CELEBRATING

75 YEARS

PACIFIC BLUE CROSS®

PACIFIC BLUE CROSS AND ITS PREDECESSOR ORGANIZATIONS HAVE BEEN PROUDLY SERVING BRITISH COLUMBIANS AS THE PROVINCE'S LEADING NOT-FOR-PROFIT HEALTH INSURANCE PROVIDERS FOR 75 YEARS

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1940 2015

Burnaby-based Pacific Blue Cross processes more than 19 million claims annually

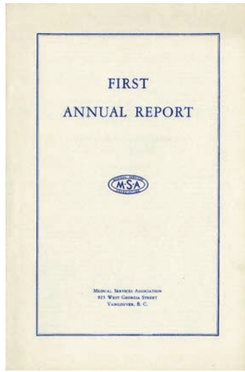
Introduction: 75 Years of Service for British Columbians

Pacific Blue Cross and its predecessor organizations have been proudly serving British Columbians as the province's leading not-for-profit health insurance providers for 75 years.

The history of Pacific Blue Cross dates back to the 1940s, when its predecessor organizations – the Medical Services Association (MSA) and CU&C (Credit Union & Cooperative) Health Services Society – were founded. Each began with a vision for charting new ground as not-for-profit providers of prepaid health insurance. Starting with meager resources, both companies grew steadily and successfully dealt with major challenges, including the introduction of Medicare and the merger that brought the two former competitors together as Pacific Blue Cross in 1997.

Now Pacific Blue Cross, with its subsidiary BC Life (British Columbia Life & Casualty Company), provides health, dental, life, disability, travel, and other health insurance products for approximately 1.5 million British Columbians enrolled in group and individual plans. The company, based in Burnaby, BC, processes more than 19 million claims annually.

The story of how Pacific Blue Cross became BC's largest and most trusted health insurance provider, chronicled in this history, is one of determination, resilience, and bold action. The company will continue to evolve and adapt with the shifting healthcare landscape. As the firm positions itself for the future, this document chronicles the past to gain an appreciation of the remarkable Pacific Blue Cross legacy.



MSA's First Annual Report, 1941

CU&C Health Services Society history, 1956

Roots of Health Insurance in North America

Prepayment for medical care in BC and some other provinces began in the late 1800s, when there was an early form of health insurance in industries such as forestry, mining, and railroads. Doctors provided services for a monthly fee per employee in these industries.

In 1919, the BC Government appointed a legislative commission to study health insurance. In 1929, BC appointed a Royal Commission on State Health Insurance and Maternity Benefits. That same year, the Great Depression began, continuing throughout the 1930s and making a devastating impact on access to health care in Canada and the United States. In Canada, where unemployment reached an estimated 30 percent, local government had responsibility for providing care to people living in poverty who were sick, but many cities, towns, and municipalities were in or near bankruptcy. Hospitals and doctors faced a growing stack of unpaid bills. Medical care, except for emergency treatment, was a luxury that few could afford.

In 1932, the BC Royal Commission on State Health Insurance and Maternity Benefits issued its final report, which recommended a health insurance program for the province. In 1935, the BC Government presented a draft health insurance bill to the provincial legislature. The bill outlined a health insurance program that would be compulsory for employers and employees to contribute to, which the medical profession, the Manufacturers' Association, and others criticized as they favoured a voluntary scheme.

The government amended the legislation but it remained compulsory. The legislation passed on March 31, 1936, receiving Royal Assent the next day. Opposition continued against the bill, with the province's physicians voting 622 to 13 against accepting it. The legislation, which was scheduled to go into effect in 1937, was indefinitely postponed and never re-introduced.

After the collapse of the BC Government's compulsory health insurance program, the province's medical profession and a number of companies continued to advocate for a voluntary approach to prepaid medical care. The British Columbia Telephone Company Employees Association and a few other companies set up voluntary prepaid medical care plans for their employees that followed the principles of offering free choice of doctor and remuneration on the basis of the College of Physicians and Surgeons of British Columbia fee schedule. BC industry was increasingly interested in the voluntary approach but many didn't have enough employees or resources to mount their own plans.

CU&C employee Jessie Lee working on a tabulation machine, 1956

MSA employee Nancy Toso at the long service banquet, 1975

GAULT BROTHERS: AN EARLY CLIENT

By the late 1940s, MSA was the health insurance provider of choice for BC employers in a range of industries, from automotive to lumber to wholesale and retail trade. One company that signed on with MSA at that time was Gault Brothers Limited. Located at 361 Water Street in Vancouver, the company manufactured and distributed wholesale dry goods, house furnishings, and men's furnishings, including "Caribou" brand work clothing.

Gault Brothers offered employees a voluntary plan for medical, surgical, and hospital care that was jointly operated through MSA and the Associated Hospitals Services of British Columbia, which was known as Blue Cross. Costs were shared between the employer and employees, according to the following amounts:

Gault Brothers Limited Health Insurance Plan: Monthly Costs

	Employer	Employee	**Total**
Single employee	$1.04	$1.04	**$2.08**
Married male employee, wife and children	$2.67	$2.66	**$5.33**
Married female employee	$1.49	$1.49	**$2.98**

The plan, which went into effect April 1, 1946, was contingent upon a minimum of 75 percent of employees participating.

Illustration of the MSA's Medical Records Department, 1957

Birth of Two Not-for-profit Health Insurance Companies in BC

MSA

Archie McLellan

Enter Archie McLellan. He worked as an auditor for the BC Government in the 1930s and was familiar with the government's attempt to launch a health insurance program. McLellan spearheaded efforts to develop voluntary, physician-sponsored health insurance. A series of meetings, involving McLellan and members of the Committees on Economics of the College of Physicians and Surgeons of BC and British Columbia Medical Association (now Doctors of BC) took place. The meetings led to a plan to meet the growing demand for voluntary prepaid health insurance by forming the Medical Services Association (MSA). On September 18, 1939, at the college's annual meeting at the Hotel Vancouver, the medical profession formally approved the creation of MSA. "B.C. Doctors Approve New Service Plan" was the headline of the front-page story about MSA that the Vancouver Sun ran on February 10, 1940.

Then on April 16, 1940, MSA was incorporated as a not-for-profit under the Societies Act. With McLellan as the association's first executive director and the college assuming the initial costs, MSA commenced operation on November 1, 1940 in the Georgia Medical-Dental Building at 925 W. Georgia in Vancouver. MSA initially offered prepaid medical coverage to businesses with 10 or more employees, who had an income of no more than $2,400 per year. Members were organized in three classes: employees, employers, and professional members. They were free to select doctors of their choice. As for governance, MSA had a four-member Board of Directors. The organization's by-laws stipulated that members could vote for the director representing the class they belonged to, including two directors elected by employee members, one by employer members, and one by professional members.

MSA described its initial services as the following: "To provide or arrange for the provision to members and their dependants of any or all services required in the prevention, diagnosis or treatment of illness on a non-profit, prepayment and voluntary basis." The association remunerated physicians based on the fee schedule of the College of Physicians and Surgeons. Physicians accepted a 25% discount on fees outlined in the schedule.

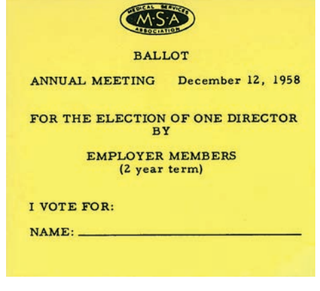
An article in the October 1940 issue of the *Vancouver Medical Association Bulletin* on the launch of MSA said the Association "deserves the support of the profession." The article noted that the plan would help offset concerns about the ability to pay for medical services. "How often a sizeable bill from the doctor is liable to produce the terror and

destruction of a modern bomb. Doctors often hesitate to send such accounts. Under this plan these bills will go to the office of the MSA and will be paid by it."

"The patient is happy, the doctor is happy, and there is nothing to impede the patient's recovery."

In MSA's first annual report, covering the organization's first seven months of operation, Board President J.T. Myers wrote in the Directors' Report that the association had 500 subscribers and paid $2,177 in claims for medical, surgical, and hospital care. According to the balance sheet, MSA had assets by the end of the first year of $8,202.40.

"Continuity of the plan is assured," wrote Myers. "In a plan of this kind it is necessary that the members have assurance that contracts will be fulfilled. This plan has that assurance in that the plan is underwritten by the medical profession of British Columbia."


MEDICAL SERVICES ASSOCIATION
M·S·A

BALLOT

ANNUAL MEETING December 12, 1958

FOR THE ELECTION OF ONE DIRECTOR BY

EMPLOYER MEMBERS
(2 year term)

I VOTE FOR:

NAME: _____

MSA's Annual Meeting Ballot, 1958

CU&C

While MSA emerged from the medical profession, in the mid-1940s, the BC co-operative movement began looking into the feasibility of forming a not-for-profit organization through which members could obtain prepaid medical and surgical care and hospital coverage. In 1944, the BC Credit Union League set up a committee to investigate this idea. John R. Hunter, who chaired the committee, presented a proposed constitution for the organization at the League's convention in Powell River on June 28, 1946.

As outlined in the constitution, the organization's aim was "to create and administer a fund for the medical, surgical and/or hospital care of its members and their dependents in cases of illness and accident, on a co-operative, non-profit basis …" Delegates at the convention adopted the constitution. Three months later, on October 3, 1946, CU&C (Credit Union & Cooperative) Health Services Society was incorporated as a not-for-profit under the Societies Act, with Hunter as the first Board President and J. Fortnum as the first General Manager. The Society had its first office in the Dominion Building, at 207 W. Hastings in Vancouver, before moving to the Credit Union Building at Broadway and Quebec in 1947.

