Unicare Life and Health
Insurance Company

# MARKET CONDUCT EXAMINATION REPORT

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| DATE OF EXAMINATION: | February 20, 2007 through February 8, 2008 |
| EXAMINATION OF: | Unicare Life and Health Insurance Company |
| LOCATION: | 233 S. Wacker<br>Chicago, Illinois 60604 |
| PERIOD COVERED BY EXAMINATION: | January 1, 2006 through December 31, 2006 – Claims<br>January 1, 2005 through February 20, 2007 – Division of Insurance and Consumer Complaints |
| EXAMINERS: | Pat Hahn<br>Mike Hager<br>David Bradbury, Examiner in Charge |

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I. SUMMARY

1. The Company was criticized under Section 919.50(a)(1) of the Illinois Administrative Code for failure to provide the insured notice of the "Availability of the Division of Insurance" on a denied claim. (See 50 Ill. Adm. Code 919.50(a)(1))

2. The Company was criticized under Section 919.70(a)(2) of the Illinois Administrative Code for failure to provide the insured with a reasonable written explanation for delay beyond forty-five (45) days. (See 50 Ill. Adm. Code 919.50(a)(2))

3. The Company was criticized under Section 5/368a(c) of the Illinois Insurance Code for the underpayment of interest when a claim remains delayed beyond thirty (30) days. (See 215 ILCS 5/368a(c))

4. The Company was criticized under Section 2051.55(c)(1)(B) of the Illinois Administrative Code for improper denial and subsequent underpayment of claims. (See 50 Ill. Adm. Code 2051.55(c)(1)(B))

5. The Company was criticized under Section 5/154.6(d) of the Illinois Insurance Code for failure to effect prompt, fair, and equitable settlement of claims when liability has become reasonably clear. (See 215 ILCS 5/154.6(d))

6. The Company was criticized under Section 919.60(a) of the Illinois Administrative Code for indicating to the insured that the payment is "final" on disability claims. (See 50 Ill. Adm. Code 919.60(a))

7. The Company was criticized under 5/154.6(i) of the Illinois Insurance Code for failing to affirm or deny coverage within thirty (30) days. (215 ILCS 5/154.6(i))

8. The Company was criticized under Section 1407.20 of the Illinois Administrative Code for using an incorrect definition of "Terminal Illness" in policy forms. (See 50 Ill. Adm. Code 1407.20)

9. The Company was criticized under Section 1405.40p)2) of the Illinois Administrative Code for using contributory language "wholly or partly" to define exclusions under the accidental death and dismemberment section of the Group Life Insurance Certificate in use. (See 50 Ill. Adm. Code 1405.40p)2))

10. The Company was criticized under Section 5/367(7) of the Illinois Insurance Code for failure to provide inpatient coverage for alcoholism the same as for any other medical condition. (See 215 ILCS 5/367(7))

11. The Company was criticized under Section 2009 of the Illinois Administrative Code for use of the term "covered expenses" and for inclusion in the definition of Plan as "prepayment, group practice or individual practice coverage." (See 50 Ill. Adm. Code 2009)

## II. BACKGROUND

Unicare Life and Health Insurance Company was incorporated in Delaware on June 11, 1971 as Bay Colony Life Insurance Company of Delaware. On November 19, 1979, the corporation's name was changed to MML Pension Insurance Company. On November 21, 1995, the corporation's name was changed to Mirus Insurance Company. On March 25, 1996, the corporation's name was changed to Unicare Life and Health Insurance Company. The corporation redomesticated to the State of Indiana on August 15, 2005.

The company is a wholly owned subsidiary of Unicare National Services, Inc., which is a wholly owned subsidiary of Anthem Holding Corp., which is a wholly owned subsidiary of Wellpoint, Inc.

## III. METHODOLOGY

The Market Conduct Examination places emphasis on evaluating an insurer's system and procedures used in dealing with insureds and claimants. The following categories are the general areas examined:

1. Policy Forms and Advertising Material Analysis
2. Claims
3. Insurance Division Complaints

The review of these categories is accomplished through examination of producer files, Medicare supplement application files, cash surrendered policy files, extended term and reduced paid-up policy files, claim files, Division of Insurance complaint files, policy forms and advertising material. Each of these categories is examined for compliance with Division of Insurance regulations and applicable state laws.

