and treatment and the recovery of the amount owed by the federal government for the risk corridors under the ACA. Net income in 2020 was also aided by the acceleration of the Alternative Minimum Tax credit refund.
- The organization's trend of premium and earnings growth has been supported by all lines of business through 2020. Membership growth occurred in both 2019 and 2020 across a majority of the business segment that resulted in favorable premium development. Sustained net premium growth is expected in the near to medium term.
- Net investment income has been consistently solid over the past five years to supplement underwriting results.

Business Profile: Neutral

- AM Best remains concerned regarding the departure of several members of senior management and the impact on the organization's strategic direction. In July 2019, both the CEO and chief financial officer left the organization, which was followed by the departure of other senior management team members. The president was appointed as CEO in May 2020, and the strategic plan under the new leadership team is in the early stages of being executed.
- The organization is a market leader in all five states in which it operates. Health Care Service Corporation 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.

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 the 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 AM Best's expectation that the group will continue its upwards trajectory in operating performance while maintaining its strongest balance sheet strength assessment and ability to execute on the strategic plan under its new management team.

Rating Drivers

- Positive rating movement could occur with successful execution of the organization's new strategy while maintaining favorable earnings trends.

- Negative rating movement could occur if the lack of clarity regarding the strategic direction of the organization persists.
- Negative rating movement could occur if there is a sustained decline in Health Care Service Corporation's operating performance.
- Negative rating movement could occur if there is deterioration of balance sheet metrics.

Key Financial Indicators

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	82.3	75.7	73.1	72.3

Source: Best's Capital Adequacy Ratio Model - Combined Life & Health, US

Key Financial Indicators USD (000)	Year End - December 31 2019	2018	2017	2016	2015
Total Assets	31,274,808	28,817,948	24,070,181	19,878,890	19,542,034
Policy and Claim Reserves:					
Life and Annuity	814,894	884,007	1,003,601	1,084,473	1,184,563
Accident & Health	269,605	245,858	218,373	210,918	197,277
Health	5,764,973	5,186,105	5,185,168	4,414,840	4,071,094
Capital and Surplus	18,524,171	16,859,199	12,048,966	9,535,945	9,444,954
Total Revenues	40,188,227	38,479,355	34,932,744	32,503,979	33,203,906
Net Income	2,186,256	3,904,247	1,123,228	42,614	-233,623
Net Operating Cash Flow	3,615,043	1,862,111	1,754,514	359,664	-1,451,171
Net Premiums Written:					
Life and Annuity	319,112	313,582	315,850	287,939	268,621
Accident & Health	172,282	148,781	123,465	121,776	116,155
Health	39,561,597	37,586,890	34,234,043	32,081,231	32,542,557
Total	40,052,991	38,049,253	34,673,358	32,490,946	32,927,333

Source: BestLink® - Best's Financial Suite

Key Financial Ratios	Year End - December 31 2019	2018	2017	2016	2015	Weighted Average
Overall:						
Operating Return on Revenue (%)	5.7	11.5	3.6	...	-0.8	4.3
Operating Return on Capital and Surplus (%)	12.9	30.7	11.5	...	-2.8	12.4
Health Operations:						
Loss Ratio (%)	83.3	80.1	83.4	85.1	87.8	83.8
Administrative Expense Ratio (%)	12.6	12.7	11.1	12.9	12.7	12.4
Combined Ratio (%)	95.9	92.8	94.5	98.1	100.4	96.2
IBNR Coverage (Days)	28.6	30.8	29.7	26.8	25.5	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Capitalization

Health Care Service Corporation (HCSC) has a history of maintaining more than sufficient level of both absolute and risk-adjusted capitalization and its BCAR measured strongest with the score of 72.3 at 99.6% VaR as of year end 2019. Through third quarter 2020, HCSC reported over 20% growth of capital and surplus driven by $4 billion of underwriting earnings, $358 million of investment income, $1.4 billion of risk corridor payment as well as about $1.7 billion positive impact related to elimination of Alternative Minimum Tax (AMT) by Tax Cut and Job Act. During 2019, capital and surplus continued to grow driven by stronger than expected earnings, including additional benefit from tax changes.