CU&C began by providing coverage solely for individuals. In the society's first eight months of operation, the society paid $4,775.26 in claims to a total of 741 members. CU&C had assets by the end of the first year of $17,129.38.

At the society's First Annual Meeting, held June 25, 1947 at the Hotel Vancouver, Hunter noted in his first annual report of the Board of Directors that individuals and their dependents became members of the society from credit unions and other co-operatives around BC. "The growth of the society has been steady, yet by no means spectacular," he reported.

In his manager's report presented at the same meeting, A.G. Butcher – who replaced Fortnum – succinctly addressed the question of the future possibilities for CU&C. "This can be summed up by stating that it can be anything you wish it to be," he said, leaving the canvas wide open for the fledgling organization.

MSA Annual Report, 1957

RON GAINES: 45 YEARS OF SERVICE

Ron Gaines was destined to work at MSA, one of two predecessor organizations of Pacific Blue Cross. He went to the Grandview High School of Commerce in East Vancouver, which trained students in office skills. A number of Grandview graduates worked at MSA. "I heard it was an excellent place to be employed at," he recalls.

Gaines started working at MSA in 1950 as a 19-year-old. His first position was enrollment clerk. He was promoted to field department representative and then field department manager, a position that involved visiting human resources managers at companies with group health insurance coverage from MSA. Gaines was responsible for ensuring the companies understood plan administration procedures, benefit and premium changes, and other aspects of group coverage. He drove in all kinds of weather throughout BC – from Fort St. John to Cranbrook – to carry out his duties face-to-face. At work sites he would put on a hardhat and talk to employees.

Part of his job involved pursuing new business for the company. "I would explore new marketing opportunities for MSA by contacting non-covered entities or groups covered by another competitive underwriter and arrange to meet with their executive and present the advantages of becoming part of the MSA/Blue Cross family," he says.

Gaines was also manager of marketing and enrollment at MSA subsidiary MSI, and assistant developer of the MSA travel plan before retiring in 1995.

CU&C Staff, 1955

Development and Growth: 1940s to 1950s

The 1940s and 1950s were decades of growth for MSA and CU&C. They were also critical periods for both organizations to achieve long-term stability. Underwriting needed to be precise, as minute miscalculations could result in losses that were challenging to absorb while volumes were relatively low. Above all, each company needed to develop and implement a vision for their roles as not-for-profit health insurance providers.

MSA

In the early 1940s MSA focused on familiarizing industries with their services and enrolling companies, in sectors including industrial, wholesale and retail, sales, financial, professional, government, and services organizations. Aside from offering coverage for general medical services, the organization offered other benefits – such as group life insurance and wage indemnity (short-term disability) – as part of package plans developed along group lines. Membership growth in these early years was steady but not sizable. At this time MSA also began building a reserve known as the Stabilization Account, which could be drawn from if utilization of benefits increased significantly. CU&C also maintained a Stabilization Fund.

By 1944, the Association was growing rapidly. From a membership of 6,588 as of August 31, 1943, MSA membership grew to 10,871 by the end of August 1944 – a 65 percent increase in enrollment. The growth occurred despite competition from a number of other organizations providing health benefits. These organizations were incorporated under the Societies Act but were not subject to stringent government control.

In an article prepared by the College of Physicians and Surgeons Committee on Economics published in April 1945 in the *Canadian Medical Association Journal*, the Committee noted the "successful development" of MSA. The Committee also referred to other private health insurance schemes that had emerged. "One can readily see the advantage of the MSA over these other contracts," wrote the Committee. It gives a full service, both medical and surgical, no exclusions, low overhead, no commissions, and works in close contact with organized medicine at all times."

The BC Government appointed a Royal Commission – led by J.A. Grimmett – to investigate BC health and accident insurance associations. In his final report released in 1947, Grimmett examined the operations of organizations including MSA. About MSA, Grimmett wrote: "The expenses of administering the affairs of the society are limited by its by-laws to not more than 10 percent of the contributions made by members, and as a matter of fact its affairs have been so well administered that in the year 1945 the administration expenses amounted to only 7 percent of the income. Consequently it is perfectly obvious that the members are receiving the utmost in benefits in proportion to contributions."

MSA's Medical Officers auditing submitted accounts for payment, 1957

He went on to say that MSA was complaint-free. "There was not one single complaint by or on behalf of any member as to the conduct of the affairs of the organization and it was quite apparent that there was no exercise of control of the affairs by any one person or faction."

Grimmett, who was not as positive about some other associations, recommended in his report that health and accident insurance societies be under strict supervision and government control. The report led to the Societies Act being rewritten, and while MSA and CU&C developed and grew, the provincial government suspended a number of other health benefits societies from operating in BC.

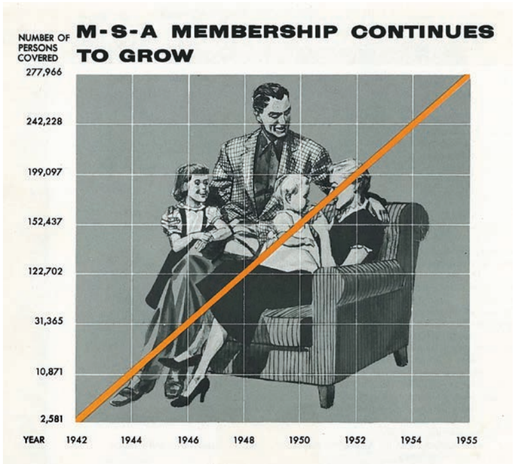
Throughout the last half of the 1940s and the first half of the 1950s, MSA's membership grew significantly. By its tenth anniversary in 1950, the Association had 158,027 members.

Also by this time MSA initiated trustee plans, with which trustees took the place of employers to meet the demand for prepayment of medical services by employees who were not eligible for standard plans.

While MSA offered one of the first prepaid medical plans in Canada, a number of other similar organizations also emerged across the country. On June 18, 1951, Trans-Canada Medical Plans (TCMP) was established as a national body, with MSA as a founding member. TCMP coordinated methods, coverage, and data of provincial health insurance plans. This helped the plans develop portability and harmonization of services and enable them to compete with private insurers.

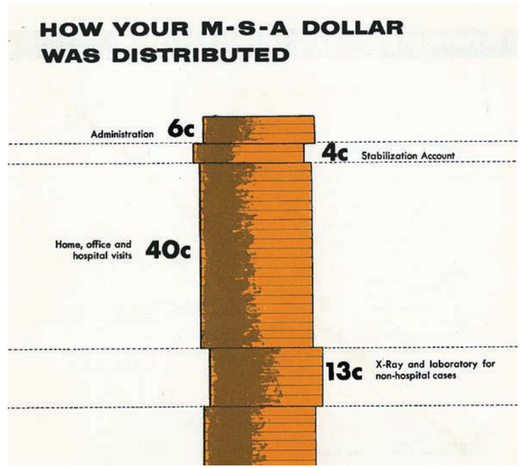
By 1953, MSA had moved to its own new building, at 2025 W. Broadway. On June 1, 1954, members received the new benefit of coverage for their children from birth; previously there was a three-month waiting period. But the biggest development that year was the establishment on September 1, 1954 of BC Medical Services Incorporated (MSI) as an associated plan. MSI evolved from recommendations made by the Canadian Medical Association (CMA), BC Division on how to make prepaid medical care available to those who are not eligible for existing plans. Financed by CMA's BC Division, MSI launched with two plans:

- A comprehensive group plan for small businesses employing three to nine employees, offering the same benefits provided to employees of businesses with 10 or more employees.
- A partial plan for people leaving an MSA group, people who are retiring, widows and children of MSA members, and children who have reached the age of 18.



MSA's Membership, 1942-1955

MSI filled a major need in pre-Medicare times when many people were ineligible for standard plans. "We welcome wholeheartedly this new organization," was the message in the Directors' Report for the Association's 14th Annual Report. "MSI is underwritten by the doctors of British Columbia, who have taken the responsibility of this new venture, which, together with MSA, goes a long way towards achieving the goal of providing protection for those persons who desire to prepay their medical care."



MSA's Dollar Distribution, 1955

CU&C

By the end of May 1948, CU&C membership had increased to 2,455. The provincial government's suspension of a number of health benefits societies helped send members to CU&C and MSA. With the growth of members, CU&C also saw an increase in claims, which prompted Manager A.G. Butcher to warn members in his report to the society's second annual meeting on June 24, 1948 against abuse of benefits.

On January 1, 1949, the British Columbia Hospital Insurance Service plan went into effect, prompting CU&C to discontinue hospital benefits from the society's plans. The organization made a corresponding 70 percent reduction in rates, and at a special meeting held September 30, 1948, CU&C decided to continue operation with medical and surgical benefits only. In reports to the society's third annual meeting on June 15, 1949, from Board President J.P. Lundie and General Manager A.G. Butcher, they said the year that passed was the most difficult in CU&C's short history. The society dealt with growing pains, such as two rate changes in one year and members not paying dues promptly.

"Experience is a hard teacher and through our trying times this year the management and board of directors have learned many things, which must be overcome at this meeting and in subsequent periods, for the benefit of the society as a whole; in fact, I might go so far as to say for the very existence of the society," said Butcher.

