FINANCIAL SERVICES COMMISSION

FLORIDA OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS

MARKET CONDUCT FINAL EXAMINATION REPORT

OF

THE CAPELLA GROUP, INC.

AS OF

March 3, 2006

FLORIDA COMPANY CODE: 56008

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PURPOSE AND SCOPE OF EXAMINATION

Under authorization of the Financial Services Commission, Florida Office of Insurance Regulation (Office), Market Investigations, pursuant to Section 636.206, Florida Statutes, a market conduct examination of The Capella Group, Inc., dba Care Entrée, ("Company" or "Capella") was performed. The scope of this examination was April 1, 2005 through October 31, 2005. The examination began February 27, 2006 and ended March 3, 2006.

The purpose of this examination was to review the Company's compliance with Chapter 636, Part II, Florida Statutes as effective on April 1, 2005. Chapter 636, Part II, Florida Statutes regulates discount medical plan organizations, entities which, in exchange for fees, dues, charges, or other consideration, provide access for plan members to providers of medical services and the right to receive medical services from those providers at a discount.

The Company's records were examined at its offices located at 2040 North Highway 360, Grand Prairie, TX 75050.

This Final Report is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information and comments provided by the Company in response to the draft report. Procedures and conduct of the examination were in accordance with the Market Regulation Handbook produced by the National Association of Insurance Commissioners.

DESCRIPTION OF COMPANY

This foreign company was licensed as a Discount Medical Plan Organization ("DMPO") in Florida effective March 24, 2005. Capella aggregates medical products and services from various networks and providers and bundles these benefits into discount medical plans marketed under the name of Care Entrée. The Company's plans are also offered by marketers who offer the Company's plans under a private label.

Members of Capella's plans are required to establish a personal medical account (PMA) with Foresight TPA for its physician and hospital access medical discount plans. Both Foresight and Capella are wholly owned subsidiaries of Precis, Inc. Foresight was licensed as a third party administrator in Florida on January 29, 2004.

PROVIDER NETWORK REVIEW

The Company has written agreements with the following provider and medical service networks:

- Beltone Electronics Corporation – hearing aids network
- Careington International – dental provider network
- Dental Directory Services, Inc. (DDS) – dental provider network

- Eye Care International, Inc. (ECI) – vision care network
- Healthcare Synergies, Inc. (HSI) – long term care, home care network
- Outlook Vision Services, Ltd. – vision care network
- Private Healthcare Systems, Inc. (PHCS) – physician and hospital network
- SPC Global Technologies - Prescription Services
- Unicare, Inc. - dental provider network
- Cyber Medical Services (Teladoc) – telephone medical consultation services
- Direct Laboratory Services, Inc. – laboratory services
- MGR Consulting Services, Ltd – complementary and alternative medicine providers
- Optum/United HealthCare Services, Inc. - health information web site and nurse telephone consultation services
- CHG Allied, Inc – chiropractic services network

The written provider network agreements were reviewed to ensure they contained the provisions required by Section 636.214(3), Florida Statutes. The following errors were noted:

- 4 failed to contain language requiring monthly provider updates as required by Section 636.214(3)(c), Florida Statutes;
- 6 failed to contain language requiring that the agreement between the network and its providers contain both a description of the service and products to be offered, and/or the amounts of discount or a fee schedule as required by Section 636.214(3)(a), Florida Statutes; and
- 5 failed to require a stipulation that the provider would not charge more than the discounted rate as required by Section 636.214(3)(a), Florida Statutes.

Corrective Action: The Company should update its provider network agreements to contain the provisions required by Sections 636.214(3)(a) and (c), Florida Statutes.

Per Section 636.214(3)(c), Florida Statutes, the network is required to maintain an up-to-date list of its contracted providers and to provide that list on a monthly basis to the discount medical plan organization. However, a spreadsheet provided by the Company revealed that prior to September 2005, the networks were not routinely providing monthly updates.

Corrective Action: The Company should ensure that the networks are providing the updates each month.

MARKETERS

The Company reported that 522 Independent Marketing Representatives (IMR's) market its Care Entrée plans in Florida. A sample of 10 IMR's was selected for review to ensure compliance with Section 636.228, Florida Statutes. The Company was not able to produce 6 of the requested agreements. Section 636.228(2), Florida Statutes, requires the Company to maintain written agreements with all marketers. The 4 contracts the Company was able to produce were compliant with Section 636.228, Florida Statutes.

Corrective Action: The Company should maintain written agreements with all its marketers.

The Company reported that just one marketer, Qualified Health, was offering the Company's discount medical plans in Florida under a private label during the scope of the examination. The written agreement was reviewed for compliance with Section 636.228, Florida Statutes, and no errors were found.