Balance Sheet Strength (Continued...)

Capital growth significantly outpaced premium expansion during 2020 leading to further improvement of already very strong risk-adjusted capitalization metrics. On a five year basis, capital growth outpaced premium growth through 2019. However, between 2014 and 2016, HCSC reported capital decline compared to pre-2014 levels, driven by substantial operating losses. While risk-adjusted capital decreased during this period, it remained very strong and more than sufficient to support business and investment risks.

Additionally, HCSC has a history of using its capital strength to support its subsidiaries. GHS Insurance Company received total capital infusions of $28 million over the last four years. Since it acquired GHS Managed Health Plans in 2014, HCSC has contributed $25 million. Over the last four years, HCSC contributed $540 million to HCSC Insurance Services Company and $45 million to GHS HMO to support premium growth.

HCSC's financial flexibility is enhanced through access to various sources of borrowing. The company recently issued $2 billion of privately placed notes and has a five-year $400 million senior unsecured revolving credit facility with a consortium of banks. In 2015, HCSC became a member of the Federal Home Loan Bank of Chicago (FHLBC) and the total current FHLBC borrowing capacity is $1.8 billion. As a member of the FHLBC, HCSC is participating in the FHLB COVID-19 Relief Program which consists of zero rate advances and grants that are available to all members. The company had $4 million in borrowing outstanding from the FHLBC in 2020. The FHLB borrowing allows the organization to support short-term liquidity needs and keep lower cash balances. HCSC's debt-to-capital ratio was 8.4%. Financial leverage is considered low and remains well below the industry norm. Furthermore, HCSC's earnings before interest and taxes interest coverage ratio remains strong at well over 10 times.

	Year End - December 31				
Capital Generation Analysis USD (000)	**2019**	**2018**	**2017**	**2016**	**2015**
Beginning Capital and Surplus	16,859,199	12,048,966	9,535,945	9,445,572	9,942,246
Net Operating Gain	2,277,617	4,434,386	1,244,549	43,648	-214,784
Net Realized Capital Gains (Losses)	-91,361	-530,139	-121,321	44,967	35,161
Net Unrealized Capital Gains (Losses)	337,454	361,481	519,877	53,106	-127,759
Net Change in Surplus Notes	...	...	...	70	...
Other Changes	-858,739	544,505	869,915	-5,417	-135,911
Net Change in Capital and Surplus	1,664,972	4,810,234	2,513,021	90,373	-497,293
Ending Capital and Surplus	18,524,171	16,859,199	12,048,966	9,535,945	9,444,954
Net Change in Capital and Surplus (%)	9.9	39.9	26.4	1.0	-5.0
Net Change in Capital and Surplus (5-yr CAGR)	13.3	...	...	...	...

Source: BestLink® - Best's Financial Suite

	Year End - December 31				
Liquidity Analysis (%)	**2019**	**2018**	**2017**	**2016**	**2015**
Overall:					
Operating Cash Flow Margin (%)	9.0	4.8	5.0	1.1	-4.4
Current Liquidity (%)	135.7	116.2	104.4	96.0	96.4
Health Operations:					
Benefit and Loss Related Payments to Net Premiums Collected (%)	85.7	82.4	83.1	85.7	91.5
General Expenses and Taxes Paid to Net Premiums Collected (%)	6.6	13.8	12.9	14.0	13.8
Premium Receivable Turnover (months)	0.4	0.3	0.3	0.3	0.3

Source: BestLink® - Best's Financial Suite

	Year End - December 31				
Leverage (%)	**2019**	**2018**	**2017**	**2016**	**2015**
Debt to Total Capital and Surplus	3.0	5.2	8.8	5.6	9.6
Net Premiums Written to Total Capital and Surplus	2.2	2.3	2.9	3.4	3.5
General Account Liabilities to Total Capital and Surplus	0.7	0.7	1.0	1.1	1.1

Source: BestLink® - Best's Financial Suite

Balance Sheet Strength (Continued...)

