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Blue Cross and Blue Shield Association

Company Profile

Reference Code: 244

Publication Date: Nov 2005

www.datamonitor.com

Datamonitor USA
245 5th Avenue
4th Floor
New York, NY 10016
USA

t: +1 212 686 7400
f: +1 212 686 2626
e: usinfo@datamonitor.com

Datamonitor Europe
Charles House
108-110 Finchley Road
London NW3 5JJ
United Kingdom

t: +44 20 7675 7000
f: +44 20 7675 7500
e: eurinfo@datamonitor.com

Datamonitor Germany
Kastor & Pollux
Platz der Einheit 1
60327 Frankfurt
Deutschland

t: +49 69 9754 4517
f: +49 69 9754 4900
e: deinfo@datamonitor.com

Datamonitor Hong Kong
2802-2803 Admiralty Centre
Tower 1
18 Harcourt Road
Hong Kong

t: +852 2520 1177
f: +852 2520 1165
e: hkinfo@datamonitor.com

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COMPANY OVERVIEW

The Blue Cross and Blue Shield Association is made up of 40 independent, locally operated Blue Cross and Blue Shield companies that collectively provide healthcare coverage for many Americans. These companies are located throughout the US, the District of Columbia and Puerto Rico, and offer a variety of health insurance products to all segments of the population. BCBSA is headquartered in Chicago, Illinois.

The company operates as a private entity.

KEY FACTS

Head Office	Blue Cross and Blue Shield Association 225 North Michigan Avenue Chicago IL 60601-7680 United States
Phone	+1 312 297 6000
Fax	+1 312 297 6609
Web Address	http://www.blueshield.com
Revenues/turnover (US$ Mn)	0
Financial Year End	December
Employees	0
SIC Codes	SIC 6324 Hospital and Medical Service Plans
NAICS Codes	52413, 52519, 524114

SWOT ANALYSIS

BCBSMA is an independent, not-for-profit health care company providing a wide range of health care programs and educational services to about 2.75 million members. Its members receive health care coverage through a range of employer-sponsored group plans, and non-group and senior citizen programs. It is the leading health insurance company in Massachusetts and is recognized for its service standards.

However, increasing medical costs are making the provision of healthcare to the neediest segments of the society even more difficult. Also, the consolidation in the managed care industry is making the competitive environment more intense and difficult.

Strengths	Weaknesses
Largest health insurance company in Massachusetts High service standards Good financial condition Accreditation from the National Committee for Quality Assurance (NCQA)	High claims expenses Lower flexibility compared to commercial operators Lack of diversification
Opportunities	**Threats**
Technology improvements Development of solutions to address key healthcare concerns Anticipated increase in renewals prices	Increasing medical costs Ongoing consolidation in the managed care segment Poor state of government finances

Strengths

Largest health insurance company in Massachusetts

BCBSMA is the largest health insurance company in Massachusetts. As a result of its strong position in the marketplace in 2001, Blue Cross Blue Shield of Massachusetts had the opportunity to reconnect to its original charter and to endow its own foundation, the Blue Cross Blue Shield of Massachusetts Foundation. The Foundation was established to expand high-quality health care access to underserved residents of Massachusetts.

Massachusetts is also among the best communities in the US for triggering the type of change that can make the state's health care system a model for others. The state is characterized by a highly educated population, vast knowledge resources, and leading health policy makers. The company intends to leverage its strong position in the healthcare market and engage actively in resolving the community's outstanding health care challenges.

High service standards

The company has been consistently recognized for standards of service that are among the highest in the nation. The company records high satisfaction levels among its members and provider partners. This is extremely important for a not-for-profit healthcare company as its success is measured by how well it serves members, accounts and their communities. The company is engaged in garnering continuous feedback from its service contacts with members, accounts and healthcare providers. BCBSMA periodically surveys the residents of Massachusetts to gain further understanding of their opinions and thoughts. In a survey conducted by the company in February 2004, about 91% of respondents stated that they were either satisfied or very satisfied with the BCBSMA health plan (as opposed to about 70% for other plans).

