

STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
MONTGOMERY, ALABAMA

TARGET MARKET CONDUCT EXAMINATION

REPORT

OF THE

MEGA LIFE AND HEALTH INSURANCE COMPANY

NORTH RICHLAND HILLS, TEXAS

AS OF

JULY 31, 2004

EXAMINATION PERIOD: JANUARY 1, 2001 THROUGH JULY 31, 2004

**ALABAMA DEPARTMENT OF INSURANCE**

**STATE OF ALABAMA**

**COUNTY OF MONTGOMERY**

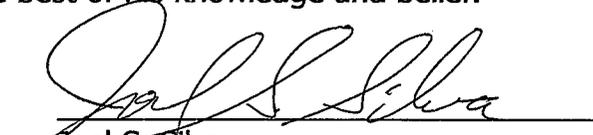
Joel S. Silva, being first duly sworn, upon his oath deposes and says:

THAT he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

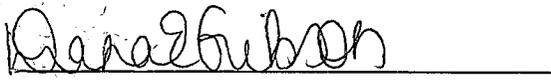
THAT a market conduct examination was made of the procedures and policies of **Mega Life and Health Insurance Company**, for the period from January 1, 2001 through July 31, 2004;

THAT the following 25 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama; and

THAT the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Joel S. Silva  
Examiner-in-Charge

Subscribed and sworn to before the undersigned authority this 20th day of May, 2005.

  
\_\_\_\_\_  
(Signature of Notary Public)

Dana E. Gibson Notary Public  
(Print Name)

in and for the State of Georgia

My commission expires 11-10-07

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## **I. SCOPE OF THE EXAMINATION**

This target examination of MEGA Life & Health Insurance Company (hereinafter referred to as MEGA or the Company) located in North Richland Hills, Texas commenced on September 13, 2004, and covered the period of January 1, 2001 through July 31, 2004. This exam was conducted by representatives of Insurance Logic, Inc. as examination consultants for the Alabama Department of Insurance (AL-DOI). Latté, Langston and Dyer, a consulting actuarial firm was also appointed by the AL-DOI to review the rates and rating policies used by MEGA. The results of the actuarial examination are also incorporated into this report.

The examination was conducted pursuant to the provisions of the Alabama §§27-2-21, 27-2-22, 27-2-23 and 27-2-24, and the Alabama Department of Insurance (AL-DOI) Regulation 482-1-124, and in accordance with the procedures and guidelines provided in the Market Conduct Examiners' Handbook, as adopted by the National Association of Insurance Commissioners (NAIC), and is consistent with the predetermined market conduct program presented to and approved by the AL-DOI.

The purpose of this target market conduct examination was to determine if MEGA has complied with the various specified sections of the Code of Alabama 1975 and the Administrative Rules and Regulations, as they pertain to the following areas under review in this examination.

- Advertising and Marketing Practices
- Complaint Handling
- Underwriting Practices
- Claims Handling Practices

This examination report reflects only the exceptions that were in violation of Alabama's laws and regulations, and which were not consistent with the public interest of the consumers residing in the state.

## **II. ADVERTISING AND MARKETING PRACTICES**

A total of 770 different types of advertising and marketing items were provided for review. Of this total, 728 were for the North Richland Hills Division (NRH), primarily for the National Association for the Self-Employed (NASE), 31 were for the STAR Division (STAR), and 11 were for the Student Insurance Division (SID). The materials included internet advertising, radio commercials, agent advertising, brochures, UICI marketing materials, a Starbridge CD, and miscellaneous student advertising materials. As required by the UICI Corporate Legal Department, all materials must be sent to the Company for approval before they can be used.

UGA Association Field Services (UGA) has been a division of MEGA since 1997, and is a dedicated sales agency field force of approximately 124 producers who market insurance for MEGA. They market to the self-employed NASE members throughout most of the country, as well as Alabama. Performance Driven Awards, Inc. (PDA), which is another UICI subsidiary, is also contracted by NASE to market new members of NASE and performs various other

administrative functions. These other functions include the retention of the members, collecting and remitting initial fees and dues, as well as to provide reports to NASE. PDA also provides advice to them regarding membership and marketing materials.

STAR markets their products through a few brokers who are generally contacted by the employers who are interested in installing limited coverage health insurance programs for their part-time and temporary employees. STAR or the brokers provide the prospective employers a Starbridge CD and/or brochures that explain their insurance product.

SID also markets their product through approximately 27 producers, who contact or are contacted by the school systems or colleges and universities that are interested in providing their students with limited and temporary health insurance coverage.

NAIC Standard 1 – (Advertising Materials) – *All advertising and sales materials are in compliance with applicable statutes, rules and regulations.*

The advertising and sales materials were reviewed to determine if there were misrepresentations of the products sold by the Company and to insure that the name of the Company was properly disclosed. Also, the materials were reviewed to determine that the policy benefits properly disclosed limitations, exclusions or any reductions, and that the material is not misleading or ambiguous.

There were no exceptions noted in the sales and advertising materials reviewed.

NAIC Standard 5 – (Outline of Coverages) – *Outline of coverages is in compliance with all applicable statutes, rules and regulations.*

The policies and contracts were reviewed to determine that the Company properly describes the outlines of coverages that are used and that appropriate persons within the Company have approved them.

The policy forms and plans were also reviewed to determine that the limitations of policy benefits are completely and accurately described.

The NRH policies sold through NASE do not properly indicate on the Schedule of Benefits page the fact that the deductible is for each period of confinement and will apply separately for up to 3 occurrences per year. However, this limitation is noted within the body of the policy in the definition section of the policy form. Since this limitation is not reflected on the Schedule of Benefits page it could possibly result in confusion to many insureds, so it is important that the agents adequately disclose this limitation during their sales presentations.

### **III. COMPLAINT HANDLING**

The Company has a written Complaint Handling Manual that provides instructions for handling their insurance complaints. This manual was written by the Insurance Center Legal Department, and was last updated on August 22, 2003. Based on the manual's procedures, the written complaints received are date-stamped, imaged and entered into the Company's Complaint Tracking System and forwarded to the appropriate division for response. The

procedures prescribed in the manual generally meet the required guidelines of the NAIC, and comply with the state laws and rules of Alabama.

The Company's manual states that phone calls are not to be considered a complaint and are, therefore, not logged into the Complaint Tracking System.

The Complaint Handling process is maintained in the Consumer Affairs section within the Compliance Department, and is the responsibility of the Manager of Consumer Affairs.

NAIC Standard 1 – (Proper Complaint Reporting) – *All complaints are recorded in the required format on the Company complaint register.*

There were no exceptions noted in the format of the Company's complaint register. However, it was noted during the examination and documented by discussions with company officials that the method of contact encouraged or promulgated in forms and other materials is by telephone contact. Individuals are directed to phone their complaints or inquiries to the Consumer Affairs section at the phone numbers provided by the Company. No forms are provided nor are written letters solicited. The calls are then exempt from being registered as complaints, thus eliminating record of a considerable portion of policyholder correspondence.

NAIC Standard 2 – (Complaint Handling Procedures) – *The Company has adequate complaint handling procedures in place and communicates such procedures to policyholders.*

MEGA's complaint register included a total of 46 complaints which consisted of 39 for the NRH division, 4 for the STAR division, and 3 for the SID division. Of the 39 NRH complaints, 26 related to NASE. At least 3 of the complaints resulted in further litigation by the complainants, which were all from the NRH division.

Because of the failure to keep a record of phone complaints, which by design, appear to have made up a considerable part of policyholder contact with the Company, the settlement procedures regarding these complaints could not be determined. The Alabama Department of Insurance complaint register included 34 complaints, which were matched to the Company records.

NAIC Standard 3 – (Finalizing and Closing Complaints) – *The Company should take adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations and contract language.*

The complaint register and files were reviewed to determine if the Company took the required steps to finalize and dispose of the complaints according to Alabama statutes, and to determine if their actions conformed to the Company's guidelines.

There were no exceptions noted.

NAIC Standard 4 - (Response to Complaints) – *The time frame within which the Company responds to complaints is in accordance with applicable statutes, rules and regulations.*

MEGA's guidelines require that all complaints received should be keyed into the system before the 5<sup>th</sup> of the following month to insure the accuracy of timely reports. Also, an acknowledgement letter is to be sent to the complainant within 3 days of receipt of the complaint, providing them with contact information. The Company's goal is to respond to all complaints within 14 calendar days.