Asset Liability Management - Investments

Fixed income securities comprise over 80% of invested assets with the remaining allocation mostly in equity and real estate with small amount of BA assets and mortgage loans holdings. The majority of fixed income securities are investment grade with an average duration of six years. However, the quality of the fixed income portfolio declined over the last five years. The volume of below investment grade bonds, which includes high yields, emerging market debt, private placements and lower rated corporate bonds, has continuously increased from 2% of fixed income portfolio in 2015 to 9% in 2019. The exposure to NAIC Class 2 bonds grew from over 23% of fixed income holdings in 2015 to 28% in 2019. These changes are in line with the organization's strategy to increase investment yields in a low interest rate environment. This strategy, along with the growth of the asset base, resulted in much higher investment income in 2019 compared to prior years.

Common stock holdings include mutual funds, individual equities and affiliates. Vanguard Total Stock Mutual Fund accounts for over 50% of the common stock portfolio. Current investment strategy includes repositioning overall portfolio away from equities. Real estate holdings are mainly company occupied buildings, including the company's headquarters in Chicago, IL. BA assets include a number of health related holdings owned by groups of various Blue Cross Blue Shield plans and utilized for core business. The largest of such assets is Prime Therapeutics (Prime) which provides Pharmacy Benefits Administration services to a number of Blue plans including HCSC. HCSC increased its share of Prime ownership by buying shares from several other Blue plans. Commercial mortgage loans are utilized for matching longer duration liabilities at Dearborn National Life Insurance Company and its New York subsidiary. HCSC does not issue mortgage loans directly, but participates in lending through a partnership with Securian Asset Management.

Some investment management functions are performed internally. The company also engages the services of multiple external advisers and consultants in the management of the company's invested assets.

	Year End - December 31				
Composition of Cash and Invested Assets	**2019**	**2018**	**2017**	**2016**	**2015**
Total Cash and Invested Assets USD (000)	18,471,856	15,003,893	13,653,431	10,842,584	10,666,228
Composition Percentages (%)					
Cash and Short Term Investments	-1.9	0.5	-2.8	-2.8	-0.2
Bonds	87.0	83.4	83.4	83.5	81.8
Preferred and Common Stock	7.9	8.0	10.6	10.1	9.1
Mortgage Loans	1.0	1.0	0.8	0.7	0.3
Other Invested Assets	6.0	7.1	8.0	8.4	9.1
Total	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

	Years					
Bonds and Short Term Investments - Distribution by Maturity (%)	**0-1**	**1-5**	**5-10**	**10-20**	**20+**	**Average (Years)**
Government Bonds	1.5	5.4	2.6	0.5	1.2	6.6
Government Agencies and Municipal Bonds	2.0	6.0	6.2	2.4	0.8	7.0
Industrial and Miscellaneous Bonds	7.5	32.1	23.2	2.4	3.6	5.8
Bank Loans	...	1.0	1.2	...	...	5.5
Hybrid Securities	0.1	0.2	0.1	...	...	5.4
Total Bonds	11.0	44.7	33.3	5.3	5.7	6.1

Source: BestLink® - Best's Financial Suite

Balance Sheet Strength (Continued...)

