

JUL 27 1993

STATE OF ARIZONA
DEPARTMENT OF INSURANCE

DEPARTMENT OF INSURANCE
By

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4 In the Matter of:) Docket No. 8160
5 NATIONAL HEALTH INSURANCE COMPANY)
6 Respondent.)
7)

8 A market conduct examination ("Examination) was made of
9 National Health Insurance Company, hereinafter referred to as
10 "National", by a Market Conduct Examiner for the Arizona
11 Department of Insurance ("ADOI") as of February 29, 1992,
12 covering the time period from January 1, 1988 to February 29,
13 1992. Based upon the examination results, it is alleged that
14 National has violated the provisions of Arizona Revised
15 Statutes, Title 20, Sections 20-461, 20-462 and 20-1342, and
16 Arizona Administrative Code Rule ("A.A.C. R") 4-14-801.
17 National wishes to resolve this matter without formal
18 adjudicative proceedings and hereby agrees to a Consent Order.

19 The Director of Insurance of the State of Arizona ("the
20 Director") enters the following Findings of Fact, and
21 Conclusions of Law, which are neither admitted nor denied by
22 National, and the following Order:

FINDINGS OF FACT

24 1. National is authorized to transact life and disability
25 insurance as an insurer pursuant to a Certificate of Authority
26 issued by the Director.

27 2. The Examiner was authorized by the Director to conduct
28 market conduct examinations of National and has prepared Reports

1 of Examination of the Market Conduct Affairs of National ("1990
2 Report") and the continuation ("1992 Report"). The Examiner
3 noted that improvements made by the Company in the area of claim
4 processing during the period of the Examination.

5 3. The Examiner reviewed twenty-two (22) of the
6 twenty-three (23) complaints made to the ADOI concerning
7 National during the time frame of the Examination. Concerning
8 five (5) of these complaints, which related to seven (7) claims,
9 the Examiner found that National:

10 a. failed to acknowledge the receipt of two (2)
11 claims within ten (10) working days, accept or deny the two (2)
12 claims within fifteen (15) working days after the receipt of
13 properly executed proofs of loss, and pay the two (2) claims
14 within thirty (30) days after receipt of acceptable proofs of
15 loss which contained all information necessary for claim
16 adjudication.

17 b. failed to disclose all pertinent benefits under
18 the insurance contracts of two (2) insureds.

19 c. failed to pay benefits on two (2) claims for
20 outpatient services performed outside a hospital, which would
21 have been covered had they been performed as inpatient services.

22 d. failed to respond within fifteen (15) days of
23 receipt to one (1) complaint from the ADOI concerning a claim.

24 e. denied one (1) claim, on the basis that it was
25 excluded by endorsement. It was later determined that the
26 endorsement did not exclude this claim. The claim was then
27 paid.

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1 4. The Examiner reviewed the one (1) consumer complaint
2 made directly to National during the time frame of the 1992
3 Examination. National had denied a claim for outpatient
4 laboratory and diagnostic testing which would have been covered
5 under the terms of the policy had the testing been conducted
6 during hospitalization. The claim was later paid.

7 5. The Examiners reviewed 22 of the 312 new business
8 files opened during the period covered by the 1992 Examination
9 and cancelled during the ten-day "free-look" period. Of these,
10 National failed to refund premiums of six (6) policies within
11 ten (10) working days of notification.

12 6. The Examiner reviewed 281 of the 2,661 Arizona
13 accident and health claims paid by National during the period
14 covered by the Examination. As to these, National failed to:

15 a. acknowledge the receipt of one hundred (100)
16 claims within ten (10) working days.

17 b. accept 105 claims within fifteen (15) working
18 days after the receipt of properly executed proofs of loss, and
19 failed to notify 102 claimants within the fifteen (15) days of
20 the reasons that more time was needed.

21 c. pay sixty-nine (69) claims within thirty (30)
22 days after receipt of acceptable proofs of loss which contained
23 all information necessary for claim adjudication, and did not
24 pay interest at the legal rate to the insureds from the dates
25 the claims were received.

26 d. complete investigation of thirty-six (36) claims
27 within thirty (30) days of notification of the claims, and
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1 failed to document why the investigations could not reasonably
2 be completed within that time.

3 e. pay two (2) claims in excess of the amount
4 payable under policy provisions. Claim # was overpaid by
5 \$89.90, and Claim #248883 was underpaid by \$25.30.

6 f. pay benefits on one (1) claim for outpatient
7 services performed outside a hospital, which would have been
8 covered had they been performed as inpatient services. These
9 benefits were later paid by National.

10 7. The Examiner reviewed 149 of the 1,215 Arizona
11 accident and health claims denied by National during the period
12 covered by the Examination. As to these, National failed to:

13 a. acknowledge the receipt of seventy-seven (77)
14 claims within ten (10) working days.