As previously stated, the Company does not log phone complaints. The 46 complaints listed on MEGA's register indicate the following timeliness of handling and closing of the complaints, with an average of 20 days for all 46 complaints reviewed:

	<u>No. of days to close</u>
0 to 10 days	11
11 to 20 days	22
21 to 30 days	6
over 30 days	7

There were no exceptions noted.

#### **IV. UNDERWRITING PRACTICES**

The Company provided for review a copy of The Underwriting Guide (HU484 Rev 3/02), which explains the underwriting instructions and procedures. The Underwriting Guide is used to provide the field underwriters/salespersons instructions relating to the following main areas of concern and use: the Medical Information Bureau (MIB), the Attending Physician's Statement (APS), the Personal History Interviews, and the Field Medical Underwriting Procedures. Included in the guide was a complete list of various actions for the underwriter to take based on specifically listed physical impairments. Also provided was a current copy of the New Business Process Flow Chart.

SID's products are blanket insurance policies that have no individual underwriting. The underwriting for their policies are experience rated.

The NRH division will not issue a policy if any member of the family to be covered is pregnant.

Company officials stated that they do not have any circumstances in which they offer any type of student loans that require the purchase of insurance as a condition to obtaining the loan.

The STAR Division markets its product through larger Employers, who offer the limited coverage group insurance to all their part-time and temporary employees during an open enrollment period. The Employers provide those employees who enroll in the insurance plan a Summary Plan Description that describes the benefits covered, the benefit limitations and claim filing procedures. This is a self-billed policy to the Employers who determine the premiums, which are collected through payroll deduction and then remitted in summary form to STAR.

A randomly selected sample of 100 new NRH policy issues out of a total population of 7,269 policies were reviewed for compliance with the various standards listed below. A second random sample of 100 terminated and/or declined NRH policies, out of a total population of 6,713 policies were also reviewed for compliance with those standards related to these procedures and functions.

NAIC Standard 1 – (Rating) – *The Rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company rating plans.*

There were no exceptions noted.

NAIC Standard 2 – (Documentation of Disclosures) – *All mandated disclosures are documented and in accordance with the applicable statutes, rules and regulations.*

A review of the guidelines and policies used in the underwriting procedures was performed to determine that they were in accordance with the NAIC standards and state statutes and to determine that the Company is in compliance with fair marketing procedures.

There were no exceptions noted.

NAIC Standard 5 – (Unfair Discrimination) – *The Company underwriting practices are not to be unfairly discriminatory. The Company adheres to applicable statutes, rules and regulations.*

The underwriting manual, the applications in the sample files, and other related underwriting guidelines and materials were reviewed to determine that there is no evidence of unfair discrimination.

There were no exceptions noted.

NAIC Standard 6 – (Producer Licensing) – *Producers are properly licensed and appointed (if required) for the jurisdiction where the application was taken.*

The producer records listed on the AL-DOI's records were reviewed and compared with the data listed on the Company's records. There were approximately 124 active agents that produced business through the UGA agency for NRH, and approximately 27 SID producers.

The following discrepancies were noted:

- Producers listed on MEGA's file as active, but included on AL-DOI's file as terminated ..... 9
- Producers listed on MEGA's file as terminated, but included on AL-DOI's file as active ..... 2
- Producers listed on MEGA's file with different license numbers than on AL-DOI's file (keying errors) ..... 2
- Producers listed on AL-DOI's file as active, but not listed on MEGA's file .....22
- Producers with application or termination dates that were over 30-days different than those of the AL-DOI ..... 5

MEGA officials state that, where applicable, they are correcting their records to agree with the AL-DOI records.

NAIC Standard 7 – (Proper Documentation) – *File documentation adequately supports decisions made.*

The underwriting files for the issued policy sample and the terminated, cancelled or declined sample were reviewed to determine that the applications were properly signed. The records and documentation in the files were also reviewed to determine that the information adequately supported the decisions of the Company, and that proper notification of adverse decisions was provided to the insured.

There were no exceptions noted for the issued and active policies.

However, there were 3 policies that had been terminated, in which no supporting documentation or notes were provided in the files to support the reason for the termination.

- 1) Policy no. 043487410
- 2) Policy no. 053518757
- 3) Policy no. 053567114

NAIC Standard 9 – (Declinations are Properly Handled) – *Rejections and declinations are not unfairly discriminatory.*

The documentation and notes were reviewed to determine that the Company did not employ unfair discrimination in their decisions to decline an application, and that their underwriting guidelines were being properly followed. Where applicable, the refunds were reviewed to determine that they were being properly handled in a timely manner.

There were no exceptions noted.

NAIC Standard 10 – (Terminations are Handled Properly) – *Cancellation/non-renewal or discontinuance notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract.*

The documentation and notes were reviewed to determine that the Company provided proper and timely notices of cancellation or declination, and that there was proper documentation when the insured requested the cancellation.

There was one policy, # 053567114, in which the wife had specifically notified the Company in a letter that the policy was to be issued only if both husband and wife were accepted, otherwise they did not want the coverage. Despite these written instructions from the insured, the Company issued the policy only to the husband. The Company response to the examiner's inquiry was that they had inadvertently sent the wife's letter directly to archives and did not properly act on it. Therefore, the Company should refund the full premium collected at the time of the letter, plus interest at a rate of 1.5% per month.

NAIC Standard 14 – (Application is Properly Completed) – *Pertinent information on applications that form a part of the policy are complete and accurate.*

The policy forms and applications were reviewed to determine that the information on the application is consistent with what is stated on the issued policy certificates, and to verify that changes or modifications are properly initialed by the applicants.

There were no exceptions noted.

## **V. CLAIMS HANDLING PRACTICES**

The Company provided copies of their Claims Procedures Manuals used to process their health claims for the three main divisions of MEGA that operate in Alabama. They also provided copies of all the various policies and plans for each of the 3 divisions to be used in the claims review.

A total of 600 Paid and Denied Claim samples were randomly selected for review from each of the 3 divisions of MEGA as follows:

	<u>Sample Reviewed</u>	<u>Total Population</u>
NRH		
Paid claims	100	10,685
Denied claims	100	5,418
STAR		
Paid claims	100	19,613
Denied claims	100	29,576
SID		
Paid claims	100	30,793
Denied claims	100	12,539

During the review process the following findings and issues were identified and summarized, which are explained in more detail within each applicable standard:

- The Company could not provide adequate proof of mailing for the examiner to verify that specified EOBs, letters, or other requests for information were actually sent out to the insureds and providers, or when they were sent. Although the Company provided screen prints or other internally generated templates of the data that would have been reported on those documents, this does not achieve the standards required by Alabama Reg. 482-1-124-.05.
- There were instances where documents, claim forms, letters sent, medical records received, claim notes, etc. could not be located by the Company when producing the claim files for review.
- There were instances where claim forms and other received documents and/or medical records were not date-stamped.
- There were instances where there were no supporting documents or explanations of why the claim payments or denials were excessively delayed beyond the required statutory limits of Alabama's laws. For example, some claim forms were completed by the provider with the non-primary insured's name in the location where the primary insured's name should appear. The Company then took an excessive amount of time to correct the provider's error.
- There was no indication that interest was paid on any of the delayed claim payments.
- There were instances where a claim was incorrectly denied. In some of those instances, the Company agreed with the examiner's findings and subsequently paid the claim. In others, there were no documents or notes that could be identified in the claim file to support or explain the reason for denial.
- Many of the claim files listed below had multiple occurrences of the same violation. Although each occurrence could be considered a separate violation, only one violation per claim was listed for the purposes of this report. For example, several documents and claim forms in some of the claim files were not date-stamped, but only one violation was listed for that claim.

The Company was provided a copy of all initial findings and issues for their review and response. In some cases the Company's response, plus the additional documentation they then provided, which had not been provided in the original claim file, adequately explained the issue. These findings were then deleted from the examiner's final report. In other instances, the Company agreed with the examiner's issues and findings.

NAIC Standard 1 – (Timely Initial Contact) – The initial contact by the Company with the claimant is within the required time frame.