Bonds - Distribution by Issuer	Year End - December 31 2019	2018	2017	2016	2015
Bonds USD (000)	16,076,200	12,520,492	11,387,585	9,056,858	8,729,221
US Government (%)	8.7	15.7	17.0	25.2	21.4
Foreign Government (%)	1.4	1.3	0.6	0.3	0.3
State, Municipal & Special Revenue (%)	16.1	9.4	8.3	7.9	8.9
Industrial & Miscellaneous (%)	65.8	69.4	68.8	65.3	69.1
Hybrid Securities and Other (%)	8.0	4.2	5.3	1.2	0.3
Total (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Operating Performance

HCSC's profitability measures improved significantly in 2020 and expected to remain favorable through the near term. Furthermore, stronger underwriting performance was driven by lower utilization due to the ongoing pandemic driven by the deferral of routine care and elective procedures particularly through mid-2020 across majority of the lines of businesses. In addition, third quarter operating results includes significant ACA risk corridor payment from the federal government. Lower net investment income driven by lower planned yield, long term invested assets and dividend income mainly attributed to COVID-19. HCSC is expected to report favorable operating performance over the near to medium term.

Overall underwriting results significantly exceeded the budget primarily through better than expected results across all lines of business. Net income was further enhanced by growing investment income and the refund of AMT credits through 2020. While operating results have improved in 2020, earnings are expected to temper in the near to medium term. This expectation is driven by pricing actions taken by the company combined with the expectations that utilization will return to normalized levels for 2021. To return some of the earnings back to members and to gain additional enrollment, HCSC is expected to target lower margins for both group and individual business. In addition, the company is making sizable investments in the business to achieve greater operational efficiency and further increase the value proposition. As such, earnings are projected to remain very strong but to decline over the next several years.

Earnings from the government business was profitable in 2020; however, volatility in trends has been reported as the company was focused on enrollment growth and building appropriate operational support for these segments. Improvement in underwriting results for Medicare Advantage and Medicaid lines of business in 2020 driven by overall lower claims expense. In addition, HCSC implemented measures to improve the Star ratings and strengthen its capabilities for government business, as the organization remains committed to expanding this segment in its core geographies. However, underwriting results are expected to moderate and losses are anticipated for the Medicaid line of business. Growth in membership and expected uptick in utilization is the primary driver for decline in results. Further, underwriting losses for the Medicaid segment is due to the influx of new members in several states. As those new members are placed in appropriate medical management programs with focus on primary care, medical costs are moderating. On average, it takes around 24 months of continuous enrollment with HCSC Medicaid to bring the medical loss ratio to an appropriate level. As more members have been enrolled for longer periods of time, Medicaid underwriting losses have reduced.

HCSC's achieved premium growth since 2015 with five year compound annual growth rate (CAGR) of 6.3%. However, the rates of premium expansion have fluctuated over the years. The group segment represents the largest portion of HCSC revenue, but it has remained relatively stable while premium growth was mostly impacted by individual and government lines of business. In 2014 and 2015, the first two years of full ACA implementation, HCSC posted over 30% premium growth due to expansion of individual exchange business. As the organization focused on profitability and scaled down its exchange participation, premium declined during 2016. More recently, revenue posted growth driven by high rate increases and higher than anticipated retention rates in its group and individual blocks of business. Expansion of participation in government programs - Medicare Advantage and Medicaid - has contributed to revenue growth over the last five years. However, these segments remain smaller compared to commercial business.

Operating Performance (Continued...)

Net Operating Gain by LOB - Life Operations USD (000)	Year End - December 31 2019	2018	2017	2016	2015
Individual Life	4,493	-2,195	1,346	2,125	2,741
Group Life	2,739	15,444	6,110	9,113	10,786
Individual Annuities	9,225	5,886	5,914	8,256	11,492
Group Annuities	1,527	732	471	1,180	1,285
Accident & Health	4,376	-11,433	-6,596	-12,584	-9,748
Other Lines of Business	...	14,532	13,418	13,928	24,469
Total	22,361	22,966	20,663	22,018	41,026

