

FLORIDA DEPARTMENT OF INSURANCE



TARGET MARKET CONDUCT REPORT OF PROVIDENT AMERICAN LIFE & HEALTH INSURANCE COMPANY AS OF

December 31, 2000

DIVISION OF INSURER SERVICES

**BUREAU OF LIFE AND HEALTH
INSURER SOLVENCY & MARKET CONDUCT REVIEW**

MARKET CONDUCT SECTION

**BY ROBERT D. FLEGE, CIE, CFE, FLMI, ALHC, AIRC, ASF, LPCS
INDEPENDENT CONTRACTOR ANALYST**

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April 27, 2001

Honorable Tom Gallagher
Treasurer and Insurance Commissioner
State of Florida
The Capitol, Plaza Level Eleven
Tallahassee, Florida 32390-0300

Dear Commissioner Gallagher:

Pursuant to the provisions of Section 624.3161, Florida Statutes, and in accordance with the Agreement for Market Conduct Services dated January 11, 2001 a Target Market Conduct Examination has been performed on:

Provident American Life and Health Insurance Company
17800 Royalton Road
Strongsville, OH 44136-5197

NAIC Group Code 1200
NAIC Company Code 67903

The examination was conducted at the offices of the Company's Third Party Administrator, Health Plan Services, located at 3501 E. Frontage Road, Tampa, Florida. The report of such examination is herein respectfully submitted.

Sincerely,

Robert D. Flege
CIE, CFE, FLMI, ALHC, AIRC, ASF, LPCS
Independent Contract Analyst

***Certified Insurance Examiner (CIE), Certified Fraud Examiner (CFE)**
Fellow Life Management Institute (FLMI), Associate Life & Health Claims (ALHC)
Associate Insurance Regulatory Compliance (AIRC)
Associate in State Filings (ASF)
Legal Principles Claims Specialist (LPCS)
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TABLE OF CONTENTS

INTRODUCTION 4

SCOPE OF EXAMINATION..... 4

DESCRIPTION OF COMPANY 6

CERTIFICATE OF AUTHORITY..... 7

PRODUCER LICENSING 8

PRODUCER TRAINING..... 11

COMPLAINT HANDLING 12

BILLING AND POSTING 14

CLAIMS PROCESSING 15

 a. Paid Claims 15

 b. Denied Claims..... 19

FORM AND RATE FILINGS..... 20

INTERNET SALE OF INSURANCE..... 22

CONSUMER RECOVERIES..... 23

CONCLUSION..... 24

FINDINGS AND RECOMMENDATIONS..... 25

INTRODUCTION

Provident American Life and Health Insurance Company hereinafter is generally referred to as "PALHIC" or "the Company" when not otherwise qualified.

This Target Market Conduct Examination was conducted by Independent Contract Analyst, Robert D. Flege, CIE, CFE, FLMI, ALHC, AIRC, ASF, LPCS, representing the Florida Department of Insurance pursuant to Section 624.3161, Florida Statutes.

This Target Market Conduct Examination commenced on January 12, 2001, and concluded on April 27, 2001.

SCOPE OF EXAMINATION

This examination covers various phases of the Company's operations in the State of Florida from January 1, 1999 through December 31, 2000, and subsequent information when required.

The purpose of this Target Market Conduct Examination was to determine if the Company's practices and procedures conform to the Florida Statutes and the Florida Administrative Code.

Procedures and conduct of the examination were in accordance with the Department's Field Examination Guidelines and the Market Conduct Examiner's Handbook produced by the National Association of Insurance Commissioners (NAIC). The handbook standards of a seven percent (7%) error factor for claim resolution procedures and a ten percent (10%) error factor for other procedures were given consideration and applied where appropriate.

The examination included, but was not limited to, the following areas of the Company's operation involving group policies for associations providing comprehensive major medical expense reimbursement coverage to Florida residents:

1. Producer Training
2. Complaint Handling
3. Billing and Posting
4. Claims Processing
5. Form and Rate Filings
6. Internet Sale of Insurance, i.e. HealthAxis.com and/or digitalinsurance.com

These Florida residents were or became members of out-of-state associations such as Consumer Benefits of America (CBA).