FORMS/CHARGES REVIEW

Forms

On April 1, 2005, the Office approved the following forms filed by the Company for its Care Entrée plans:

- Application forms for the Company's BasicMed, Essential Care, and Total Care plans;
- A "Discount Medical Plan Agreement", which informs the consumer of the documents that constitute the discount medical agreement; and
- Documents that describe the various medical discount products and services.

On July 20, 2005, the Office approved similar forms for use by Qualified Health.

The Company provided samples of 23 different membership kits for review. The Company has not filed these membership kits with the Office in the format in which they are provided to the member. None of the kits contained the "Discount Medical Plan Agreement" and a copy of the application. Without these two forms, the membership kit is not the written agreement required by Section 636.216(2), Florida Statutes, as it does not contain the name and address of the DMPO, the term of the contract, a space for charges, the one-time processing fee, the mode of payment, or limits and exclusions of the plan that are required by Rule 69O-203.202(1)(a), (d),(e),(f), and (i), Florida Administrative Code. The first page of the membership kit does not contain the disclosures required by Section 636.212, Florida Statutes.

Corrective Action: The Company should provide members with the written agreements and membership kits that have been approved by the Office.

The following additional errors were noted:

- The Company has not filed Spanish language forms with the Office. One of the membership handbooks being used was in Spanish.
- The Company is using applications, and some pages within the membership kits, that contain revision dates that differ from those filed with the Office.
- The Company advised that Qualified Health accepted telephone enrollments. The Company acknowledged that no telephone scripts had been filed with the Office for approval.

Corrective Action: The Company should file the Spanish language forms, all revised forms, and all telephone scripts with the Office for approval prior to use, as required by Section 636.216(3), Florida Statutes, and Rule 69O-203.204(1)(a), Florida Administrative Code.

Charges

Section 636.216(1), Florida Statutes, requires a DMPO to file all charges with the Office. The Company did not inform the Office that $5.00 of the filed periodic charge for plans that require a PMA with Foresight is a monthly maintenance fee. Upon receipt of the member's periodic payment, Capella forwards $5.00 to Foresight. The fee is also not disclosed to the member on the application. Section 636.210(1)(c), Florida Statutes, prohibits restrictions on free access to plan providers.

Corrective Action: The Company should not charge members a fee to access the providers and should refund this fee to all members who were active on or after April 1, 2005.

ACTIVE MEMBERSHIP REVIEW

As of October 31, 2005, the Company had 7,398 memberships, of which 533 (7%) enrolled on or after April 1, 2005. Of the 533 memberships, 44 members were enrolled by Qualified Health prior to the Office's approval of the filed forms, for which approval is required by Section 636.216(3), Florida Statutes, and Rule 69O-203.204(1)(a), Florida Administrative Code.

Corrective Action: The Company should not enroll members on forms that have not been approved by the Office. All members should be sent the approved forms.

Enrollment Procedures

Depending on the marketer, members enroll using either paper forms or electronically over the Internet. The private label marketer, Qualified Health, also enrolls members over the telephone. Capella is responsible for sending fulfillment materials to all members regardless of the marketer who enrolled the consumer.

Sample Review

A sample of 52 memberships with effective dates on or after April 1, 2005 was reviewed. The membership files consisted of enrollment forms (when available), call logs, subscriber history and payment history. The following errors were noted:

- 14 members were enrolled on applications that had been filed with, but not yet approved by, the Office;
- 1 of the 14 enrollments was with a private label the Company had reported was not enrolling Florida members; and
- 41 members purchased plans which included the $5.00 monthly TPA maintenance fee.

Corrective Action: The corrective action has been addressed in the Forms/Charges Review and Active Membership Review sections above.

Memberships prior to April 1, 2005

On August 1, 2005, the Company sent all members enrolled prior to April 1, 2005 a letter advising them of the recent changes in Florida law. Members were given the option of joining one of three Care Entrée medical discount plans. Members who failed to make a choice were advised they would be migrated by the Company to the plan that was most similar to the member's original plan.

Corrective Action: Members enrolled prior to April 1, 2005 should be provided Florida approved enrollment forms and written agreements upon renewal.

CANCELLATION REVIEW

The Company reported 271 membership cancellations between April 1, 2005, and October 31, 2005. A sample of 56 cancellations was reviewed for compliance with Section 636.208(2), Florida Statutes. The statute requires a full refund of the membership fee if the member cancels within 30 days and returns the membership card.

Forty-four members, all of whom were enrolled in plans requiring a PMA with Foresight, did not receive full reimbursement of their periodic charges. The Company did not refund the $5.00 monthly maintenance fee. Of the remaining 12 cancellations, 7 received the correct refund and 5 members had been cancelled by the Company for non-payment.

Corrective Action: All members who cancelled within 30 days should be reimbursed the $5.00 PMA fee as required by Section 636.208(2), Florida Statutes.