The claim files were reviewed to determine that the initial contacts to the insureds or providers were appropriately made by the Company within the required 15 days after receiving proof of loss of the claim, as required by AL-DOI Reg. 482-1-124-.04(1). Of the 600 claim files sampled and reviewed, there were 62 (10%) claims listed below, for which there was no proof in the claim files that they met this requirement:

Ref no.	Claim no.	Date of loss	Date of notice of loss	Earliest date to acknowledge	No of days to acknowledge (1)	No of days to process
6	CB61563	2/26/2003	5/14/2003	7/2/2003	49	49
11	BI75584	12/22/2002	1/9/2003	3/7/2003	57	57
22	BP64854	11/22/2002	3/13/2003	4/19/2003	37	183
23	BC27480	10/23/2002	11/11/2002	12/11/2002	30	276
29	BI85773	11/27/2002	1/17/2003	2/10/2003	24	59
32	BW12567	3/3/2003	5/12/2003	7/24/2003	73	73
37	BT46613	3/20/2003	4/8/2003	6/20/2003	73	76
38	BE40960	11/25/2002	12/5/2002	1/23/2003	49	49
47	CB42825	6/9/2003	6/24/2003	8/28/2003	65	65
56	BZ69533	5/21/2003	5/30/2003	8/1/2003	63	63
85	CI43663	8/19/2002	9/9/2002	9/23/2003	379	379
88	BR90002	5/31/2002	1/31/2003	4/10/2003	69	69
91	BY01880	5/1/2003	5/29/2003	8/1/2003	64	64
98	CD88337	6/12/2003	6/30/2003	8/11/2003	42	42
2	20160627300	3/14/2002	3/21/2002	4/27/2002	37	84
3	20167099900	5/3/2002	5/13/2002	7/11/2002	59	91
6	20171529100	9/9/2002	9/23/2002	10/13/2002	20	85
8	20173954300	4/30/2002	5/10/2002	6/5/2002	26	200
39	20289011900	4/8/2003	4/14/2003	5/15/2003	31	186
37	20238366600	11/12/2002	11/12/2002	1/28/2003	77	114
5	98703833-04-01-02	7/18/1999	8/3/1999	8/25/1999	22	567
6	2703733-01-03-04	8/15/2002	8/19/2002	9/17/2002	29	165
5	2122842-01-01-01	5/1/2003	5/9/2003	5/29/2003	20	43
12	1076538-01-01-02	10/14/2001	11/2/2001	11/19/2001	17	123
13	2110797-01-01-01	9/23/2002	2/28/2003	3/21/2003	21	256
14	2700546-01-02-17	5/18/2003	5/28/2003	7/2/2003	35	35
22	2110318-01-05-01	7/6/2003	12/12/2003	1/12/2004	31	119

Ref no.	Claim no.	Date of loss	Date of notice of loss	Earliest date to acknowledge	No of days to acknowledge (1)	No of days to process
24	2701215-01-02-02	8/31/2002	3/31/2003	4/23/2003	23	109
27	1712768-01-01-02	9/26/2001	12/3/2001	12/19/2001	16	172
28	1081332-01-01-03	11/15/01	11/30/2001	12/17/2001	17	83
30	2110834-01-01-02	2/6/2003	2/21/2003	3/12/2003	19	265
36	2123009-01-02-01	10/12/2002	11/4/2002	11/21/2002	17	372
38	2110649-01-01-01	5/4/2003	5/29/2003	6/25/2003	27	166
41	01-120303-649-24-001	10/21/03	12/03/03	02/17/04	76	76
43	01-102703-068-01-006	09/23/03	10/27/03	01/15/04	80	80
44	01-030104-001-94-007	08/22/03	03/01/04	05/11/04	71	71
49	01-010604-015-13-006	11/28/03	01/06/04	02/02/04	27	27
50	01-041904-636-76-001	03/16/04	04/19/04	06/17/04	59	59
52	2703733-01-03-01	8/6/2002	8/19/2002	10/3/2002	45	45
55	01-052404-602-51-002	4/29/2004	5/24/2004	8/9/2004	77	77
56	01-101403-812-03-003	9/25/2003	10/15/2003	3/31/2004	168	168
57	01-051704-623-25-012	4/15/2004	5/17/2004	8/2/2004	77	85
59	01-110903-610-35-001	8/12/2003	11/9/2003	1/6/2004	58	68
62	721169-01-01-05	1/2/2001	9/24/2001	10/19/2001	25	25
68	01-032304-618-79-001	2/28/2004	3/23/2004	6/24/2004	93	93
73	2117242-01-02-05	3/27/2003	9/23/2003	10/30/2003	37	141
75	01-051004-625-12-003	3/8/2004	5/10/2004	8/10/2004	92	92
77	01-031004-802-77-002	2/27/2004	3/10/2004	6/17/2004	99	99
78	01-010504-800-12-001	12/12/2003	1/5/2004	1/29/2004	24	24
79	01-032404-624-56-010	2/23/2004	3/24/2004	6/25/2004	93	93
80	01-042704-623-92-022	3/22/2004	4/27/2004	6/21/2004	55	120
81	01-011503-603-07-003	9/18/2003	9/29/2003	1/16/2004	109	366
82	1076797-01-01-02	4/26/2002	5/21/2002	6/6/2002	16	16
83	01-120403-800-06-004	8/29/2003	12/4/2003	2/9/2004	67	67
85	01-051704-625-72-002	3/12/2004	5/17/2004	7/21/2004	65	65
86	01-120803-600-39-013	6/4/2003	12/8/2003	4/9/2004	123	123
87	01-060704-600-31-009	3/23/2004	6/7/2004	7/6/2004	29	74
88	01-071304-621-12-001	6/17/2004	7/13/2004	8/16/2004	34	34
92	01-122303-601-25-002	11/13/2003	12/23/2003	1/23/2004	31	37
93	01-072004-609-06-001	6/30/2004	7/22/2004	9/3/2004	43	45
94	01-042004-643-80-004	3/10/2004	4/20/2004	7/21/2004	92	92
98	2129890-01-01-02	3/17/2003	4/11/2003	5/1/2003	20	20

(1) NOTE: For those claims where the no. of days to acknowledge was the same as the no. of days to process, it was due to a lack of documentation in the file to indicate otherwise,

**NAIC Standard 2 – (Timely Investigations) – *Investigations are conducted in a timely manner.***

The claim files and procedures manuals were reviewed to determine that the claims were investigated and the payments or denials were processed within the 30 or 45 day time limit, depending on whether they were electronic or written claims, as required by AL Code section §27-1-17(a). Also, the documents were reviewed to determine if the Company had properly sent explanations why the investigation was being delayed, as required by AL Code §27-1-17(a) and AL-DOI Reg. 482-1-124-.04. There were 183 (31%) claims that were in violation of

these requirements, as listed below. There was nothing in their files to indicate that the Company paid interest on these delayed claim payments, as required by AL §27-1-17(c).

