



October 16, 2009 02:41 PM Eastern Daylight Time 

A.M. Best Revises Outlook to Negative for Blue Cross Blue Shield of Michigan and Blue Care Network of Michigan

OLDWICK, N.J.--([BUSINESS WIRE](#))--**A.M. Best Co.** has revised the outlook to negative from stable and affirmed the financial strength rating of A- (Excellent) and issuer credit ratings of "a-" of **Blue Cross Blue Shield of Michigan** (BCBSM) and **Blue Care Network of Michigan** (both domiciled in Detroit, MI).

The negative outlook reflects the decline in BCBSM's capitalization, which was driven by deteriorating underwriting results, increased business transformation expenses and investment losses related to the severe downturn in the financial markets. During the last several years, BCBSM introduced the strategy of group rate moderation that substantially reduced underwriting margins. In 2008, BCBSM priced closer to trend, and earnings advanced in all group lines of business. However, during the first six months of 2009, underwriting results declined substantially due to continued losses in individual products and increased corporate administrative expenses related to business transformation, primarily from voluntary severance packages as the company significantly reduced its workforce. Underwriting losses are expected to continue in the near to medium term, driven primarily by weak financial results in individual lines of business, where BCBSM does not exercise sufficient control over market rates. The company's status as the insurer of last resort leads to adverse risk selection and the inability to promptly adjust rates for individual lines of business, resulting in substantial operating losses. In addition, A.M. Best believes the company's growth and profit opportunities will remain challenged by weak economic conditions in Michigan, including significant downsizing in the automobile industry and high unemployment. Following a steady growth in 2002-2005, the risk-based capitalization at BCBSM declined during 2006-2008. Furthermore, \$142 million of unrealized investment losses during 2008 led to an additional capitalization decline. A.M. Best is concerned that if operating losses continue in the future, combined with the capital needs of the subsidiaries and the pending annual statutory pension liability being recorded there may be pressure on the organization.

Offsetting rating factors include the organization's dominant market position in Michigan, its successful introduction of new products and increased business diversification. BCBSM has the highest market penetration and the broadest geographies of service coverage in Michigan. The company experienced continuous membership growth in 2006-2008, with an enrollment increase of 3.6 %. The growth was driven mainly by the Medicare Advantage line of business, where BCBSM established a leading position, including group Medicare Advantage plans for retiree coverage, individual Medicare Advantage and Part D stand alone. BCBSM has adjusted its product mix to meet the new demands of the marketplace, introducing plans targeting young adults, products with a strong wellness component as well as products with leaner benefits and lower cost. In addition, BCBSM continues to diversify its revenue stream by expanding its subsidiaries' operations and enhancing investment income.

For Best's Credit Ratings, an overview of the rating process and rating methodologies, please visit www.ambest.com/ratings.

The principal methodologies used in determining these ratings, including any additional methodologies and factors that may have been considered, can be found at www.ambest.com/ratings/methodology.

Founded in 1899, A.M. Best Company is a global full-service credit rating organization dedicated to serving the financial and health care service industries, including insurance companies, banks, hospitals and health care system providers. For more information, visit www.ambest.com.

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