CU&C continued to face tough times in the last half of 1949 and the first half of 1950 due to unpaid claims and loss of members, which put the society in a deficit position. But change was imminent. On November 1, 1949, the College of Physicians and Surgeons included CU&C as an approved health insurance plan, which meant that doctors could refer patients to the society. On January 1, 1950, CU&C's by-laws were amended to enable the society to sign group contracts. On March 15, 1950, Tom Wiltshire succeeded Butcher as General Manager, and in May of that year, CU&C signed its first employer-employee group contract with Courtenay civic employees. The following year, the society added its largest groups to that point – Vancouver City police and firefighters.

During the early 1950s the society kept making progress. In the Director's Report presented at the Seventh Annual Meeting held June 25, 1953, it was reported that membership doubled from 4,500 to 9,000 in the past year. That year, on February 6, Office and Technical Employees Union (OTEU) Local 15 was certified at CU&C. At CU&C's Eighth Annual Meeting in Trail on June 23, 1954, members in attendance voted in favour of opening the society's membership bond to any person resident in BC under the age of 65. While this meant that not only credit union and co-operative members could become members, it was also affirmed that the society "must always operate under co-operative principles regardless of any change in the by-laws or types of coverage." By 1955 membership reached more than 40,000 people, with CU&C ranking as BC's second largest provider of prepaid medical and surgical coverage after MSA.

CU&C's Tenth Annual Meeting was held June 20, 1956 at the Sirocco, a supper club in Victoria. In a stirring President's Message titled "In Sickness and in Health", Howard C. Hunter looked back at the early days of CU&C, when the society

Howard C. Hunter

was "literally cutting a pathway through unknown territory, by trial and error, for we had few maps to guide us. Statistical experience from similar co-op plans in America was practically non-existent. It was only our combined hopes and dreams, as well as our combined efforts to make them come true, which has been responsible for the sound structure we have built." According to the minutes of the meeting, Hunter's speech was "received with prolonged applause."

The society also built up, literally. With its office in the Credit Union Building severely overcrowded, a third storey was added. In late 1956, CU&C took over the entire top floor with its increasing staff and equipment, including recently acquired tabulating machines. Joe Corsbie replaced Tom Wiltshire as General Manager in 1959.

CU&C Logo

MSA BULLETINS

In 1958 MSA launched the "MSA Bulletin" to communicate key messages about health insurance. Each numbered bulletin featured a small amount of text and a cartoon that used humour to get a point across, usually about utilization of medical services.

Bulletin #1 introduced MSA as an organization with 400,182 members that had gained widespread approval among employers and employees. The cartoon showed eight people with smiling faces representing different occupations.

Bulletin #25 introduced a character, Mr. M.S. Ayer, who would reappear in subsequent bulletins. The cartoon shows the bow tie-wearing character holding a poster that says: "Total medical care costs + MSA Administration Costs (Lowest in North America) ÷ Number of people in your group = Individual subscription rates!" In Mr. M.S. Ayer's thought bubble it says: "Only you, by cutting down on doctor visits, can reduce these rates!" Many other bulletins also sent a similar message.

Throughout the history of MSA and CU&C, utilization of services was a concern because of the impact on remittances to physicians. Large increases in utilization could cause the organizations to dip into their stabilization accounts, so the bulletins were used to reinforce the message that MSA members should only see a doctor when truly necessary.

The bulletins were products of their time, which took a whimsical approach to communications and marketing during a period when MSA grew and established itself as BC's leading health benefits provider.

Today Pacific Blue Cross continues the tradition of keeping plan members informed about their health coverage. Using communication tools like email newsletters and online video through the firm's Advice Centre, plan members can learn more about how their benefits work and ways to get the most value from their health coverage.

CU&C General Manager Joe Corsbie and staff

Medicare and New Directions: 1960s to 1970s

Medicare – publicly-funded, universal, single-payer health insurance – was born in Canada on July 1, 1962, when Saskatchewan's Medical Care Act became law. The ground-breaking legislation, which was the first of its kind in North America, was the result of a hard-fought battle led by Saskatchewan Premier Tommy Douglas before he became Leader of the federal New Democratic Party. But the polarized fight wasn't finished when the legislation went into effect, as Saskatchewan's doctors immediately went on a three-week strike to protest the introduction of socialized medicine. Saskatchewan's Cooperative Commonwealth Federation (CCF) government resisted calls to withdraw the legislation and the tense strike ended.

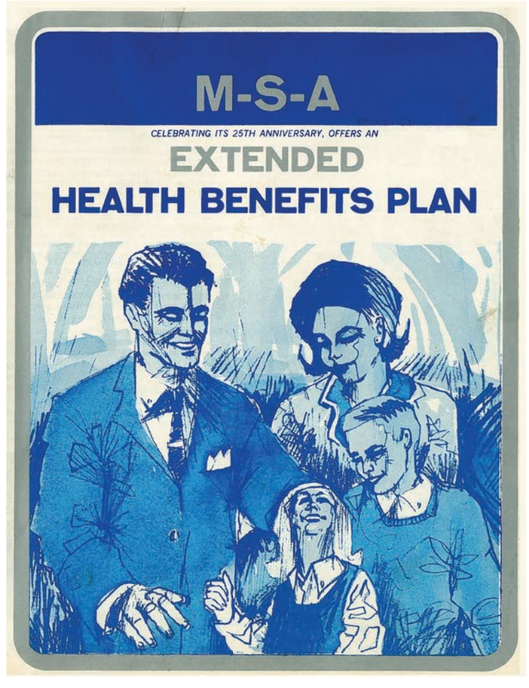
Canada's federal government closely observed the historic developments in Saskatchewan. In 1961, then Prime Minister John Diefenbaker appointed Mr. Justice Emmett Hall, Chief Justice of Saskatchewan, to head a Royal Commission on Health Services. Three years later, the Commission recommended that Canada adopt a comprehensive, national health insurance program to be jointly financed by the federal and provincial governments. This led to a national debate on the recommendations, which was resolved on December 8, 1966 when the Medical Care Act was passed in the House of Commons. The health insurance system outlined in the Act was scheduled to launch July 1, 1968. On that date, Saskatchewan and BC were the first two provinces to introduce Medicare, with all of the other provinces and territories implementing the program by 1972.

The introduction of Medicare was a watershed moment for MSA and CU&C, bringing fundamental change to both organizations. The advent of universal health care essentially gave government jurisdiction over the two health insurance companies' core lines of business. But the change wasn't sudden. Full transfer of responsibility for administering medical and surgical benefits was a phased process. Well before Medicare was enacted, the two companies also began diversifying into extended health, dental benefits, and other lines of business. So while this was a time of massive change, MSA and CU&C anticipated the change and adapted accordingly.

MSA

In the early 1960s, MSA continued the growth seen in previous decades. As of August 31, 1963, membership in the Association was 525,736, while 100,691 were covered under MSI. This represented 36.8 percent of BC's population. Effective October 1, 1963, dependents were covered to the age of 21.

Meanwhile, MSA's associated plan MSI introduced a major change to BC's health insurance landscape on June 1, 1963: the MSI Open Plan was made available to anyone in BC regardless of age or physical condition. Both comprehensive and limited versions of the plan were available for individuals. This provided a health insurance option for individuals who had been unable to obtain coverage. In 1965, the BC Government introduced the BC



MSA's Extended Health Benefits Plan Guide, 1966

Medical Plan, which also offered individual coverage as well as subsidies that reduced the cost of premiums. As a result, a significant number of MSI members transferred to the government plan, and MSI eventually discontinued new enrollment, transferred its group contracts to MSA, and ceased operation.

In 1965, the Association had its first leadership change in the history of the organization. Archie McLellan, who did more than anyone to establish and nurture the Association, retired as Executive Director and Secretary-Treasurer. Herb Wyndham Jones, who had been Assistant Executive Director for 18 years, succeeded McLellan. The Directors' Report in MSA's 24th Annual Report paid tribute to McLellan, who was considered the Father of MSA. "He is one of the few people in Canada who saw, prior to 1939, the importance of an organization in which employees, employers and doctors could combine their efforts to remove the financial hardship of sickness from the individual."

In 1965, while MSA continued to thrive as membership surpassed 600,000, the Association also prepared for an uncertain future with Medicare. As described in the Directors' Report for the 1965 Annual Report, the Association saw that the universal health care program being proposed at the time could result "in the winding up or substantial curtailment of the affairs of MSA." Directors therefore approved a Loss of Income Protection Plan to compensate employees who would be displaced if that scenario unfolded. The purpose of the plan was to attract and retain skilled staff.

The concept of extended health benefits, providing coverage for medical expenses not covered by basic medical plans, was a new development in the 1960s. On March 1, 1966, MSA introduced an extended health benefits plan. The plan was designed to complement benefits provided under the basic MSA Service Contract, and subject to contract terms, included coverage for:

- Prescription drugs
- Chiropractors and naturopaths
- Physiotherapists
- Podiatrists
- Registered nurses
- Oxygen, blood, and blood plasma
- Appliances, artificial limbs, wheelchairs and other devices
- Ambulance service
- Dental treatment as a result of an accident to natural teeth
- Physicians' services in an emergency while travelling outside of BC

In the first six months of the new plan, more than 100,000 people were enrolled for extended health coverage. That same year, MSA reduced all rates by 10 percent due to the healthy size of the Stabilization Account.