The report concerns itself with improper practices performed with such frequency as to indicate general business practices. Individual criticisms are identified and communicated to the insurer, but not cited in the report if not indicative of a general trend, except to the extent that there were underpayments in claim surveys or undercharges and/or overcharges in underwriting surveys. The following methods were used to obtain the required samples and to assure a methodical selection.

Policy Forms and Advertising Material Analysis

The Company was requested to provide specimen copies of all policy forms and samples of all advertising material in use during the survey period.

Claims

Claim surveys were selected using the following criteria:

1. Paid Claims - Payment for a coverage made during the examination period.
2. Denied Claims - Denial of benefits for losses not covered by policy provisions.

All claims were reviewed for compliance with policy contracts and endorsements, applicable sections of the Illinois Insurance Code (215 ILCS 5/*et seq.*) and Illinois Administrative Code (50 Ill. Adm. Code).

All median payment periods were measured from the date necessary proofs of loss were received to the date of payment or denial to the insured or the beneficiary.

The examination period for the claims review was January 1, 2006 through December 31, 2006.

Division of Insurance Complaints

The Company was requested to provide all files relating to complaints that had been received via the Division of Insurance as well as those received directly by the Company from the insureds or his/her representative. A copy of the Company's complaint register was also reviewed.

Median periods were measured from the date of notification of the complaint to the date of response to the Division of Insurance.

The examination period for Division of Insurance and consumer complaints was January 1, 2005 through February 20, 2007.

SELECTION OF SAMPLE

| Survey | Population | Reviewed | % Reviewed |
|---|---|---|---|
| CLAIMS ANALYSIS | | | |
| Paid Group Life | 124 | 124 | 100.00 |
| Denied Group Life | 3 | 3 | 100.00 |
| Paid AD & D | 5 | 5 | 100.00 |
| Denied AD & D | 1 | 1 | 100.00 |
| Paid Group Health | 35227 | 120 | .34 |
| Denied Group Health | 5873 | 99 | 2.00 |
| Paid Short-Term Disability | 302 | 46 | 100.00 |
| Denied Short-Term Disability | 8 | 8 | 100.00 |
| Paid Student Health | 1656 | 55 | 3.00 |
| Denied Student Health | 500 | 40 | 8.00 |
| Paid Travel Insurance | 2 | 2 | 100.00 |
| UNDERWRITING | | | |
| Declined Life Apps | 15 | 15 | 100.00 |
| COMPLAINTS | | | |
| Division of Ins. Complaints | 26 | 26 | 100.00 |
| Consumer Complaints | 1953 | 81 | 100.00 |
| ADVERTISING & POLICY FORMS | | | |
| Policy Forms | 6 | 6 | 100.00 |
| PRODUCERS ANALYSIS | | | |
| Producer License | 526 | 526 | 100.00 |

## IV. FINDINGS

### A. Claims Analysis

1. Paid Group Life

   A review of 124 paid group life claims produced no criticisms.

   The median for payment was five (5) days.

2. Denied Group Life

   A review of three (3) denied group life claims produced one (1) general criticism. A general criticism was written under Section 919.50(a)(1) of the Illinois Administrative Code (50 Ill. Adm. Code 919.50(a)(1)) for failure to provide the insured the "Notice of Availability of the Division of Insurance" on denied claims.

   The median for denial could not be established.

3. Paid Accidental Death & Dismemberment

   A review of five (5) paid accidental death & dismemberment claim files produced one general criticism. A general criticism was written under Section 919.70(a)(2) of the Illinois Administrative Code (50 Ill. Adm. Code 919.70(a)(2)) for failure to provide the insured with a reasonable explanation for delay beyond forty-five (45) days. Delays that were sent did not include the required "Notice of Availability of the Division of Insurance."

   The median for payment was six (6) days.

4. Denied Accidental Death & Dismemberment

   A review of one (1) denied accidental death & dismemberment claim file produced no criticisms.

   A median could not be established.