Ref no.	How received	Claim No.	Incurred Date	Notice Date	Processed Date	No of days to process
5	W	BW37319	3/25/2003	4/2/2003	5/19/2003	47
6	W	CB61563	2/26/2003	5/14/2003	7/2/2003	49
11	W	BI75584	12/22/2002	1/9/2003	3/7/2003	57
13	W	BI53593	11/25/2002	1/14/2003	3/10/2003	55
14	W	BR72708	3/6/2003	3/31/2003	6/6/2003	67
17	W	BH82355	12/5/2002	12/27/2002	2/18/2003	53
18	W	BY84557	5/22/2003	6/4/2003	8/4/2003	61
20	W	BW76798	1/29/2003	5/15/2003	7/28/2003	74
22	W	BP64854	11/22/2002	3/13/2003	9/12/2003	183
23	W	BC27480	10/23/2002	11/11/2002	8/14/2003	276
24	W	BD58640	11/4/2002	11/27/2002	1/15/2003	49
28	W	BA17489	10/2/2002	10/22/2002	4/29/2003	189
29	E	BI85773	11/27/2002	1/17/2003	3/17/2003	59
30	W	BL21418	1/13/2003	2/7/2003	4/10/2003	62
32	W	BW12567	3/3/2003	5/12/2003	7/24/2003	73
34	W	BP97074	2/27/2003	3/18/2003	5/29/2003	72
35	W	BS25658	3/26/2003	4/2/2003	6/18/2003	77
37	W	BT46613	3/20/2003	4/8/2003	6/23/2003	76
38	W	BE40960	11/25/2002	12/5/2002	1/23/2003	49
41	W	BS81791	2/19/2003	4/14/2003	1/23/2004	284
47	W	CB42825	6/9/2003	6/24/2003	8/28/2003	65
50	W	BV62104	4/2/2003	4/10/2003	8/19/2003	131
56	E	BZ69533	5/21/2003	5/30/2003	8/1/2003	63
76	W	BY20862	4/29/2003	5/29/2003	8/29/2003	92
85	W	CL43663	8/19/2002	9/9/2002	9/23/2003	379
87	W	BC83596	11/1/2002	11/14/2002	1/6/2003	53
88	W	BR90002	5/31/2002	1/31/2003	4/10/2003	69
91	W	BY01880	5/1/2003	5/29/2003	8/1/2003	64
93	W	BH66218	10/5/2002	1/8/2003	2/24/2003	47
98	W	CD88337	6/12/2003	6/30/2003	8/11/2003	42
1	W	CO90884	2/5/2003	3/25/2003	10/23/2003	212
2	W	CC94616	1/29/2003	5/27/2003	7/14/2003	48
3	E	BX97716	3/4/2003	6/2/2003	8/4/2003	63
6	W	BW36140	11/24/2002	5/15/2003	7/28/2003	74
7	W	BO05704	4/18/2002	2/20/2003	5/2/2003	71
8	W	BY00978	4/8/2003	5/1/2003	7/11/2003	71
9	W	BF32438	5/30/2002	12/12/2002	1/30/2003	49
10	W	BT23775	2/20/2002	4/1/2003	6/16/2003	76
12	W	BN13079	2/13/2003	2/25/2003	5/5/2003	69
15	E	CA51332	9/4/2002	6/20/2003	8/11/2003	52
16	W	BT44207	10/6/2002	2/13/2003	4/23/2003	69
17	W	BV34496	2/25/2003	5/6/2003	7/21/2003	76
18	W	BG14570	2/14/2002	12/20/2002	2/7/2003	49
20	W	BO50398	12/17/2002	3/4/2003	5/14/2003	71
21	W	BG56238	8/20/2002	12/24/2002	2/12/2003	50
22	W	BH81268	12/14/2002	12/27/2002	2/12/2003	47

Ref no.	How received	Claim No.	Incurred Date	Notice Date	Processed Date	No of days to process
23	W	BL22015	12/18/2002	2/10/2003	4/16/2003	65
24	W	BI07382	7/3/2002	1/2/2003	2/24/2003	53
25	W	BD39845	11/11/2002	11/25/2002	1/16/2003	52
26	W	BS62727	3/15/2003	4/8/2003	6/23/2003	76
27	W	BN27173	9/9/2002	2/21/2003	5/2/2003	70
28	W	BQ32560	5/29/2002	3/21/2003	6/30/2003	101
29	W	BZ01234	3/4/2003	6/5/2003	8/5/2003	61
30	W	BR15014	3/17/2003	3/27/2003	6/6/2003	71
31	W	BI48741	12/26/2002	1/3/2003	2/28/2003	56
32	W	W590442	4/22/2002	9/3/2002	2/24/2003	174
33	W	BY07278	8/6/2002	5/29/2003	7/31/2003	63
36	W	BD18126	11/7/2002	11/22/2002	1/15/2003	54
37	W	BH27260	9/9/2002	12/31/2002	2/17/2003	48
38	W	CB69357	5/14/2003	6/23/2003	8/11/2003	49
39	W	BY59931	5/19/2003	6/2/2003	8/4/2003	63
40	W	BE78325	11/7/2002	12/6/2002	1/23/2003	48
41	W	BT43181	2/27/2003	3/28/2003	6/16/2003	80
42	W	BJ66214	7/17/2002	1/24/2003	4/1/2003	67
43	W	BT36958	5/26/2002	4/16/2003	6/30/2003	75
44	W	BY43767	5/19/2003	6/2/2003	8/1/2003	60
45	W	BQ14600	9/20/2002	3/18/2003	5/29/2003	72
49	W	BJ24112	4/30/2002	1/17/2003	3/10/2003	52
50	W	BN06487	2/9/2003	2/21/2003	5/2/2003	70
51	W	CB43758	5/29/2003	6/16/2003	8/12/2003	57
52	W	BN56069	10/25/2002	2/28/2003	5/9/2003	70
54	W	BM77758	8/28/2002	2/13/2003	4/22/2003	68
55	W	BM76687	8/26/2002	2/13/2003	4/22/2003	68
56	W	BK03211	12/22/2002	1/28/2003	4/2/2003	64
57	W	BW48213	11/27/2002	5/15/2003	7/28/2003	74
59	W	BG85398	12/12/2002	12/24/2002	2/10/2003	48
60	W	BN01520	1/28/2003	2/20/2003	4/29/2003	68
61	W	BL43330	1/27/2003	2/7/2003	4/15/2003	67
63	W	BN05929	11/2/2002	2/21/2003	5/2/2003	70
64	W	BL16661	1/17/2003	2/4/2003	4/11/2003	66
65	W	BW91587	4/25/2003	5/15/2003	7/28/2003	74
66	W	BT89968	4/7/2003	4/23/2003	6/30/2003	68
67	W	BI49728	11/26/2002	1/7/2003	3/4/2003	56
71	W	BW24845	4/29/2003	5/9/2003	7/24/2003	76
74	W	BQ73535	10/7/2002	3/7/2003	5/23/2003	77
75	W	BU79303	4/11/2003	4/25/2003	7/3/2003	69
76	W	BQ83754	3/10/2003	3/31/2003	6/11/2003	72
77	W	CA76052	6/2/2003	6/17/2003	8/11/2003	55
79	W	BW22703	4/16/2003	4/25/2003	7/1/2003	67
80	W	BY16876	5/16/2003	6/2/2003	8/1/2003	60
83	W	BL17965	1/7/2002	2/7/2003	4/15/2003	67
84	W	BJ24506	8/27/2002	1/17/2003	3/21/2003	63
85	W	BI66226	4/16/2002	1/7/2003	3/4/2003	56
86	W	BO10008	4/1/2002	2/27/2003	5/8/2003	70
90	W	BP35545	1/7/2003	3/17/2003	5/28/2003	72
91	W	BF64143	5/14/2002	12/14/2002	2/3/2003	51

Ref no.	How received	Claim No.	Incurred Date	Notice Date	Processed Date	No of days to process
93	W	BY96431	7/30/2002	6/4/2003	8/4/2003	61
94	W	BZ00678	2/14/2003	6/4/2003	8/5/2003	62
95	W	BZ28718	10/11/2002	6/5/2003	8/5/2003	61
96	W	BN06338	2/5/2003	2/21/2003	5/5/2003	73
99	W	BR63391	3/19/2003	4/3/2003	6/18/2003	76
2	W	20160627300	3/14/2002	3/21/2002	6/13/2002	84
3	W	20167099900	5/3/2002	5/13/2002	8/12/2002	91
4	W	20170376600	12/5/2001	12/10/2001	9/25/2002	289
6	W	20171529100	9/9/2002	9/23/2002	12/17/2002	85
8	W	20173954300	4/30/2002	5/10/2002	11/26/2002	200
17	W	20232550600	7/30/2002	8/21/2002	12/10/2002	111
21	W	20251018100	7/12/2002	7/25/2002	1/16/2003	175
22	W	20253661500	10/23/2002	10/31/2002	1/28/2003	89
29	W	20267444400	6/19/2002	7/3/2002	4/4/2003	275
30	W	20271006400	8/26/2002	3/3/2003	4/30/2003	58
32	W	20275054600	8/13/2002	9/23/2002	5/21/2003	240
39	W	20289011900	4/8/2003	4/14/2003	10/17/2003	186
40	W	20289848500	4/26/2003	5/5/2003	9/5/2003	123
48	W	20309986300	4/30/2003	5/12/2003	6/27/2003	46
83	W	1012304606031	1/2/2004	1/26/2004	3/12/2004	46
87	W	1030104605051	2/12/2004	3/1/2004	4/15/2004	45
88	W	1031504543031	3/3/2004	3/16/2004	5/12/2004	57
89	W	1040804221028	2/23/2004	3/6/2004	5/18/2004	73
93	W	1051104400003	1/9/2004	1/23/2004	5/20/2004	118
96	W	1060304333004	3/10/2004	3/18/2004	5/24/2004	67
9	W	20207359900	4/22/2002	5/13/2002	7/30/2002	78
10	W	20208384500	4/29/2002	5/6/2002	8/8/2002	94
11	W	20208846500	5/16/2002	5/22/2002	7/31/2002	70
13	W	20210951900	5/14/2002	6/6/2002	8/21/2002	76
15	W	20214185100	4/19/2002	7/8/2002	9/26/2002	80
37	W	20238366600	10/10/2002	11/12/2002	3/6/2003	114
5	W	98703833-04-01-02	7/18/1999	8/3/1999	2/20/2001	567
6	W	2703733-01-03-04	8/15/2002	8/19/2002	1/31/2003	165
13	W	187324-01-01-01	2/27/2001	3/19/2001	8/15/2001	149
14	W	2113494-01-03-02	12/31/2002	3/17/2003	5/5/2003	49
17	E	2116315-01-01-02	7/16/2003	8/8/2003	9/12/2003	35
24	E	2704888-01-01-05	9/10/2002	9/19/2002	1/15/2003	118
26	E	2701802-01-01-02	8/14/2002	8/27/2002	10/3/2002	37
43	W	710277-01-01-01	10/23/2000	11/20/2000	1/8/2001	49
49	W	99220017-01-02-02	7/6/2000	5/12/2000	3/6/2001	298
50	W	99709531-01-01-01	2/10/2000	3/27/2000	2/14/2001	324
56	W	1714883-01-01-03	12/4/2001	12/19/2001	3/21/2002	92
61	E	2703368-01-01-04	9/6/2002	10/22/2002	3/6/2003	135
68	W	238548-01-01-02	8/7/2003	4/13/2004	6/10/2004	58
71	W	235161-01-01-04	10/30/2003	12/29/2003	3/17/2004	79
73	W	219754-01-01-07	10/16/2002	3/31/2004	6/14/2004	75
75	W	222663-01-01-01	9/12/2002	2/13/2003	4/7/2003	53
76	W	221120-01-01-05	1/20/2003	4/11/2003	5/27/2003	46
77	W	01-032404-614-49-002	02/18/04	03/24/04	05/12/04	49
79	W	01-051704-623-25-004	04/15/04	05/17/04	08/10/04	85