The long-awaited implementation of Medicare in BC happened on July 1, 1968. Instead of completely losing the right to provide coverage for medical and surgical care, MSA, became a licensed carrier of the Medical Services Commission of British Columbia. That meant the Association was designated as an agency to carry out administrative responsibilities related to the new Medical Services Plan

PEGGY MCARTHUR: OUR LONGEST SERVING EMPLOYEE

The year Peggy McArthur started working at CU&C, Pierre Trudeau was Prime Minister, the Vietnam War was far from over, and Canada beat the Soviet Union in the hockey Summit Series. Her first day at CU&C, a predecessor organization of Pacific Blue Cross, was July 24, 1972. Forty-three years later, she's still working for the company, greeting visitors and answering the phone at the Pacific Blue Cross front desk.

Her first job at CU&C involved copying documents with a machine that pre-dated photocopiers. McArthur had to physically crank the machine to produce copies. Next she worked as an administration clerk, where she updated plan member information. Then McArthur got a position working on the switchboard and at reception, and she's been in that job ever since.

She enjoyed working at CU&C, which she remembers as having a tight-knit staff. "We used to say we were a lean, mean fighting machine because we got the job done with not very many people," says McArthur. "Everybody was cross-trained, so we could do different things."

In 1974, when CU&C transferred coverage for basic medical and surgical care to the Medical Services Plan, McArthur thought she was going to lose her job. But luckily a woman scheduled to return from maternity leave resigned from the company, and McArthur's job was safe.

She vividly recalls when CU&C and MSA merged in 1997 to become Pacific Blue Cross. "The first year it was difficult learning all the new systems, the new way of doing things, and just the fact it was so overwhelmingly busy."

McArthur, the longest serving employee at Pacific Blue Cross, has never tired of being a front-line voice and face for the company. "I love this job because you get to see people and talk to them," she says. "I've really enjoyed it. I've enjoyed the work and I've enjoyed all the people I've met."

(MSP) of BC. These responsibilities did not include determining benefits or setting premiums for medical and surgical coverage. But MSA retained its independence as an organization and continued to manage its extended health plan, which had grown to covering more than 200,000 members. Just one year later, more than 300,000 people were covered.

In 1968, MSA used investment income to set up the BC Medical Services Foundation. The following year the Association seeded the fund with $300,000, to be distributed through the Vancouver Foundation to charities, educational institutions, and research projects. In subsequent years MSA invested in the fund at the same level.

MSA achieved another major milestone on January 1, 1970 when the Association launched the Dental Care Plan for groups with 25 or more employees. In the coming years the plan grew steadily in membership and in the scope of dental benefits offered. Membership in MSA's extended health plan also kept increasing significantly.

In June 1973 the Provincial Government announced that administration of the Medical Services Plan of BC would be centralized within government effective July 1975. MSA, which had been administering the plan as a licensed carrier of the Medical Services Commission, used the two-year notice to prepare for the transfer of coverage for individuals affected and also for relocation of MSA employees that the Provincial Government wished to employ. The Association also used the time to continue bolstering the private sector side of the business.

From January to July 1975, MSA completed the transition away from public sector business by transferring 1,045,911 covered lives to the Medical Services Plan of BC. That year, on March 3, 1975, Local 1816 of the Canadian Union of Public Employees (CUPE) was also certified as the bargaining unit for MSA employees. So it was yet another year of massive change for MSA.

John Seney

As described in the 1976 MSA Annual Report, 1976 was a "tough, competitive year" for the Association. It was the first year the organization had to completely rely on extended health and dental programs. Large, for-profit insurance carriers were also underwriting broad insurance packages, including extended health and dental, at very competitive rates. To keep up with the competition, MSA initiated a study of the Association's computer system that led to a project with IBM to create the MEDICS system. There was also a leadership change. John Seney, who started at MSA in 1964 as an accounting clerk and obtained his Certified General Accountant designation while working in the finance area, rose through the ranks and succeeded Herb Wyndham Jones as Executive Director in December 1976.

After suffering a net operating loss of approximately $50,000 in 1977, by the following year MSA significantly improved the company's performance and added $1 million to the Stabilization Account. The Association also launched its first wage indemnity program.

By the end of the seventies, all of the Association's main lines of business were experiencing stable growth. MSA also launched a Travel Protection Plan in 1979 with the largest advertising campaign ever conducted by the Association. On the technology front, the organization suspended the MEDICS project but leveraged knowledge gained from the project to improve the existing computer system.

CU&C

At CU&C's 14th Annual Meeting in Courtenay, on June 23, 1960, President Howard C. Hunter said in his Board report that the society showed continued growth. But he also sounded the alarm about utilization of plans, as others in his position at the society and at MSA had. "The experience of all plans has proven that year by year members demand a little more service," he said, calling that trend "creeping utilization." He went on to say that CU&C must decide "how far the society can go in providing benefits if the costs continue to rise."

In 1960, after years of study and planning, CU&C launched a wage indemnity plan for groups. By the following year there were four groups signed up for this benefit, which was initially a hard sell because of the challenging economic conditions of the time, but the plan gained momentum over time.

Meanwhile the national Medicare debate was well underway. CU&C submitted a comprehensive brief to the Royal Commission on Health Services chaired by Mr. Justice Emmett Hall. The board report prepared for the society's 17th Annual Meeting on June 24, 1963 in Vernon noted:

"It is difficult to predict what the results may be with the upheaval at Ottawa. However, your board continues to emphasize that it is their opinion if all people are to be assured of adequate medical care, our governments must become involved."

In 1965, the society launched an extended health plan, available initially for groups of 10 or more employees. After some difficult times, the year that ended February 28, 1966 was the society's best year. CU&C handled 455,149 claims that year, and reached 51,695 members.

Mainframe Computers

CU&C building at 22 E. Eighth Avenue

The BC Government's introduction of the BC Medical Plan, which offered individual coverage and subsidies that reduced the cost of premiums, prompted many CU&C individual members to transfer to the government plan. Like the MSI arm of MSA, CU&C had to adapt in the shifting landscape. One area the Society turned to was the provision of coverage for individuals that had lost employment temporarily. The society developed an improved individual plan that ensured coverage was maintained for laid off workers until they were employed again. Eventually known as welfare plans, CU&C developed a niche in administering them.

In 1965, CU&C initiated a study into the provision of a dental plan. The following year, the society launched Canada's first prepaid dental plan. The plan, developed jointly by CU&C and the Dental Services Association of BC, was with the Sheet Metal Workers' Union. The society would go on to become a leader in BC dental plans.

By 1968, the society was at a crossroads, as reflected in the Board Report to the 22nd Annual Meeting in Vancouver: "At the time of writing this report, no one is able to project the future with any degree of clarity. We do know that our coverage in the fields of prepaid dental care, wage indemnity and extended health care is sufficient to assure our society of a continued operation. What will happen though, with regard to medical and surgical benefits is, at this time, anybody's guess."

All would be revealed by mid-year. On July 1, 1968, when Medicare was implemented in BC, CU&C became a licensed carrier under the Medical Services Commission of BC. Just like MSA, CU&C would act as an agency of the Commission in administering coverage related to the new MSP.

For CU&C, 1970-1971 was a milestone year. The society celebrated its 25th anniversary, introduced BC's first prepaid prescription drug plan, and completed and moved in to a new building at 22 E. Eighth Ave. in Vancouver. In less than two years CU&C would need to expand the building.

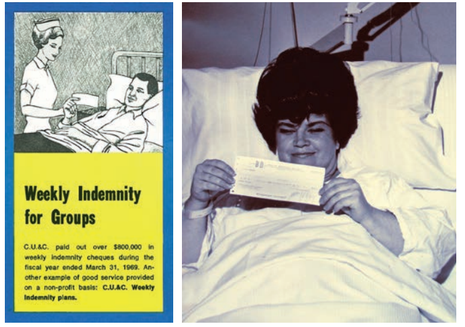
By 1973, more than 200,000 people were covered under a CU&C dental plan. Behind the scenes, the society worked extensively with the Provincial Government and College of Dental Surgeons to address use of different fee schedules, the rising cost of dental benefits, and other issues.

The time finally came in 1974 when CU&C transferred coverage for basic medical and surgical care to the Medical Services Commission of BC as part of the transition to Medicare. CU&C had grown lines of business including dental, extended health, wage indemnity, and prescription drug plans that helped offset the loss of government business. With dental alone, more than 321,000 people were receiving CU&C benefits by the end of February 1975. Also in 1975, Ted Kotter replaced Joe Corsbie as General Manager.

In 1977, the society began an IT project to develop online processing of dental claims. The system was operational by the following year. In 1978, David Schreck replaced Ted Kotter as General Manager.

CU&C became more of an activist organization. In the Society's 1978 Annual Report, CU&C's philosophy was outlined as providing "the best possible service at the lowest possible cost with no profit motive where people's health and welfare are concerned." It went on to acknowledge that the society faces "active competition from insurance companies and others who do not operate on the cooperative concept of providing health care benefits. CU&C as a 'people' oriented service organization in the British Columbia community, relies on the support of its members to maintain its position as a leader in the health care field."

The philosophy positioned the organization for the coming decades, which would unfold both as envisioned, and also in unexpected ways.



CU&C Weekly Indemnity Plan

MSA Office in the 1980s

Two Paths, One Destination: 1980 to 1996

By the 1980s, after successfully anticipating and adapting to the game changer that was Medicare, MSA and CU&C were mature and healthy organizations. They kept growing in this period while facing new challenges, which they approached in different ways. While the differences were evident, gradually the two not-for-profits moved to common ground.