Source: BestLink® - Best's Financial Suite

Net Underwriting Gain - Health Operations USD (000)	Year End - December 31 2019	2018	2017	2016	2015
Comprehensive	880,050	2,551,379	1,862,377	-46,276	-613,290
Dental	42,379	50,390	42,550	58,376	69,646
Federal Employee Health Benefit Plan	-24,658	16,485	-81,396	42,242	68,629
Medicare	16,079	-172,150	-92,089	-135,066	-220,708
Medicare Supplement	81,404	96,350	150,478	160,695	116,022
Medicaid	-168,495	-402,128	-634,798	-326,235	-252,206
Other Health	-95,754	157,105	155,343	255,685	371,735
Other Non-Health	-204	-455	-169	1,495	1,920
Total	730,801	2,296,976	1,402,297	10,916	-458,251

Source: BestLink® - Best's Financial Suite

Business Profile

Health Care Service Corporation (HCSC) (d/b/a Blue Cross Blue Shield of Illinois/Texas/New Mexico/Oklahoma/Montana) offers Blue branded managed care products including preferred provider option (PPO), point of service (POS), health maintenance organization (HMO) and Consumer Directed Health Plan (CDHP) products to individuals and employer groups. Additional network based products are available to employer groups. Group business is provided on both a fully insured or on administrative service only (ASO) basis. For large multi-state employer groups, HCSC also provides access to the national Blue Cross and Blue Shield network through its Blue Card program participation. Health subsidiaries include GHS Health Maintenance Organization (OK), HCSC Insurance Services Company, GHS Managed Health Plans, Inc. and GHS Insurance Company. Dearborn National Life insurance Company (Dearborn National) is a life subsidiary. Lines of business are the HCSC - Illinois HMO Line of Business and HCSC - Texas HMO Line of Business. The company also offers Blue Cross and Blue Shield branded Medicaid, Medicare Supplemental, Medicare Advantage, Medicare Part D prescription drug and dental coverage directly or through its wholly owned health subsidiaries. Supplemental health and ancillary products offered by Dearborn National are also available to HCSC members and employer groups.

HCSC is a market leader in all five of its Blue branded states and one of several largest health insurance providers in the country. The Illinois division has 8.9 million members, who comprise a little more than one half of HCSC's total enrollment. The Texas division has nearly 6 million members and primarily serves the large local market segment. The New Mexico division has over 574,000 members, the Oklahoma division has approximately 846,000 members, and the Montana division covers around 240,000 members. The vast majority of membership is enrolled in a managed care plan (PPO/POS/HMO). Group business accounts for over four-fifths of HCSC's business. HCSC group accounts include about one half of Fortune 500 employers located in HCSC home states. HCSC also participates with the Blue Cross Blue Shield Association National Blue Card program which accounts for approximately three million additional members. Although individual business comprises a smaller portion of HCSC's overall enrollment, this segment exhibited significant fluctuations as the enrollment grew with the implementation of Affordable Care Act (ACA) by almost 80% to reach over 1.7 million individual members at year end 2015 and later declining by almost 50% starting in 2018 following rate increases and product changes.

The company's health operations are defined by three market segments: Group, Government and Retail. The Group market segment includes Small Group, Large Group and National Accounts. Small Group represents employer groups with 50 or less employees. The small group market has a higher level of regulation by the state Department of Insurance than other group market segments.

Business Profile (Continued...)

Policyholders in this market are more price sensitive than other markets and may change carriers frequently due to price. Small Group employers have the option of utilizing Small Business Health Options Program (SHOP) in order to provide benefits for its employees. Large Group represents employer groups with 51-1,999 employees. Major and Special Accounts include large companies with more than 2,000 employees domiciled in one of HCSC's home states and group accounts that do not fall in to the traditional group segment definition such as the Federal Employee Health Benefits Program (FEP), Illinois Labor Accounts and Illinois Municipal Accounts. National Accounts primarily represents very large multi-state employer groups as well as the processing of Blue Card claims for members covered under other Blue Cross and Blue Shield plans. HCSC has over 70 national accounts with over 10,000 employees and has been a source of solid enrollment growth for the company. The majority of the national accounts covered by HCSC are self-funded. Similar to national trends the growth in the group segment had been stagnant for number of years, however reported upward trajectory in 2019. Higher enrollment is supported by both in-group growth and winning of new accounts. In addition, record retention level contributes to growing enrollment base. HCSC projects group membership to expand further over the next two years due to favorable pricing and focus on offering enhanced value products.