Ref no.	How received	Claim No.	Incurred Date	Notice Date	Processed Date	No of days to process
80	W	01-032204-006-42-005	10/26/03	03/22/04	08/20/04	151
81	W	01-041604-006-23-001	04/07/04	4/16/2004	07/20/04	95
82	W	01-102703-068-02-003	09/23/03	10/27/03	06/10/04	227
84	W	01-122203-620-10-002	10/22/03	12/22/03	06/03/04	164
86	W	01-051704-614-76-001	04/13/04	05/17/04	08/06/04	81
89	W	01-060104-601-86-007	11/03/03	06/01/04	08/06/04	66
91	W	01-042604-621-37-001	04/05/04	04/26/04	08/09/04	105
92	W	01-061604-600-50-003	03/17/04	06/16/04	08/10/04	55
93	W	01-061504-602-06-001	05/11/04	06/15/04	08/10/04	56
94	W	01-042804-617-87-001	04/01/04	04/28/04	08/06/04	100
95	W	01-021004-066-05-004	12/05/03	02/10/04	08/20/04	192
98	W	01-022404-029-17-002	12/05/03	02/24/04	06/07/04	104
99	W	01-050404-601-73-004	03/30/04	05/04/04	08/11/04	99
100	W	01-051404-028-05-001	03/31/04	05/14/04	08/30/04	108
43	W	01-102703-068-01-006	09/23/03	10/27/03	01/15/04	80
44	W	01-030104-001-94-007	08/22/03	03/01/04	05/11/04	71
47	W	01-040804-001-11-001	12/02/03	2/19/2004	04/21/04	62
55	W	01-052404-602-51-002	4/29/2004	5/24/2004	8/9/2004	77
56	W	01-101403-812-03-003	9/25/2003	10/15/2003	3/31/2004	168
57	W	01-051704-623-25-012	4/15/2004	5/17/2004	8/10/2004	85
58	E	1273586-01-01-04	4/13/2002	4/22/2002	6/12/2002	51
71	W	1080964-01-01-17	4/5/2002	4/24/2002	9/4/2002	133
75	E	01-051004-625-12-003	3/8/2004	5/10/2004	8/10/2004	92
76	E	1717456-01-01-20	6/25/2002	6/21/2002	2/3/2003	227
77	E	01-031004-802-77-002	2/27/2004	3/10/2004	6/17/2004	99
78	E	01-010504-800-12-001	12/12/2003	3/30/2004	6/24/2004	86
79	E	01-032404-624-56-010	2/23/2004	3/24/2004	6/25/2004	93
80	E	01-042704-623-92-022	3/22/2004	4/27/2004	8/25/2004	120
81	E	01-011503-603-07-003	9/18/2003	9/29/2003	1/16/2004	109
83	E	01-120403-800-06-004	8/29/2003	12/4/2003	2/9/2004	67
84	E	2313787-01-01-16	8/29/2003	2/12/2003	3/16/2004	398
85	W	01-051704-625-72-002	3/12/2004	5/17/2004	7/21/2004	65
86	W	01-120803-600-39-013	8/4/2003	12/8/2003	4/9/2004	123
88	E	01-071304-621-12-001	6/17/2004	7/13/2004	8/16/2004	34
92	E	01-122303-601-25-002	11/13/2003	12/23/2003	1/23/2004	31
93	E	01-072004-609-06-001	6/30/2004	7/20/2004	9/3/2004	45
94	E	01-042004-643-80-004	3/10/2004	4/20/2004	7/21/2004	92

E = electronic claim form; W = written claim form

NAIC Standard 3 – (Delayed Settlements) – *Claims are settled in a timely manner as required by statutes, rules and regulations.*

The claim files and procedures were reviewed to determine that the claims were paid or denied within the specified 30 or 45 days, required by AL Code section §27-1-17(a), and AL-DOI Reg. 482-1-124-.04. There were 83 (14%) claims that had no documentation or notes in the file to support why they were delayed; therefore, these claims listed below were in violation of said requirements. There was nothing in their files to indicate that the Company paid interest on these delayed claim payments, as required by AL statute § 27-1-17(c).

Ref no.	How received	Claim No.	Incurred Date	Notice Date	Processed Date	No of days to process
5	W	BW37319	3/25/2003	4/2/2003	5/19/2003	47
6	W	CB61563	2/26/2003	5/14/2003	7/2/2003	49
11	W	BI75584	12/22/2002	1/9/2003	3/7/2003	57
13	W	BI53593	11/25/2002	1/14/2003	3/10/2003	55
14	W	BR72708	3/6/2003	3/31/2003	6/6/2003	67
17	W	BH82355	12/5/2002	12/27/2002	2/18/2003	53
18	W	BY84557	5/22/2003	6/4/2003	8/4/2003	61
20	W	BW76798	1/29/2003	5/15/2003	7/28/2003	74
22	W	BP64854	11/22/2002	3/13/2003	9/12/2003	183
23	W	BC27480	10/23/2002	11/11/2002	8/14/2003	276
24	W	BD58640	11/4/2002	11/27/2002	1/15/2003	49
28	W	BA17489	10/2/2002	10/22/2002	4/29/2003	189
29	E	BI85773	11/27/2002	1/17/2003	3/17/2003	59
30	W	BL21418	1/13/2003	2/7/2003	4/10/2003	62
32	W	BW12567	3/3/2003	5/12/2003	7/24/2003	73
34	W	BP97074	2/27/2003	3/18/2003	5/29/2003	72
35	W	BS25658	3/26/2003	4/2/2003	6/18/2003	77
37	W	BT46613	3/20/2003	4/8/2003	6/23/2003	76
38	W	BE40960	11/25/2002	12/5/2002	1/23/2003	49
41	W	BS81791	2/19/2003	4/14/2003	1/23/2004	284
47	W	CB42825	6/9/2003	6/24/2003	8/28/2003	65
50	W	BV62104	4/2/2003	4/10/2003	8/19/2003	131
56	E	BZ69533	5/21/2003	5/30/2003	8/1/2003	63
76	W	BY20862	4/29/2003	5/29/2003	8/29/2003	92
85	W	CL43663	8/19/2002	9/9/2002	9/23/2003	379
87	W	BC83596	11/1/2002	11/14/2002	1/6/2003	53
88	W	BR90002	5/31/2002	1/31/2003	4/10/2003	69
91	W	BY01880	5/1/2003	5/29/2003	8/1/2003	64
93	W	BH66218	10/5/2002	1/8/2003	2/24/2003	47
98	W	CD88337	6/12/2003	6/30/2003	8/11/2003	42
2	W	20160627300	3/14/2002	3/21/2002	6/13/2002	84
3	E	20167099900	5/3/2002	5/13/2002	8/12/2002	91
4	W	20170376600	12/5/2001	12/10/2001	9/25/2002	289
7	W	20172322900	3/8/2002	9/30/2002	10/29/2002	29
8	W	20173954300	4/30/2002	5/10/2002	11/26/2002	200
17	W	20232550600	7/30/2002	8/21/2002	12/10/2002	111
21	W	20251018100	7/12/2002	7/25/2002	1/16/2003	175
22	W	20253661500	10/23/2002	10/31/2002	1/28/2003	89
29	W	20267444400	6/19/2002	7/3/2002	4/4/2003	275
30	W	20271006400	8/26/2002	3/3/2003	4/30/2003	58
32	W	20275054600	8/13/2002	4/25/2003	5/21/2003	26
39	W	20289011900	4/8/2003	4/14/2003	10/17/2003	186
40	W	20289848500	4/26/2003	10/15/2003	11/12/2003	28
48	W	20309986300	4/30/2003	5/12/2003	6/27/2003	46