MSA

In 1980, MSA formally joined the Blue Cross movement by becoming a member of the Canadian Council of Blue Cross Plans (which was renamed the Canadian Association of Blue Cross Plans in 1989). This placed MSA in the Blue Cross network of not-for-profit health insurance organizations operating across the country.

In 1981, the BC Government selected MSA to administer benefits plans for Provincial Government employees, starting the following year. This represented a large increase in volume for the association's extended health and dental plans. Also that year, MSA purchased British Columbia Life & Casualty Company (BC Life). With BC Life commencing operation as a wholly owned subsidiary in 1982, MSA was positioned to provide group life, short and long-term disability, and accidental death and dismemberment insurance alongside extended health and dental benefits in a complete package.

1982 and 1983 were both tough years due to the early 1980s recession when unemployment was high. The main impact on MSA was a dramatic increase in claims volume that resulted from plan usage before employees were terminated. "The point has been reached in the health care field where cost containment can no longer be considered an idealized goal, but has become an absolute necessity if we are to maintain a prepaid health care industry," wrote then-Board President Dr. Tim McCoy in the 1982 Annual Report.

Moving into the mid-eighties, MSA continued to deal with high utilization, along with aggressive competition from large insurance companies, by instituting measures including cost-saving programs and assertive marketing of products such as the MSA Travel Plan. An important decision made in 1986 was to redevelop and sell the MSA building, which was no longer meeting the organization's needs. While the association had to move downtown for 18 months during the construction, the redevelopment meant that MSA would be the prime tenant in a new building. MSA moved in to the building in 1988, which was another challenging year, as the association dealt with rising costs associated with dental and extended health plans.

MSA celebrated its 50th year of service to British Columbians in 1990. By that year the association was serving more than a million members, with a staff of approximately 250 and assets of more than $36 million.

The MSA Building on West Broadway

An early version of the MSA logo

A later incarnation of the MSA logo

In 1990 Canada entered another recession and health care costs continued to rise, which meant that MSA had to be as resourceful and innovative as ever. The association showed that resourcefulness and innovation in the early 1990s by introducing new individual benefit plans that combined dental coverage with extended health benefits. MSA also implemented a new extended health claims system. The online database system resulted in faster turnaround of claims.

In 1994, after years of negotiations, MSA concluded an agreement with the Canadian Dental Association and College of Dental Surgeons of BC that enabled implementation of an electronic dental claims processing system. The system enabled dentists to submit claims electronically. That year MSA also launched a product for individuals over 55. The "Over 55" plan covered extended health benefits including prescription drugs, vision care, and basic dental care including dentures.

By 1996 MSA began implementing MSAnet, an online, direct-pay system that enabled pharmacists to electronically submit prescription claims to the association. The system ensured patient confidentiality by encrypting data. That year MSA also launched its first website.

CU&C

By 1980, CU&C was providing coverage for 542,582 members and dependents. The society's financial approach at this time was to show an operating loss that could be subsidized through interest income. In 1980, interest earned on the Stabilization Fund was enough to cover the operating deficit and also grow the fund. As explained in the 35th Annual Report's message from the Board, "By operating within such a precise financial goal, CU&C forces itself to remain highly competitive."

An area that CU&C began developing in the early 1980s was administration services. This department assisted organizations by maintaining hour bank records, recording union dues paid by multiple employer plan members, and providing pension records administration. CU&C enhanced the complex computer systems supporting this work, which would become known as third party administration.

In 1981, CU&C took a leading role in organizing the BC Health Coalition, which brought together a wide variety of groups advocating for accessible healthcare. As part of the coalition's activities, the society spent $25,000 in newspaper ads opposing extra billing of patients by physicians. The coalition, with CU&C at the forefront, also lobbied strongly in support of Medicare and against fee-for-service healthcare delivery.

Related to the coalition's stance on healthcare delivery, CU&C grew more and more interested in alternative ways of providing care, which the society could help facilitate. CU&C's interest in directly providing healthcare dated back to the beginnings of the organization. At the society's first annual meeting, on June 25, 1947, founding Board President John R. Hunter laid the groundwork for CU&C to establish clinics in his board report. "The future of the society and eventually the company as a factor in the field of preventative medicine must be considered seriously and looking ahead, not too far into the future is the establishment of one or more health clinics as a practical step in that direction and as a further demonstration of effective service to ourselves."

It took until 1982 for Hunter's vision to come to fruition. That's when CU&C's Board approved a plan to establish the society's first health centre. Construction began that year in the CU&C building for the Mount Pleasant Health Centre, which opened in April 1983. Staffed by salaried physicians, the clinic was open to anyone who chose to use it, and not just society members.

In the dental benefits area, CU&C introduced an audit program. The program involved recruiting individuals who had dental work done and having them independently examined to see if the work matched what was billed. "We sometimes discovered that the work for which we were billed had not been performed, or a different procedure was performed," says David Schreck, who adds that the audit program was consistent with CU&C's mandate. "The mandate was to provide the best possible insurance coverage for the lowest possible premium, and eliminating fraud was thoroughly consistent with doing that."

In 1986, CU&C established the Kingsway Dental Clinic and the following year, the society opened the Delta Dental Clinic. Both clinics charged 25 percent less than the College of Dental Surgeons fee guide. As was the case with the health centre, CU&C members and any other BC resident could use the dental clinics. John Fitzpatrick, who was on the CU&C Board before moving on to the Pacific Blue Cross

Board after the merger, says the society eventually closed the dental clinics because they became a financial liability. "But the services provided by these clinics were awesome, especially for people who didn't have coverage or the money for proper dental care."

Bob Bucher

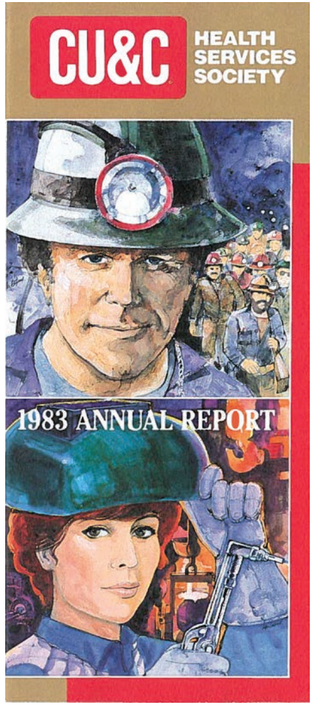
Schreck left CU&C in 1988 and was succeeded by Bob Bucher, who became the society's General Manager and Chief Executive Officer. As CU&C entered the recessionary early nineties, the society focused on maintaining low administration costs. The organization achieved an overall administration expense of five percent, which meant that approximately 95 cents of every dollar collected went directly to paying claims.

In 1990, CU&C introduced stand alone psychology benefits. A new line of business that CU&C added in 1991 was a Personal Health Benefits program for individuals. The program provided extended health and dental benefits for people who lost group coverage with CU&C because of layoffs or early retirement. Then in 1993, after 18 months of planning and development, CU&C launched a long-term disability plan. That year the International Foundation of Employee Benefits, of which CU&C was a member, awarded the Society with the Creative Excellence in Program Development Award.

In 1994, CU&C was a leader in the fight to protect extended health and dental benefits from becoming taxable. As requested by the society, more than 80,000 CU&C members and contract holders sent mail-in cards to the federal government supporting this position. As it turned out, the 1995/1996 federal budget did not contain provisions to tax dental and extended health benefits.

In 1996, CU&C celebrated the society's 50th anniversary of serving British Columbians. While the organization reflected back on its history, the focus remained on the future, which meant that improving technology was key. Over an 18-month period CU&C made major changes to computers systems and applications. The society also went online with its first website.

Celebrating 50 years of service



CU&C Annual Report, 1983

TECHNOLOGY THEN AND NOW

MSA and CU&C started in the 1940s with entirely manual processes that evolved as membership of both organizations increased.

Ron Gaines started working as an enrollment clerk at MSA in 1950, on the cusp of technological change. Every time members' information changed, he and the other clerks pulled their cards from the master file and manually updated them.

Then keypunch machines were introduced to record member information on computer cards. The 1962 MSA Annual Report highlighted a new data processing machine to perform more repetitive and monotonous work. "This machine can do much of this mechanically and our employees will be able to spend their time on the more difficult part of claims processing."

Leza Muir, who started at MSA in 1974 as a dental claims adjudicator, remembers what happened if the wrong information was punched on cards. "One of my jobs was plugging up the holes on cards that had invalid group and social insurance numbers punched," says Muir, who is now Senior Vice President, Claims Services at Pacific Blue Cross. "We had little stickers. You would pick up a sticker, lick it, and literally plug up the little tiny holes."

MSA and CU&C eventually incorporated mainframe computers in their systems. John Seney, President of MSA for two decades, recalls how physically huge the mainframes were. "They were monsters," he says.

Doug Hatlelid, who worked as a Senior Systems Analyst at CU&C before managing Administration Services, remembers the Society's first personal computers in the eighties. "We were over the moon because you could buy an external five megabyte hard drive for a desktop computer," says Hatlelid.

The multi-year ACES project, which launched in 2014, integrated 26 legacy technology systems. As of 2015, Pacific Blue Cross has about 700 desktop computers and 300 terabytes – or more than 300 million megabytes – of computer storage.