5. Paid Group Health

   A review of 120 paid group health claim files produced one (1) individual criticism. An individual criticism was written under Section 5/368a(c) of the Illinois Insurance Code (215 ILCS 5/368a(c)) for the underpayment of interest

when a claim remained unpaid for thirty (30) days. The underpayment amount was $69.41.

The median for payment was one (1) day.

6. Denied Group Health

A review of ninety-nine (99) denied group health claim files produced two (2) criticisms. The first criticism was written under Section 2051.55(c)(1)(B) of the Illinois Administrative Code (50 Ill. Adm. Code 2051.55(c)(1)(B)) for improper denial and subsequent underpayment of a claim. The insurer is prohibited from placing liability for a claim with the insured when the insured has not willfully chosen to access non-participating providers. The claim underpayment is in the amount of $305.90. This included subsequent interest due to late payment. The second individual criticism was written under Section 5/154.6(d) of the Illinois Insurance Code (215 ILCS 5/154.6(d)) for a claim underpayment in the amount of $81.00. The claim was reprocessed and correctly applied to the insured's deductible after the criticism was written.

The median for denial was one (1) day.

7. Paid Short Term Disability

A review of forty-six (46) paid short-term disability claim files produced two (2) criticisms. A general criticism was written under Section 919.60(a) of the Illinois Administrative Code (50 Ill. Adm. Code 919.60(a)) for indicating to the insured the payment is "final." An individual criticism was written under Section 5/154.6(d) of the Illinois Insurance Code (215 ILCS 5/154.6(d)) for a claim underpayment in the amount of $1213.62. This included subsequent interest due to late payment.

The median for payment was six (6) days.

8. Denied Short Term Disability

A review of eight (8) denied short-term disability claim files produced no criticisms.

The median for denial was one (1) day.

9. Paid Student Health

A review of fifty-five (55) paid student health claim files produced two (2) general criticisms. A general criticism was written under Section 919.70(a)(2) of the Illinois Administrative Code (50 Ill. Adm. Code 919.70(a)(2)) for failure to

provide the insured with a reasonable explanation for delay beyond forty-five (45) days. A second general criticism was written under Section 5/154.6(i) of the Illinois Insurance Code (215 ILCS 5/154.6(i)) for failing to affirm coverage within thirty (30) days.

The median for payment was twenty-one (21) days.

10. Denied Student Health

A review of forty (40) denied student health claim files produced three (3) general criticisms. A general criticism was written under Section 919.50(a)(1) of the Illinois Administrative Code (50 Ill. Adm. Code 919.50(a)(1)) for failure to provide the insured a "Notice of Availability of the Division of Insurance" on denied claims. A second general criticism was written under Section 919.70(a)(2) of the Illinois Administrative Code (50 Ill. Adm. Code 919.70(a)(2)) for failure to provide the insured with a reasonable explanation for delay beyond forty-five (45) days. A third general criticism was written under Section 5/154.6(i) of the Illinois Insurance Code (215 ILCS 5/154.6(i)) for failing to deny coverage within thirty (30) days.

The median for denial was fourteen (14) days.

11. Paid Travel Insurance

A review of two (2) paid travel claim files produced no criticisms.

A median could not be established.

B. Underwriting

Declined Life Applications

Examiners reviewed fifteen (15) declined life applications. No exceptions were noted.

C. Complaints

1. Division of Insurance Complaints

A review of twenty-six (26) Division of Insurance Complaint files produced two (2) criticisms. Two (2) individual criticisms were written under Section 5/368a(c) of the Illinois Insurance Code (215 ILCS 5/368a(c)) for the underpayment of interest when a claim remained unpaid for thirty (30) days. The underpayment amounts totaled $19.61.

The median for response to the Division of Insurance was nineteen (19) days.