15 b. deny fifty-four (54) claims within fifteen (15)
16 working days after the receipt of properly executed proofs of
17 loss, and failed to notify these claimants within fifteen (15)
18 days giving the reasons that more time was needed.

19 8. The Examiner reviewed 95 of the 1,293 Arizona accident
20 and health claims closed by National without payment during the
21 period covered by the Examination. As to these, National failed
22 to:

23 a. acknowledge the receipt of nineteen (19) claims
24 within ten (10) working days.

25 b. deny forty-one (41) claims within fifteen (15)
26 working days after the receipt of properly executed proofs of
27 loss, and failed to notify all forty-one (41) of these claimants
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1 within fifteen (15) days giving the reasons that more time was
2 needed.

3 c. complete investigation of thirty (30) claims
4 within thirty (30) days of notification of the claims, and
5 failed to document why the investigations could not reasonably
6 be completed within that time.

7 e. pay one (1) claim which was closed without
8 payment as a pre-existing condition, although it was not a
9 pre-existing condition and should have been paid according to
10 policy terms. The claim was later paid in full, with interest.

11 CONCLUSIONS OF LAW

12 1. By failing to disclose all eligible benefits to first
13 party claimants, by failing to pay claims in the exact amounts
14 due pursuant to the terms of its policies, and by denying a
15 claim as the result of a "pre-existing condition" which did not
16 meet the policy's definition of a pre-existing condition,
17 National failed to disclose all benefits for which insureds were
18 eligible in violation of A.A.C. R4-14-801(D)(1) and A.R.S. §
19 20-461(A).

20 2. By failing to pay benefits for outpatient diagnostic
21 services which would have been covered had they been performed
22 in hospitals, National violated A.R.S. § 20-1342(A)(8)(c).

23 3. By failing to acknowledge notification of claims or
24 pay the claims within ten (10) working days of their receipt,
25 National violated A.A.C. R4-14-801(E)(1) and A.R.S. §
26 20-461(A)(2).

27 4. By failing to advise claimants of the acceptance or
28 denial of their claims within fifteen (15) working days after

1 receiving receipt of properly executed proofs of loss, National
2 violated A.A.C. R4-14-801(G)(1)(a) and A.R.S. § 20-461(A)(5).

3 5. By failing to advise claimants within fifteen (15)
4 working days after receiving receipt of properly executed proofs
5 of loss that it needed more time to determine whether their
6 claims should be accepted or denied, National violated A.A.C.
7 R4-14-801(G)(1)(b) and A.R.S. § 20-461(A)(5).

8 6. By failing to pay claims within thirty (30) days after
9 the receipt of proofs of loss which contained all information
10 necessary for claim adjudication, and failing to pay interest on
11 the amount due, National violated A.R.S. § 20-462(A).

12 7. By failing to complete the investigation of claims
13 within thirty (30) days of claim notification, and failing to
14 document why the claims investigations could not reasonably be
15 completed within that time, National violated A.A.C.
16 R4-14-801(F) and A.R.S. § 20-461(A)(3).

17 8. Grounds exist for the entry of all other provisions of
18 the following order.

19 ORDER

20 National having admitted the jurisdiction of the Director
21 to enter the Order set forth herein, having waived the Notice of
22 Hearing and the hearing, having waived any and all rights to
23 appeal this Order, and having consented to the entry of the
24 Order set forth hereinafter, and there being no just reason for
25 delay:

26 IT IS HEREBY ORDERED THAT:

27 1. National shall cease and desist from failing to
28 disclose all eligible benefits to first party claimants; from

1 failing to pay benefits for outpatient diagnostic services which
2 would have been covered had they been performed in hospitals;
3 from failing to pay all claims according to policy terms; from
4 failing to acknowledge notification of claims within ten (10)
5 working days of their receipt; from failing to notify insureds
6 of the acceptance or denial of claims within fifteen (15)
7 working days of receipt of properly executed proofs of loss;
8 from failing to either pay claims within thirty (30) days after
9 receipt of a proof of loss which contains all information
10 necessary for claim adjudication, or pay interest on the claims
11 from the date the claim was received by National; and from
12 failing to complete the investigation of claims within thirty
13 (30) days of notification or documenting the claim files to show
14 why the investigations could not reasonably be completed within
15 that time.

16 2. National shall develop written action plans to monitor
17 and ensure that:

18 a. its personnel process claims in accordance with
19 A.R.S. §§ 20-461, 20-462, 20-1342 and A.A.C. R4-14-801.

20 b. the Company and its agents refund premiums of
21 policies cancelled within the ten-day "free-look" period within
22 ten (10) days of cancellation. National shall submit copies of
23 the action plans to the ADOI for approval within thirty (30)
24 days of the filed date of this Order.