The new home of Pacific Blue Cross

Creating Pacific Blue Cross: 1996 to 2002

It began with a lunch. Bob Bucher, head of CU&C, and John Seney, leader of MSA, met for a lunch that started a transformation of the not-for-profit health insurance industry in BC. For close to 50 years, MSA and CU&C had been each others' biggest competitors in the province. The two companies had different roots, governance approaches, and company cultures. But they essentially operated in the same space, providing extended health, dental, wage indemnity, travel protection, and other health insurance benefits for groups and individuals on a not-for-profit basis. As direct competitors, collaboration didn't figure prominently in their parallel histories.

In the eighties and first half of the nineties, MSA and CU&C faced the same challenges: recessions that increased utilization of benefits; rising costs for healthcare that made it difficult to hold the line on rates; increasing and aggressive competition from large commercial insurance and financial services companies; long-held accounts going out to bid for the first time; and an urgency to access capital for complex and expensive technology projects to stay competitive. Despite the challenges, both organizations made significant investments in technology and marketing, and they were stable companies that could have continued as is for a number of years. The two companies also collaborated together – successfully – on a joint bid to the BC Public School Employers' Association (BCPSEA) to be the benefits provider for school districts. "That caused us to realize we could work together," says John Crawford, Senior Vice-President and Chief Financial Officer at Pacific Blue Cross who was MSA's Comptroller at the time of the bid.

Then Seney and Bucher met for lunch. At the lunch and at meetings that would follow, they talked about the Canadian insurance landscape, where mergers and acquisitions were reducing the numbers of players but making the national and international for-profit companies that survived stronger and more competitive. They also talked about the commonality between MSA and CU&C, which included similar products and services, both having unionized and long service staff, and a strong commitment to serving British Columbians as not-for-profits. Above all, they talked about the idea of combining resources in an alliance, as one innovative, agile, and competitive company.

"We understood and appreciated each other's market," says Seney. "There was an understanding that the principle of not-for-profit and the preservation of our products were the most important considerations for both organizations."

Bucher recalls how open and honest their early discussions were. "We didn't want to give away any trade secrets at that juncture until we had a memorandum of understanding in place, but at least it was felt by both of us that the conversation was a truly honest one that would enable us to keep moving this thing forward."

They did exactly that, with the boards and senior leaders of the two organizations. Both sides closely examined the

pros and cons of merging. Chris Locke, who retired from the Pacific Blue Cross Board in 2015 after more than 20 years of service that began with MSA, says technology was a key factor in bringing about the alliance. "The rationale for the merger basically was we had two not-for-profit companies doing the same thing, and we were both faced with massive costs for IT," says Locke.

Mary LaPlante, another longtime Pacific Blue Cross Board member who was also on the CU&C Board, remembers when the idea of merging with MSA was first raised at a CU&C Board meeting. "From my early days with CU&C, it was always kind of said, 'MSA is the competition and we've got to stay away from them,'" says LaPlante. "Then one day, Bob Bucher in a meeting said, 'It's time to merge.' I think everybody just about fell off their chairs." What followed on the CU&C Board was a period of intense debate that concluded with the majority of directors supporting the merger.

On November 5, 1996, MSA and CU&C jointly announced their intention to pursue negotiations to bring about a merger. The negotiations took almost six months before a pivotal vote on April 30, 1997. That's when the membership of MSA, gathered at the Westin Bayshore Hotel, and the membership of CU&C, meeting at the Hotel Vancouver, voted overwhelmingly to approve the merger. Pacific Blue Cross was chosen as the name for the new organization. The name reflected the company's location on the west coast and the long association, through MSA, with the well-recognized and trusted Blue Cross brand. The new company succeeded MSA as the BC member of the Canadian Association of Blue Cross Plans.

After receiving regulatory approvals, the merged organization was incorporated as PBC Health Benefits Society and formally began operation on November 1, 1997 with Seney as President and Chief Executive Officer and Bucher as Chief Operating Officer. According to a succession plan, Seney retired April 1, 1998, and Bucher succeeded him as President and CEO.

An Amalgamation Agreement, negotiated between MSA and CU&C and signed off on August 14, 1997, documented the strengths of both organizations entering the alliance. According to the agreement, as of January 1, 1997, MSA's membership consisted of approximately 380,000 individuals and 5,000 plan sponsor organizations. CU&C's membership included approximately 220,522 individuals and 1,828 plan sponsor organizations.

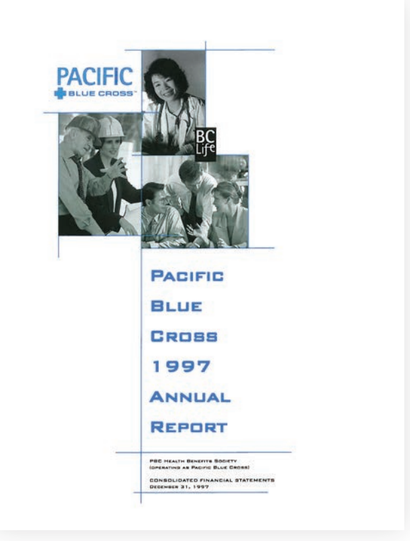
The Amalgamation Agreement noted that the new organization would temporarily be located at the MSA and CU&C offices until a new building was completed. In July 1998, employees began moving into the brand new, 119,000 square feet building at 4250 Canada Way in Burnaby. The combined workforce moving into the building included just under 500 employees.

The agreement also foreshadowed future challenges. It listed the "first directors" for Pacific Blue Cross: 22 people who previously served as directors on the MSA and CU&C Boards. This inaugural Pacific Blue Cross Board included two chairs and two vice-chairs. The agreed-upon plan was that the Board size would be reduced over two years to 14, and that it would be structured with three categories: "individual", which would primarily be union representatives; "organizational", which would mainly be employer reps; and healthcare professionals.

What followed were a series of tumultuous annual general meetings, including those held at the Westin Bayshore in 1999 and at the Pacific National Exhibition's Garden Auditorium in 2000 and 2001. Unions, such as the Health Employees Union and the BC Nurses Union, pulled out all the stops to urge their membership to attend the AGMs and vote for preferred candidates. As a result, hundreds of people attended these fiercely contested AGMs, where candidates ran on slates. Board meetings before the size was reduced were also challenging. Another challenge was reducing the inaugural Pacific Blue Cross executive from 12 to a more standard number, which was also accomplished over time.

Then there was the issue of employees electing one union to represent unionized employees at the new company – either CUPE Local 1816, which was certified at MSA, or Office and Technical Employees Union (OTEU) Local 15, which was the main union certified at CU&C. The Pacific Blue Cross bargaining unit would be chosen by an employee vote supervised by the BC Labour Relations Board. CUPE and OTEU waged intense campaigns to convince employees to vote for one union over the other.

While there were substantially more CUPE members than OTEU members in the company's workforce at the time of the merger, a number of CUPE members supported OTEU because of the more attractive collective agreement negotiated at CU&C. Beth Miller, an MSA employee who became President of CUPE 1816 at the time of the merger,



The First Pacific Blue Cross Annual Report, 1997

recalls that it was a very close vote. "Going into the vote, I felt we had it," says Miller, who has continued as President of the CUPE local at Pacific Blue Cross since the merger. "But when they were counting the votes I started to think we're not going to get in. It was that close." CUPE won by just 12 votes to become the bargaining agent at Pacific Blue Cross.

Bargaining for the first Pacific Blue Cross collective agreement was up next, and it was contentious, given that CUPE wanted to retain the best aspects of both the MSA and CU&C collective agreements. The union staged 10 days of rotating study sessions. In the end it took approximately 18 months to reach agreement on a three-year deal.

Anne Kinvig, the first new employee hired by Pacific Blue Cross in March 1997, managed labour relations as Vice President Human Resources. Aside from bargaining, she was responsible for integrating HR polices, practices, and terms and conditions of employment. A new Call Centre also needed to be established, which was done in 1999. The following year the company introduced the Client Assistance Response Enquiry System (CARES), an interactive phone system that cut callers' wait times by more than half.

Meanwhile, the decision was made to use the MSA technology platform moving forward. The project involved transferring all CU&C data to the chosen platform. That's where Project Elmo came into play. Why was the project named after the Sesame Street character? Leza Muir, Senior Vice President Claims Services at Pacific Blue Cross who began at MSA in 1975 as a dental claims adjudicator, explains: "There's a Dilbert cartoon about naming projects. It says when you cannot get agreement on a project name, then the fallback should be to name it after a cartoon character, and that's how it happened." Another technology milestone was implementing the Blue Express dental system, jointly developed with Alberta Blue Cross, on December 3, 2001.

Arguably the biggest issue post-merger was integrating two very different company cultures. As Bucher explains it, it was a challenge "to release the old paradigm and accept the new paradigm of what Pacific Blue Cross was wanting to do. That inevitably would be the case. We recognized that this was going to be a challenge for some time."

The long list of merger-related challenges and expenses that Pacific Blue Cross dealt with impacted the company's service levels, ability to retain clients, and bottom line. When the company's Minimum Continuing Capital and Surplus Requirements (MCCSR) solvency ratio dropped below a warning threshold, the Financial Institutions Commission of BC (FICOM) that regulates BC insurance companies took notice. "We were starting to turn but we were like the Titanic," says John Crawford, who was Comptroller at MSA. "If we didn't turn very fast we would have sunk."