The Government Market segment is comprised of different government plans in each state. HCSC currently participates in Medicaid programs in Illinois, New Mexico and Texas. In the over age 65 segment, products include Medicare Supplemental plans which are administered by HCSC, as well as Medicare Advantage and Medicare Part D prescription drug coverage offered by its wholly owned subsidiaries, HCSC Insurance Services Company (HISC), GHS Managed Health Plans, GHS Health Maintenance Organization and GHS Insurance Company. HCSC increased its participation in Medicaid programs primarily by winning contracts in several states to cover new membership under Medicaid expansion of the ACA. To provide appropriate service to Medicaid members and improve profitability of that segment, HCSC began to implement various programs to address the social determinants of care. In addition, HCSC continues to optimize the networks and provider contracts better suited to serve the members with chronic conditions and limited means to maintain the needed level of care. The membership in Medicare Advantage program has experienced significant growth, but demonstrated a large degree of volatility over the last five years. HCSC, similar to many other Blue Cross Blue Shield plans, did not focus on building capabilities for Medicare Advantage program until recently. As a result, the organization's Medicare Advantage plans have lower Star ratings which limits revenue and products enhancement opportunities leading to difficulties to attract and retain members. Over the last several years, HCSC hired number of experienced executives to lead and retool its Government Market segment. The organization committed significant investments to improve the performance of both Medicaid and Medicare Advantage products, with a consideration that these two lines of business have high potential for near-term membership growth.

The Retail Markets segment is divided into two sub-segments: the under age 65 group and student health. In the under age 65 sub-segment, the company offers a variety of individual and family plans. These products are offered in all core states, both on and off health insurance exchanges. HCSC has seen significant growth in its individual enrollment following the introduction of health insurance, however, in 2016, the enrollment in this segment declined following pricing actions and product changes with focus on profitability.

Health insurance products are sold through several distribution channels. They include general agents, brokers and consultants. Brokers and general agents mostly sell in the individual market and local small and mid-size group employers markets. General agents also support the over 65 market. All market segments can work directly with HCSC although it is mostly seen in the individual under and over 65 markets. In all states, consultants market to the national accounts.

HCSC's historic growth was due to both organic growth as well as business combinations. HCSC was formed in 1975 through the merger of Hospital Service Corporation and Illinois Medical Service. The company began operating as Blue Cross and Blue Shield of Illinois in 1982 following a merger with Rockford Blue Cross Plan. Then in 1998, the company merged with Blue Cross and Blue Shield of Texas. In 2001, HCSC acquired the assets of Blue Cross and Blue Shield of New Mexico. HCSC completed the merger with Blue Cross and Blue Shield of Oklahoma in 2005. And then in 2013, HCSC completed the asset purchase of Blue Cross and Blue Shield of Montana. The company has maintained a strong local presence in sales, marketing, provider relations and contracting offices. Administrative functions are centrally integrated. Other past transactions include: a membership transition agreement with WellPoint, Inc., and its UniCare subsidiaries for commercial membership in Illinois and Texas, under which HCSC achieved membership transfers of over 200,000; acquisition of Lovelace Health Plan, a provider owned health plan in New Mexico adding approximately 110,000 commercial and government program members. HCSC acquired about 20,000 Medicare Advantage and commercial group members in Texas from Allegian Health Plans, a subsidiary of Tenet Healthcare in 2017.