Provident American Life and Health Insurance Company (PALHIC) has not assumed policies from other companies in the line of business accident and health subject to this examination.

Files were examined on the basis of file content at the time of examination. Comments and recommendations were made in those areas in need of correction and improvement.

DESCRIPTION OF COMPANY

History

Provident American Life and Health Insurance Company (PAHLIC) is a member of the Ceres Group that also includes Central Reserve Life Insurance Company, Continental General Insurance Company, Pyramid Life Insurance Company, and United Benefit Life Insurance Company. The Ceres Group has a management contract to conduct the affairs of Provident Indemnity Life Insurance Company.

Ceres Group, Inc., formerly Central Reserve Life Corporation, was incorporated in 1964 as Citation Life Insurance Company under the laws of the State of Ohio. "Ceres Group, Inc." became the Company's name in December 1998 following shareholder approval of the change of the Company's state of incorporation from Ohio to Delaware through a merger of the Company into a wholly owned subsidiary. The Company is a holding company, which through its subsidiaries, specializes in meeting the accident and health insurance needs of individuals and small to medium-sized businesses and the health and life insurance needs of Americans age 65 and older.

On December 31, 1998, Central Reserve acquired Provident American Life and Health Insurance Company from Provident American Corporation. Ceres Group, Inc. owns

100% of Central Reserve, which was its principal operating subsidiary as of December 31, 1998. Central Reserve owns 100% of PALHIC.

PALHIC specializes in marketing health insurance products to individuals and small businesses in forty (40) states. The Company derives the majority of its business from group association major medical products sold to individuals. A smaller portion of its business is derived from traditional life (whole life and limited pay) products. Currently the sale of individual health insurance is solely through HealthAxis.com via the Internet web site <http://www.digitalinsurance.com>.

CERTIFICATE OF AUTHORITY

The Company is authorized to transact insurance in the State of Florida subject to compliance with all applicable laws and regulations of Florida.

The Company is authorized to write Life, Group Life and Annuities, and Accident and Health. The examiner reviewed only the Accident and Health line of business. The Life and Group Life and Annuities lines of business were excluded from the examination.

Certificate of Authority, No. 96-23-1335885, was issued on June 9, 1986.

PRODUCER LICENSING

The Company provided a listing of licensed and appointed producers during the time frame of the examination as well as a listing of all producers paid first year commissions on policies during the years 1999 and 2000.

The examiner reconciled the Company's list of appointed agents with the Department's list of appointed agents for the period 1/1/99 to 12/31/00.

Findings

13 Violations - Section 624.318(2), Florida Statutes. The Company was unable to produce licensing and appointment records relating to the following agents: Bastie, Clemente, Eardley, Hemela, Henderson, Hodgkinson, Kimbrell, Kirtland, Massey, Metzlek, Smerling, Speight, and Wardwell. The Director of Licensing agreed with these assertions in a memo dated 3/14/01.

150 Violations - Section 624.318(2), Florida Statutes. In response to a request for production of Florida Termination of Appointment (Notice DI4-39), the Company advised that one hundred fifty (150) of the requested forms could not be located and would not be forthcoming. The Director of Licensing agreed with these assertions in a memo dated 3/30/01.

5 Violations - Section 624.425, Florida Statutes. The Company accepted business from five (5) agents not properly appointed. The Director of Licensing agreed with these assertions in memos dated 3/16/01 and 4/17/01.

5 Violations - Section 626.112, Florida Statutes. The Company failed to appoint five (5) agents as required. The Director of Licensing agreed with these assertions in memos dated 3/16/01 and 4/17/01.

5 Violations - Section 624.428, Florida Statutes. The Company accepted applications for insurance from five (5) agents who were neither licensed in the State of Florida nor appointed by the Company. The Director of Licensing agreed with these assertions in a memo dated 3/16/01.

5 Violations - Section 626.342, Florida Statutes. The Company provided applications to five (5) agents who were neither licensed in the State of Florida nor appointed by the Company. The Director of Licensing agreed with these assertions in a memo dated 3/16/01.