PACIFIC BLUE CROSS™

Pacific Blue Cross Logo, 1997

The first use of the Blue Cross symbol, 1934

THE ORIGINS OF BLUE CROSS

The Blue Cross movement dates back to the beginning of the Great Depression. In 1929, the cost of medical care was forcing many hospitals and doctors into bankruptcy. Justin Ford Kimball, an official at Baylor University Hospital in Dallas, introduced affordable hospital care for teachers that guaranteed 21 days of hospital care for $6 a year. This prepaid care concept evolved into what later became known as Blue Cross Plans and spread across the United States.

The Blue Cross symbol was conceived by E.A. van Steenwyck, the director of a prepaid hospital plan in Minnesota. In an effort to promote the plan, van Steenwyck hired art student Joseph Binder, who created a poster in 1934 depicting the now famous Blue Cross Symbol. Blue Cross and Blue Shield Associations in the US developed separately before merging in 1982 and becoming the most widely recognized health benefit brand.

The history of Blue Cross in Canada followed a separate but parallel path to Blue Cross in the United States. It started in 1938 when the not-for-profit Manitoba Hospital Services Association began offering prepaid hospital benefits as Manitoba Blue Cross. More Blue Cross partners emerged across Canada to form the Canadian Council of Blue Cross Plans in 1955. The council renamed itself the Canadian Association of Blue Cross Plans in 1989.

MSA became a member of the Canadian Blue Cross family in 1980. When Pacific Blue Cross was chosen as the name of the organization created by MSA and CU&C's merger in 1997, the new company became part of a long and trusted tradition of not-for-profit health insurance in North America.

Today the Canadian Association of Blue Cross Plans is a national federation of 6 independent, not-for-profit and locally-operated Blue Cross Plans that collectively provide health care coverage for 7 million — or one in 5 — Canadians.

ACES team members Wendy Quan, Barb Dyck and Clair Wing

Achieving Stability and Reaching New Heights: 2003 to 2015

Ken Martin

After years of dedicated service to CU&C and Pacific Blue Cross, Bob Bucher retired in January 2003. That same month, the Ken Martin era began at Pacific Blue Cross. Under his leadership as President and CEO, the company transitioned from the merger focus to a new strategic direction that elevated the organization.

At the very beginning of Martin's tenure, Pacific Blue Cross won a contract to provide call centre and clerical services for the Ministry of Health Fair PharmaCare program. The company was given 23 days to:

- Secure building space for the call centre
- Order and install 75 workstations and computers
- Hire and train more than 150 staff
- Write procedures and systems

With close cooperation from CUPE 1816, Pacific Blue Cross met the deliverables.

In 2003, the company developed a new three-year Strategic Plan with four pillars:

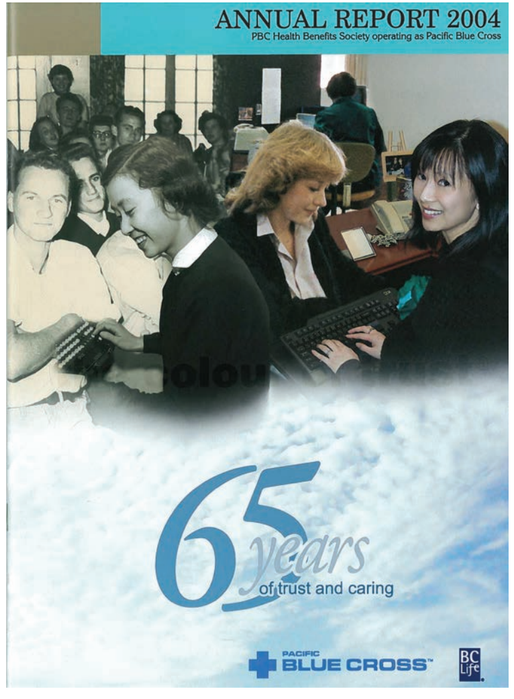
- Becoming more client-focused
- Strengthening technology
- Creating a performance-oriented culture
- Improving financial stability

Another matter that Martin moved quickly on was convincing the Board to sell the Pacific Blue Cross building in Burnaby and lease it back. The company invested the proceeds from the sale into a real estate fund that produced returns of close to 10 percent annually.

On the technology front, in 2003 Pacific Blue Cross launched CARESnet. The online resource for members began as a source of information on coverage and claims, and would grow in functionality over time.

In 2004, both short-term and long-term technology plans were developed. Martin wanted a 10-year tech plan, which was long by IT standards, and one that positioned the company to have an integrated and flexible system. His advice to Senior Vice President Information Technology Dr. Catherine Boivie, whom he hired to develop and implement the plans, was as follows: "I said, 'Imagine the future where everything we have works together, and design it to go there.'"

Pacific Blue Cross collaborated with Medavie Blue Cross in a two-year search for core technology to be used – internally and by clients – for online enrollment and other key plan administration tasks. The search identified the ACES system and led to the launch of a multi-year project to implement the platform.



Pacific Blue Cross Annual Report, 2004

Other highlights during this time that contributed to sizable growth included:

- Revamping, re-pricing, and assertively marketing individual plans
- Offering life insurance and disability coverage in virtually every quote delivered, which grew the BC Life arm of the company and led to the acquisition of a number of large groups

Revenues reached a landmark $1 billion in 2006. That year Pacific Blue Cross also adopted the "Staying the course" motto, which meant keeping true to core strategies while adapting to the changing economic environment. As part of that approach, the company decided in May 2007 to focus on strengthening reserves. That was a prescient decision as a global financial crisis began later in 2007 and continued in 2008. Adopting a conservative business strategy kept the company financially stable during the economic downturn.

Throughout these years, Martin emphasized transparency in communications. "I think that openness and transparency were critical to building a team that was all moving in the same direction," says Martin, who also established a gain-sharing program for employees.

In 2010, the company completed the first phase of the new core technology system, which enabled online enrollment and plan administration of BC Life products, including life and disability. The following year, Pacific Blue Cross launched a mobile app for travel insurance. Then in 2012, there was the launch of My Good Health: a health resource website.

Two other initiatives during Martin's tenure stood out for their philanthropic benefits. One was the creation, with more than $10 million invested, of the Pacific Blue Cross Community Connection Health Foundation in support of mental health and chronic disease prevention. The other was the introduction of the Reach Your Potential Scholarship Program for children of Pacific Blue Cross employees.

Martin retired in 2013 after a decade of leading the company. By that year, the company's MCCSR (solvency ratio) had reached 298 percent, a clear indicator of the company's financial health and stability.

Kyle Mitchell, a Director on the BC Life Board since 1984, says Martin's impact on the organization was far-reaching. "Ken got the foundation of the house in order and the operations really moving well. He established a much higher profile for Pacific Blue Cross among our clients and in the community." Mitchell also acknowledges his fellow Directors on the Pacific Blue Cross Board for "hiring Ken, supporting him, and providing effective governance over his tenure."

Gerry Smith, a Pacific Blue Cross Board member since 2001, says Martin's firm but fair leadership style was key to inspiring employees to realize the potential of the merger. "Ken won the hearts of the staff in that building, and I think that was a large part of the disappearance of the friction between the founding factions, MSA and CU&C. Under Ken's management, they melded and became Pacific Blue Cross and BC Life employees."

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My Good Health logo

Community Connection Reports, 2013 and 2014

Members of Pacific Blue Cross IT team with decommissioned mainframe, 2014

ACES logo

Jan K. Grude

Jan K. Grude, who was CEO of large Pacific Blue Cross client Healthcare Benefit Trust, succeeded Martin as President and CEO in October 2013. Not long into his tenure, Grude worked with Senior Vice-President and Chief Financial Officer John Crawford on a line-by-line financial review of the company's lines of business. Grude noticed that third party administration (TPA) of benefit plans was a small part of the business and lacked the scale to justify making technology investments in the area. That led Grude to begin discussions in December 2013 about acquiring D.A. Townley & Associates Ltd., Western Canada's largest TPA, overseeing 1,000 benefit plans representing approximately 100,000 members. Discussions continued until September 2014 when Pacific Blue Cross announced the acquisition of the Burnaby-based company. D.A. Townley is now a wholly-owned division of Pacific Blue Cross.

Another highlight from Grude's first year at Pacific Blue Cross was the completion in April 2014 of phase 2 of the ACES technology project that began under Ken Martin. This phase enabled online plan administration, internally by staff and externally by clients, of extended health and dental plans. It also consolidated software systems and data and automated business processes. "It's absolutely a major milestone in the company's history to bring together 26 legacy systems, 40 to 50 years worth of data, 1.86 million members' information, and more than 30 million pieces of information," says Grude. "It's a huge achievement that will position us well for the future."

A third highlight was embedding strategic planning, analytics, and market research capability in the organization by recruiting Helen Blackburn as Senior Vice President, Strategy and Analytics. Led by Blackburn, the two boards launched an in-depth strategic planning process to identify and select future opportunities and directions. Pacific Blue Cross is well-positioned to make a difference with its mission to improve health and well-being in British Columbia, and its vision of having affordable access to the best possible health care, personalized solutions to meet changing health needs, and a sustainable health plan that provides British Columbians with security and trust.

Life monster, the face of our television advertising

THREE PILLAR BOARD

From the early days of Pacific Blue Cross, following the merger that brought together MSA and CU&C, the company took a broad-based governance approach. As part of that approach, the Pacific Blue Cross Board has included representation from three pillars: employers, unions, and the healthcare system. While CU&C's Board was almost entirely union-based, MSA also took this tripartite approach.