COMPLAINT/GRIEVANCE REVIEW

Capella's complaint policy states that "complaints will be logged, researched and resolved in the best interest of the customer and the company." The Company's log listed 58 complaints from Florida members, but only captured the reason for 25 of the complaints as follows:

- 6 members thought they had purchased an insurance plan;
- 5 members had issues with the providers;
- 5 involved cancellation requests being improperly handled; and
- 9 complaints were spread between Foresight TPA issues, improper charges, wrong information given to members, and complaints regarding the amount of savings received.

The Company's complaint log did not include 3 consumer complaints reported to Consumer Services of the Florida Department of Financial Services. Therefore, the logs provided by the Company were incomplete and not maintained according to the procedures filed with the Office pursuant to Sections 636.204(2)(k) and 636.205(1)(d), Florida Statutes.

Corrective Action: The Company should properly log all complaints and maintain them according to their internal policies and procedures.

WEBSITE REVIEWS

Care Entrée's Website

As a condition of licensure, a discount medical plan is to establish an internet website page on which it is to maintain an up-to-date list of the names and addresses of its providers, in compliance with Section 636.226, Florida Statutes. Viewers can access the provider directories from the Company's website, www.careentree.com.

A review of the website was conducted prior to the onsite examination which revealed the following errors:

- The disclosures were not in 12-point type, as required by Section 636.212, Florida Statutes;
- The name and address of the licensed DMPO was not on the first page, as required by Section 636.212(5), Florida Statutes;
- Consumers can apply on line but the Company has not filed an internet application with the Office for approval, as required by Section 636.216(3), Florida Statutes;
- The "Discount Medical Plan Agreement" posted on the website is different from the one filed with and approved by the Office; and
- The site contains multiple links that take a Florida consumer to the plans offered in Florida. One link connects the Florida consumer to a "Member Program Items" pricing schedule and plan description that does not offer the discount plans as they were filed with and approved by the Office. The Florida member is not offered the lower priced packages in the Total Care and Essential Care plans. The plans, as offered on this page, would require the charges to be filed with and approved by the Office pursuant to Section 636.216(1), Florida Statutes.

Corrective Action: The Company should ensure that the first page of its website contains the disclosures in 12-point type and the name and address of the licensed DMPO. The Company should file the internet application with the Office, should use forms on its website as they have been approved by the Office, and should only offer its medical discount plans as they have been filed with and approved by the Office.

Qualified Health's Website

Viewers can access the provider directories from the Qualified Health's website, www.qhealth.com, as required by Section 636.226, Florida Statutes. A review this website was also conducted prior to the onsite examination. The following errors were noted:

- The first page of the website does not contain the disclosures, as required by Section 636.212, Florida Statutes;

- The website uses terms such as "no lengthy waiting periods", "no claims forms", among others, in a manner that could reasonably mislead a person into believing the discount medical plan is insurance, which is a prohibited activity under Section 636.210(1)(b), Florida Statutes; and
- Consumers can apply on-line but the Company has not filed an internet application with the Office for approval, as required by Section 636.216(3), Florida Statutes.

The Company did not produce evidence that it had reviewed and approved, in writing, the contents of this website, as required by Section 636.228(1), Florida Statutes.

Corrective Action: The Company should ensure that the first page of its website contains the required disclosures. The Company should not use terms that could mislead a consumer to think that they are purchasing health insurance. The Company should file all internet applications with the Office. The Company should ensure that all websites and its contents are reviewed and be able to verify that a review has been conducted.

ADVERTISING REVIEW

Advertising was reviewed to determine compliance with Sections 636.210, 636.212 and 636.228, Florida Statutes. Capella submitted 32 advertisements for review. The following errors were noted:

- 3 of the advertisements were not approved by the Company as required by Section 636.228(1), Florida Statutes;
- 29 advertisements failed to contain all the proper disclosures as required by Section 636.212, Florida Statutes;
- In addition, these 29 advertisements failed to disclose the $5.00 monthly PMA fee. Rule 69O-203.203(2)(b), Florida Administrative Code, states that no "advertising shall give false information, contain untrue, deceptive, or misleading words, phrases, statements, references, or illustrations as to the contract benefits, health conditions covered, charges or processing fee."; and
- In 28 of the advertisements, Capella advised marketers to insert the following text; "Payments are not made directly from members but from Foresight (TPA) for contracted providers." Section 636.212(3), Florida Statutes, states that it must be disclosed in writing that the plan does not make payments directly to the providers of medical services.

Corrective Action: The Company should ensure that all advertising contains the required disclosures. The Company should ensure that all advertisements used by marketers are first approved by the Company. The Company should also properly advise the public of all fees associated with the discount medical plan.

EXAMINATION FINAL REPORT

The Office hereby issues this report as the Final Report, based upon information from the examiner's draft report, additional research conducted by the Office, and additional information and comments provided by the Company in response to the draft report.