2. Consumer Complaints

A review of eighty-one (81) consumer complaint files produced four (4) individual criticisms. Two (2) criticisms were written under Section 5/368a(c) of the Illinois Insurance Code (215 ILCS 5/368a(c)) for the underpayment interest when a claim remains unpaid for thirty (30) days. The underpayment amounts totaled $94.30. One (1) criticism was written under Section 2051.55(c)(1)(B) of the Illinois Administrative Code (50 Ill. Adm. Code 2051.55(c)(1)(B)) for improper denial and subsequent underpayment of a claim. The insurer is prohibited from placing liability for a claim with the insured when the insured has not willfully chosen to access non-participating providers. The claim underpayment is in the amount of $426.70. This included subsequent interest due to late payment. One (1) criticism was written under Section 5/154.6(d) of the Illinois Insurance Code (215 ILCS 5/154.6(d)) for a claim underpayment in the amount of $2849.35. This included subsequent interest due to late payment.

The median for response to the consumer was twenty-eight (28) days.

D. Policy Form Review

A review of the policy forms in use resulted in five (5) individual criticisms. Two (2) criticisms were written under Section 1407.20 of the Illinois Administrative Code (50 Ill. Adm. Code 1407.20) for using an incorrect definition of terminal illness. This section of the Administrative Code defines terminal illness as life expectancy of twenty-four (24) months or less. A criticism was written under Section 1405.40p)2) of the Illinois Administrative code (50 Ill. Adm. Code 1405.40p)2)) for using contributory language "wholly or partly" to define exclusions under the Accidental Death and Dismemberment section of the Group Life Insurance Certificate. A criticism was written under Section 5/367(7) of the Illinois Insurance Code (215 ILCS 5/367(7)) for failure to provide inpatient coverage for alcoholism the same as for any other medical condition. A criticism was written under Section 2009.50 of the Illinois Administrative Code (50 Ill. Adm. Code 2009.50). Language contained in the "Reduction of Benefits Due to Medicare" used the term "covered expenses." The term "allowable expenses" should replace this. Also the Coordination of Benefits Provision includes in the Plan definition "prepayment, group practice or individual practice coverage." This violates Section 2009.20f(5)(D) of the Illinois Administrative Code (50 Ill. Adm. Code 2009.20f(5)(D)). A Plan cannot be defined as including payment, group practice or individual practice coverage.

E. Producer Analysis

A review of 526 producer licenses and associated first year commissions produced no criticisms.

## V. INTERRELATED FINDINGS

### A. Eligibility Underpayments

Examiners noted during the review of the health claims that many claims were denied as ineligible when if fact, according to the information examiners reviewed, the insured was eligible. This resulted in twenty-nine (29) individual criticisms.

Ten (10) individual criticisms were written under Section 5/154.6(d) of the Illinois Insurance Code (215 ILCS 5/154.6(d)). Five (5) of the criticisms resulted in $273.67 in claim underpayments ($250.18 in claim payments and $23.49 in interest) and $366.82 in insured's savings due to participating provider contractual discounts. The remaining five (5) resulted in an insured's savings of $297.80. Initially when claims were denied, the gross billings of $607.56 were 100% of the liability of the insured. The company misinformed the providers that the claimants were not insured and told the provider to pursue the insured for 100% of the gross medical service billing by releasing them from any hold-harmless contractual provisions. Examiners found the claimants were insured and the claims should have been processed with applicable deductibles, coinsurance, and co-payments less contractual discounts with the participating providers.

Three (3) explanation-of-benefit denial codes (R11250, R01030, and R11010) were identified. Examiners reviewed all claims for the January 1, 2006 through December 31, 2006 period for all EOB codes identified. Unicare Life & Health Insurance Company should reopen and adjudicate correctly all claims processed June 1, 2004 to date and provide a report to our Division.

Nineteen (19) individual criticisms were written under Section 5/368a(c) of the Illinois Insurance Code (215 ILCS 5/368a(c)) for the underpayment interest when a claim remains unpaid for thirty (30) days. The underpayment amounts totaled $157.23.

### B. Company Cooperation

During the course of the Examination, while the Company made efforts to facilitate the examination process, it was inadequate. The data, information, files and responses to criticisms were not received in a timely manner. The median number of days to respond to the 105 criticisms and requests for information was 29 days.

Populations for all lines were requested but were not initially provided. After I reviewed the financials, it was discovered that Unicare failed to provide travel and student health claim populations.

# VI. APPENDICES