Dr. Malcolm Williamson, a dental consultant and longtime Board member with Pacific Blue Cross and MSA who has served in the health system category, says Directors have looked beyond their background and affiliations when governing the company. "We're not there representing our own groups," he says. "We have to take our individual hats off when we're at the Board and represent the best interests of Pacific Blue Cross."

Colleen Jordan – another longtime Pacific Blue Cross Board member and former Director on the CU&C Board who worked for the Canadian Union of Public Employees, has also seen first-hand the non-partisan nature of the company's Board in action. It's been especially evident when Directors, who are on opposite sides outside of Pacific Blue Cross, work together at the Board table. "You would have two people who are normally across the bargaining table from each other, who have been in strikes against each other, but at the end of the day, they're both looking at providing the best plans they can for Pacific Blue Cross members," says Jordan.

Pacific Blue Cross President and CEO Jan K. Grude says that moving forward as Directors retire from the company's main Board and the BC Life Board, composition of the Boards will reflect the latest best practice guidelines from the Financial Institutions Commission of BC (FICOM). The guidelines call for Boards to be composed of skilled and credentialed individuals with relevant experience. But Grude says Pacific Blue Cross is still committed to the tripartite approach. "There's no intent of unravelling the tripartite structure of the Board," he says. "Within each of those constituencies, we will need to put forward individuals who first and foremost can make a contribution, and whose fiduciary accountability to the society is reflected in their skills, expertise, and experience."

Pacific Blue Cross employees, 2007

The Legacy So Far

After 75 years of service to British Columbians, Pacific Blue Cross and its predecessor organizations have left a substantial legacy, which is continuing to build.

"The amount of the population of BC that is served by the organization is really something," says Richard Taylor, a longtime Pacific Blue Cross Board member who also served on the MSA Board. "We're part of the fabric of British Columbia healthcare. We're really proud that we've been able to carry forward the vision that the founders had when the organizations were formed back in the 1940s."

"We've played an important role in the delivery of healthcare to British Columbians," says Colleen Jordan, who served on the Pacific Blue Cross Board since the merger and was also on the CU&C Board. "We've kept growing and still have the confidence of the people of British Columbia. It's a proud tradition."

"We've worked really hard to create trust with members, providers, and other stakeholders across the province, and we've done that by being innovative, adaptive, and just easy to deal with," says David Crumpton, Pacific Blue Cross Director of Compliance and Chief Privacy Officer, who was Manager of Legal Services & Internal Audit at CU&C.

While BC Life accounts for a relatively small portion of revenues, Pacific Blue Cross Chief Operating Officer Anne Kinvig notes that the subsidiary has contributed to the company's legacy of showing empathy to members in challenging life circumstances. "We do the right thing," she says. "I think we're a more empathetic life and disability insurer than our competitors."

Another part of the Pacific Blue Cross legacy relates to the company's loyal workforce. There's an extensive list of long-service employees, including a number who have worked more than 40 years with the company. "I'm amazed at the length of time many people have spent working in our company," says Pacific Blue Cross and former MSA Board Director Dr. Malcolm Williamson. "It basically feels almost like a family-run business."

Jan K. Grude says that ultimately, the company's long history in BC has shaped the qualities that differentiate Pacific Blue Cross in the marketplace and community. "We're rooted in British Columbia and committed to BC. We have a strong connection with both private and public sector, union and non-union groups. We have a workforce that gives a high degree of member service and an incredible level of customization – plan design by plan design, employer by employer, union by union – that no other health insurance provider will offer."

Looking back at the 75-year history of Pacific Blue Cross, the non-profit company was a pioneer in providing quality health insurance for British Columbians. The founders of the company's predecessor organizations built the business at a time when prepaid medical insurance was a brand new idea that needed to be developed and marketed. They did exactly that, and as the health insurance space became a highly competitive one, the predecessor organizations

Today Pacific Blue Cross provides coverage for approximately 1.5 million British Columbians

survived and thrived. They also had the foresight to find common ground to create Pacific Blue Cross, which has earned its leading role as BC's most trusted not-for-profit health insurance provider. As it continues to innovate and evolve, Pacific Blue Cross will proudly serve British Columbians for many years to come.

Making a meaningful difference in the lives of British Columbians

THE FUTURE

As Pacific Blue Cross celebrates its 75th anniversary in 2015, by looking back at its long journey, the company is also looking ahead to the future. After years of hard work and investment, BC's largest not-for-profit health insurance provider has achieved stability in its lines of business, technology, and financial base. Yet there are opportunities to grow the business further. Is Pacific Blue Cross at a crossroads? "It's not necessarily a crossroads, because that means we've only got one or two choices," says Pacific Blue Cross President and CEO Jan K. Grude. "We're at a big clover leaf. There are multiple choices and directions that we could go."

The possible directions, which aren't mutually exclusive, include:

Financial services – Working closer together with our partners in the financial services industry.

Products and services – Strengthening and growing products and services such as travel insurance, life insurance, ASO (Administrative Services Only: when Pacific Blue Cross provides only claims administration and the client company assumes the risk by self-insuring), and third party administration (which was bolstered when Pacific Blue Cross acquired D.A. Townley).

National – While remaining committed to being a strong regional player, this direction involves extending regional capacity to serve BC companies as they expand beyond the province.

Healthcare – Collaborating with healthcare system partners to help relieve pressure on the system.

"We are at a very critical juncture of laying the groundwork for a strategy that will take us out five, 10, 15 years," says Grude, who adds that innovation is key. "It's always about innovation. It's always about looking forward, thinking about what the market wants, and how we can use technology to deliver it and be more efficient and effective."

Pacific Blue Cross Timeline

1940

FOUNDING OF MEDICAL SERVICES ASSOCIATION (MSA)

1946

FOUNDING OF CU&C

1954

FOUNDING OF BC MEDICAL SERVICES INCORPORATED (MSI) AS AN ASSOCIATED PLAN OF MSA

1965

CU&C INTRODUCES EXTENDED HEALTH PLAN

1966

MSA INTRODUCES EXTENDED HEALTH PLAN

CU&C INTRODUCES CANADA'S FIRST PREPAID DENTAL PLAN, DEVELOPED WITH THE DENTAL ASSOCIATION OF BC AND SHEET METAL WORKERS' UNION

1968

WITH THE IMPLEMENTATION OF MEDICARE IN BC, MSA AND CU&C BECOME LICENSED CARRIERS UNDER THE MEDICAL SERVICES PLAN OF BC

1970

MSA INTRODUCES DENTAL PLAN

1974

MSA AND CU&C TRANSFER COVERAGE FOR BASIC MEDICAL AND SURGICAL CARE TO THE BC GOVERNMENT AS IT CENTRALIZES ADMINISTRATION OF THE MEDICAL SERVICES PLAN

1980

MSA JOINS CANADIAN COUNCIL OF BLUE CROSS PLANS (PREDECESSOR ORGANIZATION OF CANADIAN ASSOCIATION OF BLUE CROSS PLANS)

1982

BRITISH COLUMBIA LIFE & CASUALTY COMPANY (BC LIFE) COMMENCES OPERATION AS A WHOLLY OWNED SUBSIDIARY OF MSA

CU&C OPENS MOUNT PLEASANT HEALTH CENTRE

Pacific Blue Cross Timeline

1986

CU&C OPENS KINGSWAY AND DELTA DENTAL CLINICS

1996

MSA AND CU&C JOINTLY ANNOUNCE INTENTION TO PURSUE MERGER NEGOTIATIONS

1997

MEMBERSHIP OF MSA AND CU&C VOTE IN FAVOUR OF MERGER BETWEEN MSA AND CU&C. PACIFIC BLUE CROSS COMMENCES OPERATION

1998

COMPLETION OF PACIFIC BLUE CROSS BUILDING AT CANADA WAY AND GILMOUR IN BURNABY, BC

2003

PACIFIC BLUE CROSS SECURES CONTRACT TO PROVIDE SERVICES FOR THE BC GOVERNMENT'S FAIR PHARMACARE PROGRAM

PACIFIC BLUE CROSS LAUNCHES CARESNET FOR PLAN MEMBERS

2010

PACIFIC BLUE CROSS COMPLETES FIRST PHASE OF ACES TECHNOLOGY PROJECT, ENABLING ONLINE ENROLLMENT AND PLAN ADMINISTRATION OF LIFE AND DISABILITY

2012

PACIFIC BLUE CROSS LAUNCHES MY GOOD HEALTH WEBSITE

2014

PACIFIC BLUE CROSS COMPLETES SECOND PHASE OF ACES TECHNOLOGY PROJECT, ENABLING ONLINE ENROLLMENT AND PLAN ADMINISTRATION OF EXTENDED HEALTH AND DENTAL

2015

PACIFIC BLUE CROSS ACQUIRES THIRD PARTY ADMINISTRATION FIRM D.A. TOWNLEY & ASSOCIATES LTD

1940 2015

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John Crawford
David Crumpton
John Fitzpatrick
Ron Gaines
Jan K. Grude
Doug Hatlelid
Colleen Jordan
Anne Kinvig
Mary LaPlante
Vincent Lesage
Chris Locke
Ken Martin
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Designed by Jason Yeasting.

Contact us

4250 Canada Way
Burnaby, BC V5G 4W6

Phone: 604-419-2000
Toll Free Phone: 1-888-275-4672

www.pac.bluecross.ca

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