5 Violations - Section 626.451, Florida Statutes. The Company failed to file the required agency appointments with the Department for five (5) agents. The Director of Licensing agreed with this assertion in a memo dated 3/16/01.

1 Violation - Section 626.838, Florida Statutes. The Company paid commissions to Joseph Walters, an agent who was not licensed and appointed in the State of Florida. The Director of Licensing agreed with this assertion in a memo dated 3/16/01.

The Company did not appoint agents until the agents wrote their twenty-fourth (24th) policy in any given twelve (12) month period. This is permissible in accordance with the provisions of Section 626.837(4), Florida Statutes. However, the agent brokering the business must be licensed and appointed by the Department. The agent with whom the business is brokered must be licensed and appointed by the Department and appointed by

PALHIC. The examiner reviewed the policies produced by agents who were not appointed by PAHLIC. The examiner concluded that the Company accepted business brokered through un-appointed agents by un-appointed agents.

Findings

5 Violations - Section 626.342, Florida Statutes. The Company provided applications to five (5) agents who were not licensed and appointed. The Director of Licensing agreed with this assertion in a memo dated 4/17/01.

5 Violations - Section 626.451, Florida Statutes. The Company failed to file agent appointments for five (5) agents with the Department. The Director of Licensing agreed with this assertion in a memo dated 4/17/01.

5 Violations - Section 626.838, Florida Statutes. The Company paid commissions to five (5) agents who were not licensed and appointed in the State of Florida. The Director of Licensing agreed with this assertion in a memo dated 4/17/01.

5 Violations - Section 626.837(4), Florida Statutes. The Company accepted business brokered through two (2) un-appointed agents by five (5) un-appointed agents. The Director of Licensing agreed with this assertion in a memo dated 4/17/01. These violations were due to transactions between agents Bernal, Phillip, Brickner, Hay, and Lindsay.

PRODUCER TRAINING

PALHIC is presently in the process of canceling its independent agency force in the State of Florida. Currently the only method available to purchase health insurance products associated with out-of-state groups is through HealthAxis.com, an agency marketing health insurance via the Internet (web site <http://www.digitalinsurance.com>).

PALHIC has two (2) agents appointed and licensed in the State of Florida associated with HealthAxis.com: Robert J. Blickley and Joanne Baer.

COMPLAINT HANDLING

The Company has complaint handling procedures in place as required by Section 626.9541(1)(j), Florida Statutes. A total of fifty-five (55) complaint files were received from the Department of Insurance during the two (2) year time frame of the examination. These files were reviewed and the findings indicate a delay in processing time.

The examiner reviewed the response time for processing complaint files received from the Department of Insurance.

The average number of days for responding was sixteen calendar (16) days, which does not comply with Consumer Services' directions to respond in ten working (10) days.

There were some examples of Consumer Services sending directions to the company requesting a response in 15 working days. The response time average listed above would be in compliance with these instructions.

Findings

6 Violations - Section 626.9541(1)(i)(3)(c), Florida Statutes. The Company failed to act promptly with regard to payment of claims. The Senior Vice President of Government Relations agreed with these assertions in memos dated 4/10/01 and 4/17/01.

2 Violations - Section 626.9541(1)(i)(2), Florida Statutes. The Company did not pay the claim according to policy provisions or erroneously denied the claim. The Senior Vice President of Government Relations agreed with these assertions in memos dated 4/16/01 and 4/17/01.

1 Violation - Section 626.9541(1)(i)(3)(g), Florida Statutes. The Company failed to promptly notify the insured of additional information needed to process the claim. The Senior Vice President of Government Relations agreed with this assertion in a memo dated 4/17/01.

1 Violation - Section 626.9541(1)(i)(3)(f), Florida Statutes. The Company failed to provide a reasonable explanation in writing for denial of a claim. The Senior Vice President of Government Relations agreed with this assertion in a memo dated 4/16/01.

1 Violation - Section 627.410, Florida Statutes. Due to a clerical error, a form filed by Provident Indemnity Insurance Company was attached to a Provident American Life and Health Insurance Company policy. The Senior Vice President of Government Relations agreed to this assertion. The Company should use only forms filed with the Department for that specific company and approved for use by that company.