In addition to acquisitions of health insurance companies, HCSC has acquired non-insurance business as well. In 2019, HCSC announced the partnership with Sanitas USA to open primary care medical clinics in Texas. These clinics will serve HCSC members exclusively and will play an important role in creating value based clinics with focus on providing cost efficient appropriate care. If successful, the clinics can be expanded to other HCSC states in the near future. HCSC acquired MEDecision, a provider of healthcare information technology for case, disease and utilization management, and has developed secure health information access and

Business Profile (Continued...)

exchange capabilities. HCSC also has an ownership interest in Prime Therapeutics, a pharmacy benefit management company and Availity, LLC, an advanced Internet-based e-health exchange. Additionally, HCSC maintains strategic business relationships with its former subsidiaries TMG Health (a leading provider of business provider outsourcing for Medicare, Medicaid, and group retiree health plans) and Academic Health Plans (a provider of student insurance).

Dearborn National compliments and diversifies HCSC's product portfolio with variety of employer paid and voluntary products. Group products include group term life, dental, short-term disability, long-term disability, critical illness, vision and accident. Dearborn National also administers one of the largest dental networks in the U.S. in conjunction with its affiliates. In the past, Dearborn National's products included individual and group annuities, however the company exited this line of business over five years ago, but continues to maintain and service a run-off annuity block. Dearborn National's strategic focus has changed several times over the past five years, as the organization is trying to adjust to market demands and increase the value proposition for its parent company. More recently, Dearborn National is focused on increasing alignment with the parent organization in all markets HCSC operates and compliment HCSC's portfolio with ancillary offerings. Dearborn National plans to re-brand all products sold in five HCSC states to carry BCBS marks. In addition, Dearborn National is investing in its operational capabilities and bringing the administration of disability claims in-house from an outside vendor. Dearborn National plans to increase collaboration and data sharing with HCSC. Dearborn National expects that a long-term higher degree of alignment with HCSC will results in improved growth and profitability.

	Year End - December 31				
Net Premiums Written by Line of Business USD (000)	**2019**	**2018**	**2017**	**2016**	**2015**
Ordinary Life	8,750	9,080	9,596	10,013	9,913
Group Life	308,363	303,140	303,407	274,840	254,691
Individual Annuities	1,983	1,362	2,840	3,078	4,017
Group Annuities	16	...	7	9	...
Individual Accident & Health	95	82	43	52	84
Group Accident & Health	172,187	148,698	123,422	121,724	116,072
Comprehensive	24,846,624	23,949,167	21,857,108	20,604,598	22,416,493
Dental	344,859	293,866	252,613	260,484	282,855
Federal Employee Health Benefit Plan	5,320,903	5,171,891	4,930,788	5,148,674	4,839,574
Medicare	1,526,348	1,541,775	1,749,609	1,313,077	1,033,430
Medicare Supplement	1,646,345	1,613,857	1,599,244	1,486,083	1,419,805
Medicaid	4,590,279	3,819,722	2,818,590	2,267,980	1,585,014
Other	1,286,239	1,196,611	1,026,092	1,000,336	965,386
Total	40,052,991	38,049,253	34,673,358	32,490,946	32,927,333

Source: BestLink® - Best's Financial Suite

Enterprise Risk Management

The Enterprise Risk Management (ERM) program involves all levels of the organization including the Board of Directors and senior management establishing clearly defined accountability roles for risks and controls. The program is managed by the Chief Risk Officer (CRO) with the support of dedicated staff and the ERM Steering Committee. There is regular reporting to the Board of Directors and its various committees, as well as the ERM Steering Committee, which comprises senior staff. HCSC's Enterprise Risk Management Framework utilizes four broad risk categories which include; Strategic, Financial & Reporting, Operational and Compliance & Legal. The program identifies inherent risk within each risk category and documents corresponding risk mitigation and controls in effect. Each category lists management accountability and corresponding Board oversight. Reporting provides information to management to determine risk appetite and tolerance levels. Formal risk appetite and tolerance level statements have been developed by the ERM Steering Committee and reported to the Board. The ERM process at HCSC is continuous including ERM survey, heat maps and reporting, complete deep dives on select risk assessments and monitoring of emerging risk as well as regulatory compliance. Over the past couple of years, the ERM program and risk surveys were expanded to include lower levels of the organization. The CRO has established direct communication channels to senior management and the Board, as well as, linkages with corporate goal development and strategic planning.