Good financial condition

Fiscal 2003 was the most successful year ever for the company as it continued to build a prudent and solid financial base. The company's reserves stood at about $350 per member (as of February 2004). Such reserves are critical to ensure that the company remains in a strong financial position overall and is prepared to meet the needs of its members, in the event of an epidemic or catastrophe. The company had a strong cash position of $2,009 million at the end of 2003, compared to $1,626 million at the end of previous year. The company recorded revenues (net premiums, administrative fee income and investment income) of $5.0 billion during the fiscal year ended December 2004, an increase of 8.9% over 2003.

In September 2004, A.M. Best Co., the worldwide insurance-rating and information agency, affirmed the financial strength rating of B++ of BCBSMA (Boston). This rating reflects BCBSMA's adequate capital and surplus position on a risk-adjusted basis, favorable earnings and good presence in its market. The company's financial stability ensures that it can continue developing innovative disease management and wellness programs that will help improve the quality of life of its members, particularly those who suffer from chronic illness.

Accreditation from the National Committee for Quality Assurance (NCQA)

The company's Blue Care Elect is the first preferred provider organization (PPO) in New England to receive accreditation from the National Committee for Quality Assurance (NCQA). It has received full accreditation, the highest available, from the national managed care accrediting body. The company's other managed care products, HMO Blue, Blue Choice and Blue Care 65, were also accredited, receiving an award of 'excellent', the highest available for those plan designs. 'Excellent' designation is awarded to those plans that meet or exceed NCQA's rigorous requirements for consumer protection and quality improvement and deliver excellent care. HEDIS results, which measures how well a plan delivers clinical care and how satisfied members are with the services of the plan and its provider network, must be in the upper range of national performance in order for a plan to achieve the 'excellent' designation. BCBSMA is the first health plan to offer a NCQA accredited PPO plan in the New England region, bringing to its members a full range of nationally accredited products.

Weaknesses

High claims expenses

While on an average, about 60% of the amount paid towards premiums is utilized to pay for the cost of health care (as per a survey conducted by BCBSMA among 800 residents of Massachusetts in February 2004), BCBSMA spends about 90% of premium amount on benefits for its members. In 2004, the company earned premiums of $4.9 billion and incurred $4.2 billion in health care claims. HMO Blue, the company's HMO subsidiary, earned $3.2 billion in premiums and incurred $2.8 billion in health care claims in 2004. This is primarily due to the company's not-for-profit status, as a result of which, its ability to build high reserves is restricted.

Lower flexibility compared to commercial operators

Not-for-profit businesses must compete with for-profit businesses for skilled workers and managers. As a result, the company has to offer similar salary levels as its commercial / private competitors. However, the company does not charge premiums that are as high as commercial / for-profit competitors since it operates on a not-for-profit basis. This makes it difficult for the company to respond to market challenges and opportunities as quickly and efficiently as commercial operators.

Lack of diversification

The company is focused on delivering health care solutions to consumers in New England. This exposes it to market concentration risks, as a major epidemic or some other calamity, may lead to high claims expenses for the company. Also, BCBSMA is primarily a health care plan provider while its competitors provide a range of other services including accident and life and disability insurance, in addition to health insurance. Some of its larger competitors like Aetna and Cigna operate across the US, and are hence, not as exposed to the risk of operating in a limited market as BCBSMA.

Opportunities

Technology improvements

BCBSMA had made significant investments in IT in the past and continues to make efforts in this direction. The Massachusetts eHealth Collaborative, a public/private partnership of more than 40 organizations is in the early stages of designing a statewide Electronic Medical Records (EMR) system. Initially funded by a grant from Blue Cross Blue Shield, the system will give doctors the information and technology infrastructure they need to improve care quality for patients across Massachusetts. The system will also save billions of dollars lost due to misuse of health care benefits.

The company is also collaborating with one its major competitors to offer 3,400 doctors a comprehensive electronic prescribing program designed to both improve patient safety and reduce costs. For instance, the technology can reduce prescription errors and adverse drug reactions. Such technological improvements go a long way in ensuring a healthy community, and significant cost savings.