BILLING AND POSTING

The examiner made a random selection of active policies in force during the time frame of the examination. The review included premium billing and payment records as well as a payment history of association membership dues. It also included a record of billing and payment of any non-refundable application fees and/or association membership fees along with a copy of the check that accompanied the original application. Twenty-five (25) active policies were reviewed.

All funds remitted along with the original application were credited to the accounts and, in instances where the original premium was not calculated correctly, the Company made adjustments in subsequent billings. The review produced no exceptions.

CLAIMS PROCESSING

a. Paid Claims

The Company provided a listing of fifty-seven thousand two hundred and ten (57,210) claims paid during the time frame of the examination. The following time study indicates delays in processing claim payments for 1999 and 2000.

PAID CLAIMS

Calendar Days	No. of Claims	Percentage
0 to 45	38,222	67%
46 to 60	4,945	9%
61 to 120	7,009	12%
121 to 180	2,953	5%
181 to 1,018	4,081	7%
TOTAL	57,210	100%

Twenty-three (23) claims were paid in excess of six hundred (600) days and two (2) claims were paid in excess of one thousand (1,000) days. This claim data does not consider allowable pending delays resulting from requests for additional information from the insured, investigation for pre-existing conditions, or contestable period investigations.

Although not technically required, the 45-day standard in Section 627.613, Florida Statutes, is a useful tool to evaluate compliance with Section 626.9541(1)(i)(3), Florida Statutes, regarding fair settlement of claims.

Considering the 45-day standard, the raw claim data suggests a potential of more than eighteen thousand nine hundred eighty-eight (18,988) violations of Section 626.9541(1)(i)(3), Florida Statutes, for failing to act promptly with regard to payment of claims. This claim data does not consider allowable pending delays resulting from requests for additional information from the insured, investigation for preexisting conditions, or contestable period investigations. However, the examiner reviewed a sufficient number of files to determine that many of these files were not delayed due to the need for additional data; therefore, the Department is citing this as a violation.

A detailed analysis indicates two (2) specific problems with the data submitted:

1. There were a substantial number of "dummy" claims recorded for bookkeeping purposes that were not real claims.
2. The Company and/or Health Plan Services (HPS) do not capture the date that claims are initially received. In instances where claims are reported directly by the provider to a re-pricer, the date recorded is the date that ACS, a vendor in Middleton, New York, receives the claim for sorting, imaging and data entry. The re-pricing takes from four (4) to fifteen (15) days.

The failure to capture the dates that claims were first reported to the Company resulted in a violation of Section 624.318(2), Florida Statutes.

CERES Group, Inc., and Health Plan Services, have implemented changes to improve the claim turnaround and to adjust the dates captured to represent the date a claim is received by the re-pricer. If the date of that submission is not known, the "received date" is assumed to be fourteen (14) days earlier for this analysis.

Claim records for bookkeeping purposes were excluded from the following analysis. The resulting list indicates a total of forty seven thousand eight hundred forty-eight (47,848) claims paid during the scope of the examination.

The examiner made a random selection of one hundred (100) files to determine if the Company's procedures complied with Florida statutes and regulations and provisions of the members' contracts. The following time study indicates that twenty-eight percent (28%) of the claims were not paid within forty-five (45) days.

Claims Paid

<u>Calendar Days</u>	<u>Number of Claims</u>	<u>Percentage</u>
0-45	72	72%
46 – 120	17	17%
121 and Over	11	11%
TOTALS	100	100%

The average time to process a paid claim was fifty-two (52) days.

Findings

Multiple Violations - Section 624.318(2), Florida Statutes. The failure to capture the dates that claims were first reported to the Company resulted in a violation of Section 624.318(2), Florida Statutes.

2 Violations - Section 624.318(2), Florida Statutes. The Company was unable to produce a provider bill to verify accuracy of claim payments (Claim Numbers 534462619B and 059389313PB). The Senior Vice President of Government Relations agreed to these assertions in memos dated 03/06/01.