Ref no.	How received	Claim No.	Incurred Date	Notice Date	Processed Date	No of days to process
83	W	1012304606031	1/2/2004	1/26/2004	3/12/2004	46
87	W	1030104605051	2/12/2004	3/1/2004	4/15/2004	45
88	W	1031504543031	3/3/2004	4/8/2004	5/12/2004	34
89	W	1040804221028	2/23/2004	4/8/2004	5/18/2004	40
93	W	1051104400003	1/9/2004	1/23/2004	5/20/2004	118
96	W	1060304333004	3/10/2004	3/18/2004	5/24/2004	67
5	W	98703833-04-01-02	8/3/1999	8/3/1999	2/20/2001	567
6	W	2703733-01-03-04	8/19/2002	8/19/2002	1/31/2003	165
13	W	187324-01-01-01	3/19/2001	3/19/2001	8/15/2001	149
14	W	2113494-01-03-02	3/17/2003	3/17/2003	5/5/2003	49
17	E	2116315-01-01-02	8/8/2003	8/8/2003	9/12/2003	35
24	E	2704888-01-01-05	9/19/2002	9/19/2002	1/15/2003	118
26	E	2701802-01-01-02	8/27/2002	8/27/2002	10/3/2002	37
43	W	710277-01-01-01	11/20/2000	11/20/2000	1/8/2001	49
49	W	99220017-01-02-02	5/12/2000	5/12/2000	3/6/2001	298
50	W	99709531-01-01-01	11/15/1999	3/27/2000	2/14/2001	324
56	W	1714883-01-01-03	12/13/2001	12/19/2001	3/21/2002	92
61	E	2703368-01-01-04	10/22/2002	10/22/2002	3/6/2003	135
68	W	238548-01-01-02	4/13/2004	4/13/2004	6/10/2004	58
71	W	235161-01-01-04	12/29/2003	12/29/2003	3/17/2004	79
73	W	219754-01-01-07	3/31/2004	3/31/2004	6/14/2004	75
75	W	222663-01-01-01	2/13/2003	2/13/2003	4/7/2003	53
76	W	221120-01-01-05	4/11/2003	4/11/2003	5/27/2003	46
77	W	01-032404-614-49-002	03/24/04	03/24/04	05/12/04	49
79	W	01-051704-623-25-004	05/17/04	05/17/04	08/10/04	85
80	W	01-032204-006-42-005	03/22/04	03/22/04	08/20/04	151
81	W	01-041604-006-23-001	04/16/04	4/16/2004	07/20/04	95
82	W	01-102703-068-02-003	10/27/03	10/27/03	06/10/04	227
84	W	01-122203-620-10-002	12/22/03	12/22/03	06/03/04	164
86	W	01-051704-614-76-001	05/17/04	05/17/04	08/06/04	81
89	W	01-060104-601-86-007	06/01/04	06/01/04	08/06/04	66
91	W	01-042604-621-37-001	04/26/04	04/26/04	08/09/04	105
92	W	01-061604-600-50-003	06/16/04	06/16/04	08/10/04	55
93	W	01-061504-602-06-001	06/15/04	06/15/04	08/10/04	56
94	W	01-042804-617-87-001	04/28/04	04/28/04	08/06/04	100
95	W	01-021004-066-05-004	02/10/04	02/10/04	08/20/04	192
98	W	01-022404-029-17-002	02/24/04	02/24/04	06/07/04	104
99	W	01-050404-601-73-004	05/04/04	05/04/04	08/11/04	99
100	W	01-051404-028-05-001	05/14/04	05/14/04	08/30/04	108

E = electronic claim form; W = written claim form

NAIC Standard 4 – (Timely Response) – The Company responds to claim correspondence in a timely manner.

The claim files were reviewed to determine that correspondence was answered or responded to within 20 days from the date the documentation was received, as required by AL-DOI Reg.

482-1-124-.04(8). There were 20 (3%) claims that were in violation of this requirement, as listed below:

Ref no.	Claim No.	Incurred Date	Notice Date	Processed Date	No of days to process
5	BW37319	3/25/2003	4/2/2003	5/19/2003	47
6	CB61563	2/26/2003	5/14/2003	7/2/2003	49
11	BI75584	12/22/2002	1/9/2003	3/7/2003	57
22	BP64854	11/22/2002	3/13/2003	9/12/2003	183
23	BC27480	10/23/2002	11/11/2002	8/14/2003	276
32	BW12567	3/3/2003	5/12/2003	7/24/2003	73
37	BT46613	3/20/2003	4/8/2003	6/23/2003	76
38	BE40960	11/25/2002	12/5/2002	1/23/2003	49
47	CB42825	6/9/2003	6/24/2003	8/28/2003	65
50	BV62104	4/2/2003	4/10/2003	8/19/2003	131
56	BZ69533	5/21/2003	5/30/2003	8/1/2003	63
85	CL43663	8/19/2002	9/9/2002	9/23/2003	379
88	BR90002	5/31/2002	1/31/2003	4/10/2003	69
91	BY01880	5/1/2003	5/29/2003	8/1/2003	64
98	CD88337	6/12/2003	6/30/2003	8/11/2003	42
53	01-070604-615-12-004	2/24/2004	7/6/2004	8/12/2004	37
55	01-052404-602-51-002	4/29/2004	5/24/2004	8/9/2004	77
56	01-101403-812-03-003	9/25/2003	10/15/2003	3/31/2004	168
57	01-051704-623-25-012	4/15/2004	5/17/2004	8/2/2004	77
75	01-051004-625-12-003	3/8/2004	5/10/2004	8/10/2004	92

**NAIC Standard 5 – (Adequate Disclosure) – *Claim files are adequately documented.***

The claim files, the Company procedures, and claims manuals were reviewed to determine that the claim files were properly documented, and that there was adequate documentation to support or justify the Company’s decision to pay or deny the claim, and to determine that the state laws were met in accordance with AL-DOI Reg. 482-1-124-.05. One of the Alabama regulations is that “Each relevant document within the claim file shall reflect as to date received, date processed or date mailed.” AL DOI Reg. 482-1-124-.05(b). Also, this same regulation states, “Documents that are produced and sent to an insured by use of a template and an electronic mail list shall be considered to be sufficiently reproduced if the insurer can provide proof of mailing of the document and a copy of the template.” AL DOI Reg. 482-1-124-.05 (c)1.

There were **411 (69%)** violations of these regulations under this NAIC Standard. The Company could not produce date-stamped documents to verify the date they were received. Also, the Company could not produce proof of mailing of the letters requesting additional information from the insureds or providers, nor could they produce proof of mailing of the EOBs. Although the Company provided a screen print or a template of data that would have been printed on these documents, this does not meet the statutory requirements for proof of mailing. There were numerous instances where the Company could not produce and provide the relevant documents, such as the claim forms, letters sent to insureds or providers, responses

from the insureds or providers, or other medical records for review, as required by AL DOI Reg. 482-1-124-.05.

NAIC Standard 6 – (Properly Handled Claims) – *Claim files are handled in accordance with policy provisions, HIPAA and state law.*

The claim files and Company procedures and manuals were reviewed to determine that the Company's standards complied with state laws, that the claim files are handled according to policy provisions, and that the usual and customary benefit payments were reasonable.