Financial Statements

Balance Sheet	2019 USD (000)	2019 %	2018 USD (000)	2018 %
Cash and Short Term Investments	-346,233	-1.1	70,846	0.2
Bonds	16,076,200	51.4	12,520,492	43.4
Preferred and Common Stock	1,456,203	4.7	1,199,914	4.2
Other Invested Assets	1,285,684	4.1	1,212,641	4.2
Total Cash and Invested Assets	18,471,856	59.1	15,003,893	52.1
Premium Balances	3,450,968	4.1	3,207,427	3.4
Healthcare and Other Receivables	1,104,159	3.5	1,009,452	3.5
Other General Account Assets	8,247,826	26.4	9,597,175	33.3
Total General Account Assets	31,274,808	100.0	28,817,948	100.0
Total Assets	31,274,808	100.0	28,817,948	100.0
Policy and Claim Reserves	6,849,472	21.9	6,315,970	21.9
Liability for Deposit Contracts	23,900	0.1	23,642	0.1
Funds Held Under Reinsurance and Coinsurance Agreements	16	999.9	39	999.9
Asset Valuation Reserve	21,423	0.1	16,658	0.1
Accrued Expenses and Other General Account Liabilities	5,855,824	18.7	5,602,440	19.4
Total General Account Liabilities	12,750,637	40.8	11,958,748	41.5
Total Liabilities	12,750,637	40.8	11,958,748	41.5
Unassigned Surplus	17,798,174	56.9	16,858,323	58.5
Other Surplus	725,997	2.3	876	...
Total Capital and Surplus	18,524,171	59.2	16,859,199	58.5
Total Liabilities, Capital and Surplus	31,274,808	100.0	28,817,948	100.0

Year End - December 31

Source: BestLink® - Best's Financial Suite

Income Statement USD (000)	2019	2018
Net Premiums Earned	39,576,150	38,002,379
Other Revenues	2,738	3,773
Net Investment Income	609,339	473,203
Total Revenues	40,188,227	38,479,355
Net Incurred Benefits	33,735,201	30,860,745
Commissions and Expense Allowances	49,854	44,133
Insurance and Other Expense	5,151,021	4,842,467
Pre-Tax Net Operating Gain	1,252,152	2,732,010
Income Taxes Incurred	-1,025,465	-1,702,376
Net Operating Gain	2,277,617	4,434,386
Net Realized Capital Gains (Losses)	-91,361	-530,139
Net Income	2,186,256	3,904,247

Year End - December 31

Source: BestLink® - Best's Financial Suite

Statement of Operating Cash Flows USD (000)	Year End - December 31 2019	2018
Net Premiums Collected	39,815,235	37,755,021
Other Revenue Received	2,964	309
Net Investment Income	571,636	458,512
Total Income Collected	40,389,834	38,213,842
Net Benefits and Loss Related Payments	34,136,859	31,127,025
Underwriting and Other Expenses Paid	4,460,576	5,285,609
Dividends to Policyholders	...	...
Income Taxes Paid (Recovered)	-1,822,645	-60,903
Net Operating Cash Flow	3,615,043	1,862,111

Source: BestLink® - Best's Financial Suite

Related Methodology and Criteria

Best's Credit Rating Methodology, 11/13/2020

Available Capital & Holding Company Analysis, 10/13/2017

Scoring and Assessing Innovation, 03/05/2020

Understanding BCAR for U.S. and Canadian Life/Health Insurers, 05/28/2020