Development of solutions to address key healthcare concerns

BCBSMA has observed closely what members want and offers dozens of programs to enable its members pursue a healthy lifestyle including prevention screenings for various diseases; discounts for massage therapy, acupuncture, registered dieticians; quit smoking programs; benefit towards membership dues or fees at any qualified health club of the consumer’s choice; and Go Walking!, a campaign launched in 2003 to help members and the public improve their health with a simple exercise regimen.

The company has an array of products and services that respond to what people say they most want, and it continues to work to develop solutions that address emerging concerns. The company has developed Consumer Choice Blue (on the basis of feedback from employers), a consumer-choice health package that offers a high deductible plan option with an array of programs and services designed to improve

the quality of members' health and help manage costs. The company is also working with doctors, hospitals, and employers to advance the use of generic prescription drugs and to encourage members' participation in wellness, fitness and disease management programs.

Anticipated increase in renewals prices

The various group managed care products' premium renewal rates are expected to increase in 2005. According to Milliman annual survey, average HMO and PPO renewal rates are anticipated to increase by 11% and 13%, respectively, in 2005, albeit lower than 13% increase in 2003-2004. This will mark the sixth consecutive year of double digit rate increase for HMOs. This expected increase in premiums will further strengthen the company's financial condition, and enable it to pursue its strategy of improving community health in Massachusetts.

Threats

Increasing medical costs

Increasing medical costs in the US are not only putting pressure on the profitability of the managed care industry, but also making access to health care difficult for consumers. Reimbursement rates to hospitals and physicians has been growing as hospitals are merging into larger systems, which is giving them more bargaining power in their negotiations with insurers. Another cause of rising medical costs is continuously improving medical technology, which allows very sick people to live longer. Increasing malpractice premiums, general aging of the workforce, predominance of lifestyle diseases (obesity, diabetes, and heart disease), and increase in prescription drug costs (increasing at an average of 15% per annum) are other major drivers for high medical costs. Though the company is trying to curb these costs by prompting generic drugs and increasing awareness about general health, conti's profit margins.

A survey conducted by BCBSMA during February 2004 also confirmed people's concerns about healthcare costs. About 58% respondents (of a total base of 800), stated medical costs (costs of healthcare, insurance costs, prescription drug costs) as the key healthcare issue facing Massachusetts residents. Addressing the issue of affordable health care would require collaborative effort on the part of all stakeholders including doctors, hospitals, drug companies, the government, employers, consumers and health plans.

Ongoing consolidation in the managed care segment

The managed care industry in the US is undergoing a wave of consolidation. This trend is driven by a desire to expand geographically in new markets, addition of new product capabilities, and subsequent expansion in business scale. In 2004, Anthem acquired WellPoint Health Networks for $16 billion, making it the largest health insurance provider in the US, with more than 26 million subscribers. Similarly, UnitedHealth Group acquired Mid Atlantic Medical Services (a multistate plan with 1.9 million members and a network of about 50,000 doctors) in February 2004 and St. Louis Definity Health Corporation in December 2004.

Also, the Medicare Reform Bill, passed in 2003, increases the role of private insurers (for-profit health insurers) in the health care segment. According to the bill, reimbursement rates for private health plans such as health HMOs and preferred provider organizations (PPOs) have been increased by 10.6%. The reform is also expected to provide customers in private health plans with better service and more treatment options. This provision should entice more customers to enroll in private plans. The ongoing consolidation, coupled with growing strength of private players has intensified competitive pressures, which may adversely affect the company's market position.

Poor state of government finances

The managed care industry is heavily reliant on government funding, and budget deficit issues are a concern. While inflation in the US has been increasing at 3% per year, health care costs have been rising at a national rate between 8-10%. In Massachusetts, health care costs are significantly higher than the national average, yet Medicaid covers only 75% of the actual cost of the delivery of care. This places even greater pressure on BCBSMA and other such organizations to make up for the shortfall. Considering the number of uninsured and under-insured people in Massachusetts, any Medicare and Medicaid funding cuts (due to poor state government finances) would have a direct negative impact on health care plans, as their burden would increase.