VERMONT

State of Vermont
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

For consumer assistance:
[Banking] 888-568-4547
[Insurance] 800-964- 1784
[Securities] 877-550-3907
www.dfr.vermont.gov

June 29, 2020

Chair Kevin Mullin
Green Mountain Care Board
144 State Street
Montpelier, Vermont 05620

Re: Solvency Impact of "2021 BCBSVT AHP Rating Program Filing (SERFF # BCVT-132360219)" of Blue Cross Blue Shield of Vermont

Dear Chair Mullin:

The Department of Financial Regulation ("DFR") respectfully submits the following solvency opinion regarding Blue Cross and Blue Shield of Vermont ("BCBSVT" or the "Company") and its recent proposed rate filing: "**2021 BCBSVT AHP Rating Program Filing**".[1]

As the Board is well aware, the ongoing COVID-19 pandemic has brought a great deal of uncertainty to Vermont's health insurance marketplace. Some factors contributing to this uncertainty include, but are not limited to: (1) the ultimate direct and indirect costs of treating COVID-19 infected patients (both in the short and long term); (2) the ability of individuals and businesses to afford health insurance premiums in light of current economic conditions; and (3) whether the dramatic reduction in medical services experienced during the pandemic will result in those medical services being deferred or permanently foregone. The ultimate answer to each of these questions will likely have a significant impact on BCBSVT's finances, but the answers are currently unknown. Accordingly, the fundamental concern at this time is simply that the combined impact of COVID-19 is not fully known and, therefore, neither is the impact on insurer solvency.

Two important indicia of solvency, BCBSVT's surplus and its Risk Based Capital ("RBC") ratio, have improved when compared to the prior year end. However, the Company's RBC Ratio remains below its targeted range as of December 31, 2019 and any downward adjustments to the filing's rate components that are not actuarially supported would likely erode BCBSVT's surplus and RBC ratio.

[1] Under 8 V.S.A. § 4062, DFR must provide to the Green Mountain Care Board an analysis and opinion on the filing's impact on BCBSVT's solvency.

With that background, DFR does not expect the proposed rate will have a significant impact on our overall solvency assessment of BCBSVT.

BCBSVT Solvency Opinion

DFR has and will continue to monitor BCBSVT's surplus and its solvency, as well as potential threats to surplus and solvency, using all available tools. DFR believes that the range of surplus targeted by BCBSVT is reasonable and necessary for the protection of policyholders. BCBSVT is currently below this range, although its position has improved year-over-year.[2]

Background

Vermont law requires DFR to protect consumers by supervising insurance companies to ensure their solvency, liquidity, stability, and efficiency.[3] DFR has a special responsibility with respect to BCBSVT, which was created by statute and is subject to comprehensive DFR regulation.[4] BCBSVT insures more Vermonters than any other health insurance company and DFR is BCBSVT's primary regulator and, for many purposes, its sole regulator.

Analysis of Solvency

DFR considers insurer solvency to be the most fundamental aspect of consumer protection. Determining an insurer's solvency is more complex than whether at any given moment the insurer has more assets than liabilities. Rather, it is an intricate analysis of many factors to discern how close the insurer is to insolvency now, and in what direction it will move in the future.

The primary factor in an insurer's ability to maintain adequate solvency is whether the insurer consistently charges adequate premium rates. DFR considers a rate to be adequate if it is sufficient to cover expected claims and expenses, and to contribute to the insurer's surplus when appropriate. Over the long term, charging inadequate premium rates can result in assets that are too low and liabilities that are too high, which presents a material and direct threat to the solvency of the insurer.

Rates are developed by predicting future behavior and future claims. Therefore, it is impossible to predict with certainty the "correct" rate to charge in a given year that will be both adequate and not excessive. Charging a higher or lower rate merely makes it more or less likely that the rate will be adequate. To protect against rates that turn out to be inadequate, whether due to unexpectedly high claims or some other factor, insurers must maintain a surplus of funds. An insurer's surplus is the amount of assets remaining after accounting for all liabilities it must (or may have to) pay out. A sufficient surplus is crucial to an insurer's solvency.

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[2] The Department recently approved an updated RBC ratio range of 590% - 745%. A copy of the order can be found at https://dfr.vermont.gov/sites/finreg/files/regbul/dfr-order-19-07-i-bcbsvt-rbc.pdf.
[3] 8 V.S.A. § 10.
[4] 8 V.S.A. Chapters 123, 125.

The adequate level of surplus is necessarily different for every insurer, since it depends heavily on both the volume and type of the insurance business conducted, as well as the quality and nature of the insurer's underlying assets and the environment in which the insurer operates. DFR uses several tools to assess surplus adequacy, including periodic financial examinations, corporate governance review, and analysis of such areas as RBC, claims reserve development, and risk mitigation strategies. This surplus assessment is dynamic and prospective.

Impact on Solvency of Proposed Rate

BCBSVT does not currently write any AHP business. DFR does not expect the proposed rate will have a significant impact on our overall solvency assessment of BCBSVT.

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Please do not hesitate to contact me if you have any questions.

Sincerely,

Michael S. Pieciak
Commissioner