17 Violations - Section 626.9541(1)(i)(3)(c), Florida Statutes. The Company failed to act promptly with regard to payment of claims. Claim payments were unreasonably delayed. The Senior Vice President of Government Relations agreed to each of these assertions in memos dated 03/05/01, 03/14/01, 04/08/01, and 04/10/01.

17 Violations - Section 626.9541(1)(i)(3)(g), Florida Statutes. The Company failed to promptly notify the insured regarding additional information necessary to process claims. The Senior Vice President of Government Relations agreed to each of these assertions in memos dated 03/05/01, 03/14/01, 04/08/01, and 04/10/01.

Although Section 627.613, Florida Statutes, does not apply to out-of-state groups, the examiner calculated the amount of interest that would be due if this statute applied. The

result would be interest payments totaling approximately one hundred fifteen thousand six hundred and thirty dollars (\$115,630) for the period under review.

b. Denied Claims

The examiner reviewed a random sample of one hundred (100) of the fifteen thousand (15,000) claims denied during the time frame of the examination. The examiner determined that denials were justified according to policy provisions.

Claims Denied

Calendar Days	Number of Claims	Percentage
0 – 45	76	76%
46 – 120	16	16%
121 – over	8	8%
Totals	100	100%

Findings

6 Violations - Section 626.9541(1)(i)(3)(f), Florida Statutes. The Company failed to provide a reasonable explanation in writing to the insured for the basis for the denial of the claim. The Senior Vice President of Government Relations agreed to each of these assertions in memos dated 03/28/01 and 03/29/01.

3 Violations - Section 626.9541(1)(i)(3)(c), Florida Statutes. The Company failed to act promptly upon communications with respect to claims. Claims were not denied within a

reasonable time. The Senior Vice President Government Relations agreed to each of these assertions in memos dated 03/27/01 and 04/04/01.

FORM AND RATE FILINGS

The Company provided a listing of all forms filed with the Department "For Informational Purposes Only" as required by Section 627.6515(4), Florida Statutes, and Section 627.410(1), Florida Statutes. The examiner compared forms distributed to certificate holders as well as forms appearing on the Internet to forms filed with the Department.

Findings

2 Violations - Section 627.410(1), Florida Statutes. Rider form RID-0848 (10/19/99), the critical illness rider with a \$25,000 "Maximum Benefit" amount, and form MK-79701-APP-FL, the Internet application appearing at <http://www.digitalinsurance.com>, were not filed with the Department as required. The Director of Compliance agreed with these assertions in memos dated 3/19/01 and 4/13/01.

The Company should file this form with the Department for informational purposes.

2 Violations - Section 627.6515(4), Florida Statutes. Rider form RID-0848 (10/19/99), the critical illness rider with a \$25,000 "Maximum Benefit" amount, and form MK-79701-APP-FL, the Internet application appearing at <http://www.digitalinsurance.com>,

were not filed with the Department as required. The Director of Compliance agreed with these assertions in memos dated 3/19/01 and 4/13/01. In this instance, the Company will not be cited in violation provided that they file these forms with the Department for informational purposes.

INTERNET SALE OF INSURANCE

Currently, the only method to purchase health insurance from Provident American Life and Health Insurance Company is through HealthAxis.com, an insurance agency utilizing the web site <http://www.digitalinsurance.com>.

During the course of the examination the examiner reviewed the content appearing on this web site. The web site indicates an application form that is not filed with the Department of Insurance. This is reported in the Form and Rate Filing section of this report.

Findings

68 Violations - Section 627.4085, Florida Statutes. The application appearing on the Internet web site does not disclose the name and license identification number of the agent. The examiner found sixty-eight (68) policies issued via the Internet during the scope of the examination. The Company should add this information. The Director of Market Conduct agreed with this assertion in a memo dated 4/13/01.

CONSUMER RECOVERIES

Section 627.613, Florida Statutes, does not apply to out-of-state groups. This statute mandates payment of interest on all claims not paid within forty-five (45) days.

Calculation of interest on this basis would result in the payment of approximately one hundred fifteen thousand six hundred thirty dollars (\$115,630) to providers and consumers.