There were no exceptions noted.

NAIC Standard 7 – (Claim Forms are Appropriate) – *Company claim forms are appropriate for the type of product.*

The claim forms were reviewed to determine that they included the appropriate content as to the type of product being sold.

There were no exceptions noted.

NAIC Standard 9 – (Denied Claims are Handled Properly) – *Denied and closed-without-payment claims are handled in accordance with policy provisions, HIPAA and state law.*

The claim files, manuals and procedures were reviewed to determine that the denied and closed without payment claims were properly handled according to Alabama laws, and policy provisions. There were 34 (6%) claims that had either been initially denied in error and later paid, or that had been denied, but with no documents or notes in the claim files to support the Company's decision to deny them, which is in violation of AL DOI Reg. 482-1-124-.03(b)2. and Reg. 482-1-124-.05 At least 4 of the claims were later paid after being questioned about the denial in the initial findings. All other claims should be reconsidered, reviewed and reprocessed. Interest should be paid at the rate of 1.5 % per month on all overdue payments.

Ref No.	Claim No.	Incurred Date	Notification Date	Denial Date	No. of days to process	Date Claim eventually paid
12	BN13079	2/13/2003	2/25/2003	5/5/2003	69	12/10/2004
37	BH27260	9/9/2002	12/31/2002	2/17/2003	48	
40	BE78325	11/7/2002	12/6/2002	1/23/2003	48	12/11/2004
42	BJ66214	7/17/2002	1/24/2003	4/1/2003	67	
66	BT89968	4/7/2003	4/23/2003	6/30/2003	68	9/18/2003
76	BQ83754	3/10/2003	3/31/2003	6/11/2003	72	1/5/2005
8	20205467200	4/9/2002	4/29/2002	5/14/2002	15	
9	20207359900	4/22/2002	5/13/2002	7/30/2002	78	
10	20208384500	4/29/2002	5/6/2002	8/8/2002	94	
11	20208846500	5/16/2002	5/22/2002	7/31/2002	70	
13	20210951900	5/14/2002	6/6/2002	8/21/2002	76	
14	20212888200	6/18/2002	6/24/2002	9/17/2002	85	
15	20214185100	4/19/2002	7/8/2002	9/26/2002	80	
21	20224312000	8/14/2002	8/26/2002	12/10/2002	106	
31	20234479700	6/13/2002	10/23/2002	1/28/2003	97	
34	20236364000	9/25/2002	11/4/2002	2/4/2003	92	
35	20237298600	10/31/2002	11/15/2002	2/24/2003	101	
Ref	Claim No.	Incurred	Notification	Denial Date	No. of days	Date Claim

No.		Date	Date		to process	eventually paid
39	20246773700	12/13/2002	12/23/2002	4/4/2003	102	
40	20247391300	12/3/2002	12/11/2002	3/14/2003	93	
47	20260809600	1/10/2003	2/24/2003	3/6/2003	10	
48	20261056600	6/6/2002	1/28/2003	5/19/2003	111	
49	20262112300	2/26/2003	3/3/2003	3/14/2003	11	
50	20268531600	3/10/2003	3/31/2003	4/21/2003	21	
60	20308934300	4/25/2003	5/5/2003	5/19/2003	14	
71	20326627800	7/28/2003	8/11/2003	10/11/2003	61	
4	1080378-01-01-01	3/2/2002	4/4/2002	6/3/2002	60	
11	2122879-01-01-04	10/25/02	1/30/2003	2/24/2003	25	
14	2700546-01-02-17	5/18/2003	5/28/2003	7/2/2003	35	
24	2701215-01-02-02	8/31/2002	3/31/2003	7/18/2003	109	
51	2314176-01-02-01	7/2/2003	7/29/2003	8/11/2003	13	
54	1080321-01-01-01	3/13/2002	3/21/2002	6/4/2002	75	
76	1717456-01-01-20	6/25/2002	6/21/2002	2/3/2003	227	
87	01-060704-600-31-009	3/23/04	6/7/04	8/20/04	74	
99	2123506-01-02-02	6/8/2003	6/25/2003	8/8/2003	44	

NAIC Standard 10 – (Cancelled Checks are Handled Properly) – Cancelled benefit checks and drafts reflect appropriate claim handling procedures.

The claim files and Company procedures were reviewed to determine that the check handling procedures were proper, and that they were being mailed on a timely basis. As noted in Standard 5 above, the Company could not provide the proper proof of mailing so it could not be verified whether the checks were promptly sent out. Also, the Company does not maintain copies of the checks in the claim files. These copies had to be obtained by the Company from the bank, so a sample of the cancelled checks was requested and reviewed.

There were no exceptions noted regarding the cancelled checks.

NAIC Standard 11 – (Claim Handling Policies are Proper) – Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

The litigation files were reviewed to determine if any of the litigants also filed claims against the Company that were policy and benefits related, as noted in the litigation comments below.

There were no exceptions noted here.

## VI. LITIGATION

The Company provided the examiners with thirteen (13) litigated files, none of which were part of the 600 claim files sampled and reviewed. Four of the thirteen (13) cases were settled in favor of the insured. In four cases, MEGA Life was dismissed from action or there was no indication of the settlement. In the remaining five cases, the status of four of them was unknown based on the documentation and records provided by the Company, and the other was still open at the time of the review. The following is a summary of the cases grouped by category/reason for litigation:

Non-Payment of Claims:

- Marcum v. South Choctaw Academy and MEGA Life – MEGA dismissed from Action - No indication in document provided of settlement, if any;
- Vaughn v. Boston Mutual Life Insurance Company – MEGA dismissed from Action - No indication in document provided of settlement, if any;
- Garrett V. MEGA Life Insurance Company – Class Action – Status unknown;
- Wanda Graham, Phyllis Robinson, Anissa Ball, Loretta Bester, Janice Biggs, Georgia Colston and Linda Plowman (plus all persons who paid for National Motor Club memberships) v. MEGA Life, Chesapeake Life and National Motor Club of America -- Class Action Complaint – Status Open

Misrepresentation of Policy by Agent:

- Kimbrough v. Whit Milsap and MEGA Life – Settled in favor of Plaintiff in amount of \$110,000;
- McCarley v. MEGA, NASE, Mark Hardin and Eric Dailey - Settled in favor of Plaintiff in amount of \$65,000;
- Lavender v. The MEGA Life and Health Insurance Co., Chesapeake Life Insurance Company, National Motor Club of America, Inc. and UICI - MEGA dismissed from Action - No indication in document provided of settlement, if any;
- Whitaker v. The MEGA Life and Health Insurance Co – MEGA dismissed from Action – No indication in document provided of settlement, if any;
- Golebiowski, Lacy and All Others Similarly Situated vs. MEGA Life, UICI, UGA, United Group Service Centers, UICI Marketing, Specialized Assoc. Services, Inc., NASE Group Insurance Trust Fund & NASE (Class Action) – Settled in favor of Plaintiffs;
- Richardson v. MEGA Life and Health Insurance Company and NASE - Status unknown;

Miscellaneous Categories:

Agent/Company did not cancel policy and electronic funds transfer as requested:

- Blankenship v. MEGA Life, UICI, and Americans for Financial Security - Settled in favor of Plaintiff in amount of \$9,250.

Dispute over a Life Insurance Policy:

- Waller v. The MEGA Life and Health Insurance Company – Status unknown .

Sending Unsolicited Fax Advertising:

- Green Valley Chiropractic, d/b/a The Hoover Clinic, and Mortgage Now, Inc. on their own behalf and on the behalf of other similarly situated vs. UICI, MEGA Life & NASE – Status unknown.

**VII. PREMIUM AND PREMIUM TAXES**

(1) During the review of the Marketing and Sales process and also during the Claim Handling review for the STAR Division, it was determined that the premium collections could not be properly applied to the states where the individual employees lived due to the fact that STAR’s computer system did not retain that level of detail. Instead, since STAR only received total collections from the various Groups or Employers, they incorrectly applied the premium collections to the state of domicile of those Groups. From those facts, further investigation determined that those states, such as Alabama, who did not have a significant number of large national companies with a large nationwide employee force, were not receiving the correct premiums reported in the financial statements, and therefore, were not receiving the correct amount of premium taxes. STAR could not provide the actual premium collections by the state of the employee’s residence, due to their system’s limitations. However, the system was able to retrieve the claim payments by the actual state of each claimant. Therefore, a method of allocating claims paid by state was developed to provide a ratio that could then be applied to the total premium collections to arrive at revised premium amounts by state, that were deemed to be reasonably accurate.