25 3. National shall pay to claimants listed in Exhibit III
26 of the 1990 Report and in Exhibit VII of the 1992 Report
27 interest on the amounts of the claims unpaid on the 30th day
28 after National's receipt of proofs of loss containing all

1 information necessary for claims adjudication. Interest shall
2 be paid at the rate of ten percent (10%) per annum calculated
3 from the date the claim was received by the insured to the date
4 the claim was paid.

5 4. National shall pay the insured of Claim #248883 the
6 amount of \$25.30, the amount by which the claim was underpaid,
7 plus interest on the unpaid amount at the rate of ten percent
8 (10%) per annum calculated from the date the claim was received
9 by the insured to the date of payment.

10 5. The payments listed in Paragraphs 3 and 4 shall be
11 accompanied by a letter to the insured acceptable to the
12 Director. A list of payments giving the name and address of
13 each party to whom they were made, the base amount, the amount
14 of interest paid or credited, and the date of payment, shall be
15 provided to the ADOI when all payments have been made.

16 6. The ADOI shall be permitted, through an authorized
17 representative, to verify that National has complied with all
18 provisions of this Order, and the Director may separately order
19 National to comply.

20 7. National shall pay a civil penalty of Sixteen Thousand
21 Dollars (\$16,000) to the Director for remission to the State
22 Treasurer for deposit in the State General Fund in accordance
23 with A.R.S. § 20-220(B). Said \$16,000 shall be provided to the
24 Hearing Division of the ADOI on or before July 30, 1993.

25 8. The Report of Market Conduct Examination as of June
26 30, 1990 and the continuation as of February 29, 1992, to
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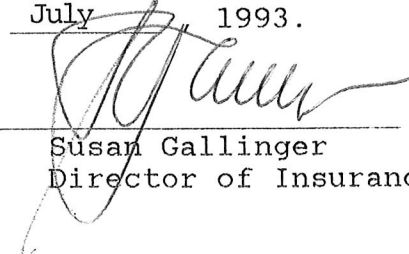
1 include the objections to the Report by National, shall be filed
2 with the ADOI.

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4 DATED at Phoenix, Arizona this 27th day of July 1993.

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Susan Gallinger
Director of Insurance

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CONSENT TO ORDER

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1. Respondent, National Health Insurance Company, has reviewed the foregoing Order.

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2. Respondent is aware of its right to a hearing at which hearing Respondent may be represented by counsel, present evidence and cross-examine witnesses. Respondent has irrevocably waived its right to such public hearing and to any court appeals relating thereto.

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3. Respondent admits the jurisdiction of the Director of Insurance, State of Arizona, and consents to the entry of this Order.

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4. Respondent states that no promise of any kind or nature whatsoever was made to induce it to enter into this Order and that it has entered into this Order voluntarily.

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5. Respondent acknowledges that the acceptance of this Order by the Director of Insurance, State of Arizona, is solely for the purpose of settling this litigation against it and does not preclude any other agency or officer of this state or subdivision thereof from instituting other civil or criminal proceedings as may be appropriate now or in the future.

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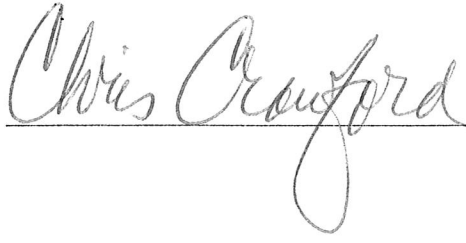
1 6. G. Scott Smith represents that as
2 President he is an officer of National Health
3 Insurance Company, and that as such, he has been authorized by
4 it to enter into this Order for and on its behalf.

5
6 July 22, 1993 
7 (Date) NATIONAL HEALTH INSURANCE COMPANY

8 COPY of the foregoing mailed/delivered
9 this 27th day of July, 1993, to:

- 10 Charles R. Cohen
- 11 Acting Deputy Director
- 12 Katrina Rogers
- 13 Chief Hearing Officer
- 14 Deloris E. Williamson
- 15 Assistant Director
- 16 Rates & Regulations Division
- 17 *Mary Butterfield
- 18 Supervisor
- 19 Life and Disability Section
- 20 Jay Rubin
- 21 Assistant Director
- 22 Consumer Affairs & Investigations Division
- 23 Gary Torticill
- 24 Assistant Director and Chief Financial Examiner
- 25 Corporate Affairs & Financial Division
- 26 DEPARTMENT OF INSURANCE
- 27 3030 N. 3rd Street, Suite 1100
- 28 Phoenix, AZ 85012

- 29 G. Scott Smith
- 30 President and Chief Executive Officer
- 31 NATIONAL HEALTH INSURANCE COMPANY
- 32 P.O. Box 619999
- 33 DFW Airport, Texas 75261-9999

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