CONCLUSION

The customary practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC) were followed in performing this Target Market Conduct Examination of Provident American Life and Health Insurance Company as of June 30, 2000, with due regard to the Insurance Laws of the State of Florida.

Respectfully submitted,

Robert D. Flege
CIE, CFE, AIRC, FLMI, ALHC, ASF, LPCS
Independent Contract Analyst

FINDINGS AND RECOMMENDATIONS

The following findings were made in the preceding pages of this report.

Page 8	The Company should maintain producer licensing, appointment records and termination of appointment documentation as required by Section 624.318(2), Florida Statutes.
Page 8	The Company should retain and produce all Notice DI4-39, Florida Termination of Appointment documents.
Page 8	Comply with Section 624.425, Florida Statutes, by not accepting business from agents who are not properly appointed.
Page 9	Comply with Section 626.112, Florida Statutes, by appropriately appointing agents.
Page 9	Comply with Section 624.428, Florida Statutes. The Company is not to accept applications from agents who are neither licensed nor appointed in the State of Florida.
Page 9	Comply with Section 626.342, Florida Statutes. The Company should not provide applications to agents who are neither licensed nor appointed in the State of Florida.
Page 9	Comply with Section 626.451, Florida Statutes. The Company should file agency appointments with the Department of Insurance.
Page 9	Comply with Section 626.838, Florida Statutes. The Company should not pay commissions to any agent who is not licensed and appointed to transact the business of insurance in the State of Florida.
Page 10	Comply with Section 626.342, Florida Statutes. The Company should not provide applications to agents who are not appropriately licensed and appointed.
Page 10	Comply with Section 626.451, Florida Statutes. The Company should file agent appointments with the Department of Insurance.
Page 10	Comply with Section 626.838, Florida Statutes. The Company should not pay commissions to agents who were not appropriately licensed and appointed.
Page 10	Comply with Section 626.837(4), Florida Statutes. The Company should not accept business brokered through an agent who is not appointed by the Company.
Page 13	Comply with Section 626.9541(1)(i)(3)(c), Florida Statutes, by processing claims promptly.
Page 13	Comply with Section 626.9541(1)(i)(2), Florida Statutes, by making payment of all claims in accordance with policy provisions.
Page 13	Comply with Section 626.9541(1)(i)(3)(g), Florida Statutes, by promptly notifying insureds of additional information needed to

	process claims.
Page 13	Comply with Section 626.9541(1)(i)(3)(f), Florida Statutes, by providing a reasonable explanation in writing for the denial of a claim.
Page 13	Comply with Section 627.410, Florida Statutes, by assuring that only those forms filed with the Department of Insurance "For Informational Purposes" are attached to policies issued insuring residents of the state.
Page 16	Comply with Section 626.9541(1)(i)(3), Florida Statutes, for failing to act promptly with regard to payment of claims.
Page 17, 18	Comply with Section 624.318(2), Florida Statutes, by capturing the dates that claims were first reported to the company.
Page 18	The Company should maintain provider bills to substantiate accuracy of claim payments in accordance with Section 624.318(2), Florida Statutes.
Page 18	Comply with Section 626.9541(1)(i)(3)(c), Florida Statutes, by processing claims promptly.
Page 18	Comply with Section 626.9541(1)(i)(3)(g), Florida Statutes, by promptly notifying insureds of additional information necessary to process claims.
Page 19	Comply with Section 626.9541(1)(i)(3)(f) by providing insureds with a reasonable explanation in writing for denial of a claim.
Page 19	Comply with Section 626.9541(1)(i)(3)(c) by acting promptly upon communications with respect to claims by providing a denial within a reasonable time.
Page 20	The Company should comply with Section 627.410(1), Florida Statutes, and file all forms associated with policies and certificates issued for Information Purposes Only with the Department.
Page 20	The Company should file all forms appearing on the Internet with the Department of Insurance as required by Section 627.410(1), Florida Statutes.
Page 22	The Company should include the name and license identification number of agents on all applications as required by Section 627.4085, Florida Statutes.