Using the actual claims paid by state to arrive at the premium allocations that should have been applied to Alabama collections, the following adjustments need to be made:

	<u>Total premiums As reported</u>	<u>Total premiums Adjusted *</u>	<u>Net adjustment</u>	<u>Premium Tax Underpayment</u>
2002	\$313,169	1,694,011	1,380,842	22,093
2003	716,147	2,577,233	1,860,886	29,774
2004	1,268,715	3,304,936	2,052,700	32,580
Total Premium Tax Due				\$ 84,447

**\* The Total Adjustment is based on 2.3 % of nationwide STAR collections for the period.**

Note: In 2004, STAR implemented a new system that has the ability of maintaining the details required to properly apply the premiums by the state of the employee’s residence, and Company officials have stated that they will incorporate this capability into their procedures for future premium reporting. This system should produce timely detail of premiums at the employee/policyholder level to facilitate statutory audit requirements.

(2) During the review of the NASE procedures for marketing the NRH policies, it was learned that when NASE enrolls new members who purchase the MEGA health insurance offered through the Association, their membership fee is increased from \$25 without insurance, to \$120 with insurance. A NASE officer explained that the only reason for this increase is because it produces more revenue for NASE. There is no additional administrative work involved on NASE’s part. During the examination period, there were 7,254 policies sold through the NASE Association that would have been subject to this additional \$95 policy fee. All subsequent policy fees charged to the MEGA insureds should be subject to Alabama premium taxes, as required and defined by Alabama Code section 27-4A-2(8). The Company disagrees as to whether Alabama Code section 27-4A-2(8) applies to this increased amount. The Department has directed that if the Company continues to charge this additional amount

when insurance is purchased, then such additional amount charged to MEGA insureds is subject to Alabama Code section 27-4A-2(8).

### VIII. SUMMARY OF EXCEPTIONS AND RECOMMENDATIONS

- 1) The Schedule of Benefits page listed on the NRH issued certificates, does not adequately disclose the fact that the deductible may be for multiple occurrences, which may cause confusion to the insured.

It is recommended that the Company revise the Schedule of Benefits page for those certificates that have a multiple-occurrence deductible in order to provide a clearer explanation of this limitation.

- 2) The Company encourages phone contact, but does not report complaints received by phone as a complaint on the Company's Complaint Tracking System, as noted in *NAIC Complaint Handling Standard 2*.

It is recommended that all complaints, whether received in writing or received by phone, be listed on the Company's Complaint Tracking System and handled in the same manner as any complaint according to the complaint handling manual.

- 3) There were 3 policies that had been terminated although there were no documents or notes in the underwriting files to support the reason for the termination, as noted in *NAIC Underwriting Standard 7*.

It is recommended that the Company develop procedures and internal controls that insure all pertinent records and documents are maintained in their file imaging systems, or develop procedures to insure that the existing controls are maintained.

- 4) There was a policy that had been issued on only one of the two prospective insureds, after one of the insureds explained in writing that if they both could not be covered then they did not want the insurance, as noted in *NAIC Underwriting Standard 10*.

It is recommended that the Company review their files to make sure that the full refund had been made on this policy, plus interest at the rate of 1.5% per month, if the refund was paid late. NOTE: On June 27, 2005, the Company made the requested reimbursement, plus interest, to the insured.

- 5) There were 63 claims which had not been acknowledged within 15 days after receipt of the initial notification of the claim, as noted in *NAIC Claims Handling Standard 1*.

It is recommended that the Company develop and maintain better internal controls that will insure the claim will be acknowledged within the required time frame.

- 6) There were 183 claims that did not include in the claim files documentation or notes that supported why they were not investigated and processed within the required time frame, as noted in *NAIC Claims Handling Standard 2*.

It is recommended that the Company develop and maintain better internal controls that will insure that the investigations will be completed within the required time frame. Also, where applicable, interest should be paid on any claim paid past the required due date.

- 7) There were 83 claims that were not settled within the required 30 or 45 day time frame, and there were no documents or notes in the claim file to explain the delays, as noted in *NAIC Claims Handling Standard 3*.

It is recommended that the Company develop and maintain better internal controls that will insure that the claim handling procedures will complete the claim process within the required time frame, that all pertinent documents are properly maintained in the files, and that relevant notes are taken and maintained in the claim files. Also, where applicable, interest should be paid on any claim paid past the required due date.

- 8) There were 20 claims in which the correspondence was not answered by the Company within the required 20 days, as noted in *NAIC Claim Handling Standard 4*.

It is recommended that internal control procedures be implemented that will make sure that all correspondence received from the claimant or provider is responded to within 20 days.

- 9) There were 411 claim files that did not contain required pertinent documents. There were claim files that did not include the claim forms. Some files did not have the medical records that had been requested, and since the claim was paid, the Company apparently received them. There were documents that had not been date-stamped, so the date of receipt could not be verified. There were letters or EOBs that had been sent, but there was no proof of mailing, so it could not be verified when they were sent. These procedures were reviewed as per *NAIC Claim Handling Standard 5*.

It is recommended that internal control procedures be incorporated and maintained to insure that all relevant documents and notes be maintained in the claim file, and that all documents received are properly dated. The Company should receive proof of mailing from the post office in order to verify the dates the letters and EOBs are mailed.

- 10) There were 34 claims that had been denied or closed without payment that did not have documentation or notes in the claim file that would support or explain the Company's decision to deny them. However, several of the claims were later paid after the examiner questioned their denial. Also, there does not appear to have been interest paid on the delayed payments. These procedures were reviewed as per *NAIC Claim Handling Standard 9*.

It is recommended that these claims that appear to have been improperly denied, be reconsidered and reviewed to determine if they should have been paid. Also, the Company should pay interest at the rate of 1.5% on all applicable claims that had been initially denied in error.

- 11) The Company had incorrectly paid Alabama Premium Taxes based on improperly allocated premium collections by state, on business written through its STAR HRG Division. The Company could not produce a detailed listing of policyholders and premiums for a significant portion of the Company's business, as requested for audit purposes.

During the examination the Company was asked to produce basic listings of insureds in an attempt to verify addresses. A listing of this nature should be a minimum

standard required to perform a satisfactory market conduct examination. However, this listing could not be provided for certain areas of the Company. Officials maintained that those records were kept by the individual corporate clients and in different formats. The Company's claim was that this detailed information would be very difficult to obtain and the accuracy of the data would be compromised by timing differences. Such records should be readily available for statutory examinations and would appear necessary on the Company's part to produce accurate financial records.

It is also recommended that the Company implement the capabilities of their new computer system that will properly apply the premiums to the correct state where the employee resides, and obtain and maintain a complete detailed listing of all policyholders for future audit review. The Company needs to pay the underpaid premium taxes as noted above. NOTE: In 2006, Health Markets subsequently sold STAR HRG to another company.

- 12) There were 7,254 MEGA insurance policies sold through the NASE Association which included a \$95 policy fee, for which no Alabama premium taxes were paid.

It is recommended that MEGA pay premium taxes as required by Alabama Code section 27-4A-2(8) if the Company continues to charge additional fees when insurance is purchased.

The Company revised its practice subsequent to the examination. See the subsequent Examination Report for the period ending January 31, 2006.

- 13) Of the 57 requests for information from the Company made by the examiners, the Company's completed responses were late 22 (39 %) times.

It is recommended that the Company respond to examiners' requests within the required time limits, in order to expedite the exam and avoid delays.

NOTE: The Company has stated that subsequent to the preparation of this Report they have made modifications and/or improvements to correct these violations and/or issues of concern. For example, the Company has revised the Schedule of Benefits page to comply with the examiner's recommendation, and has also implemented a system to track their telephone complaints. They also stated that they have improved or evaluated their internal control procedures in order to comply with the various other recommendations re claims handling. These modifications have not been analyzed or reviewed.

**IX. ACKNOWLEDGEMENT:**

**In addition to the undersigned, Frank Fricks, CFE, AIE, and Harland Dyer, ASA, MAAA, FCA participated in the examination of Mega Life and Health Insurance Company for the Alabama Department of Insurance.**

**Respectfully submitted,**



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Joel S. Silva, AIE. FLMI  
Examiner In Charge  
For the State of Alabama  
Department of Insurance