FINANCIAL SERVICES COMMISSION

FLORIDA OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS

MARKET CONDUCT FINAL EXAMINATION REPORT

OF

WHOLESALE BENEFITS CLUB, INC.

AS OF

January 11, 2007

FLORIDA COMPANY CODE: 56042

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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 Wholesale Benefits Club, Inc. (Wholesale Benefits or Company) was performed. The scope of this examination was January 27, 2006 to August 31, 2006. The onsite examination began January 8, 2007 and ended January 11, 2007.

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 15950 North 76th Street, Suite 200, Scottsdale, AZ 85260.

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 on January 27, 2006. The Company provides its members with discounts on health related services.

Wholesale Benefit's discount medical card program is sold at retail through its own sales staff and wholesale to outside contracted marketers. The marketers are given the opportunity to sell the product under the Wholesale Benefits Club, Inc. name as a partial private label where both Wholesale Benefits and the marketer's name are used, or as a full private label in which only the marketer's name is used.

In some states, the Company's discount plan is advertised and promoted through general agents and group health insurance agents; however, this marketing method is not currently used in Florida.

Subsequent to the examination, Wholesale Benefits Club, Inc. ceased operations in Florida and as of May 31, 2007, has terminated all of its Florida DMPO memberships. Wholesale Benefits surrendered its Florida DMPO license effective June 4, 2007.

PROVIDER NETWORK AGREEMENT REVIEW

The Company has written agreements with 6 provider networks. All of the agreements, including an amendment, have been filed with the Office. A review of the provider network agreements and amendment was conducted. The agreements and amendment between the networks and their providers include a description of the services and products to be provided at a discount, the amount or amounts of the discounts, or alternatively, a fee schedule which reflects the provider's discounted rates, a provision that the provider will not charge members more than the discounted rates, and a provision authorizing the network to contract with the Company on behalf of the provider. During review of the provider network agreements and amendment, the following violation was noted:

- 6 agreements require the network to maintain an up-to-date list of its contracted providers and to provide that list to the Company on a quarterly basis, not on a monthly basis as required by Section 636.214(3)(c), Florida Statutes.

Corrective Action: The Company should ensure that its provider network agreements include a provision that requires the networks maintain an up-to-date list on a monthly basis.

PROVIDER AGREEMENT REVIEW

The Company uses only provider networks. They do not contract directly with any providers.

MARKETER AGREEMENT REVIEW

The Company has written agreements with 7 private label marketers, however, only the following 4 marketers are actively marketing in Florida:

- Florida Benefits Administrator;
- Hospital Benefits of Florida, Inc.;
- Online Insurance Services, Inc.; and
- Strategic Resource Company.

Each agreement contains language stating that any distributor, producer, or representative may not produce written materials related to the discount plan without written permission by the Company. The agreements also state that any distributor, producer, or representative may use various means of advertising the program, but only after receiving the express written consent of the Company after review of the final copy or communication to be used in such advertising.

Three (3) of the above referenced marketers maintain their own websites and each website has been approved by the Company.

ACTIVE MEMBERSHIP REVIEW

As of August 31, 2006, the Company had 61 active members, all of which had enrollment dates on or after January 27, 2006. There were no members in Florida prior to Company licensure and forms being filed and approved by the Office.

Enrollment and Fulfillment Procedures

Enrollments are handled directly by the Company or its marketers. It is Wholesale Benefits and Online Insurance Services, Inc. (OIS), one of the Company's private label marketers, policy that the membership agreement and ID cards are sent to members within 48 hours of enrollment.

The effective date of the agreement is the date that the Company accepts the application. OIS's effective date is the date the automatic withdrawal clears the bank.

Memberships after January 27, 2006

Sixty-One (61) files, representing all of the active members with effective dates of enrollment on or after January 27, 2006, were reviewed. Of the 61 active members, OIS enrolled 27 members in their GlobalNet Benefits Plan. All members were self-enrolled through OIS's website. The Company's discount card is a complimentary part of the GlobalNet Benefits Plan. Wholesale Benefits receives a fee based on OIS's monthly electronic list of subscribers.

During the review, the following violation was noted:

- 9 active membership files showed enrollment on forms that had not first been filed with and approved by the Office as required by Section 636.216(3), Florida Statutes.

Corrective Action: The Company should ensure enrollment of members on forms that have been filed with and approved by the Office.

It should be noted that Wholesale Benefits discovered the above error and filed and obtained approval for the enrollment forms prior to the start of the market conduct examination.

The following issues were also noted during the review:

- 1 file evidenced the member did not sign the application so it was not possible to determine or verify an application date;
- 1 file evidenced a discrepancy regarding the date an application was signed by the member and the date the Company showed as the application date; and
- 1 file evidenced a discrepancy regarding the date a member signed the application and a conflicting effective date issued by the Company.

Memberships prior to January 27, 2006

Between the April 1, 2005 effective date of Chapter 636, Florida Statutes, and the January 27, 2006 date Wholesale Benefits was permitted to operate as a licensed DMPO, no members were enrolled.

FORMS/CHARGES REVIEW

The Company filed and received approval from the Office for enrollment applications (paper and online) for individuals and groups, ID cards, plan sponsor agreements, membership agreements, group enrollment forms and tri-fold enrollment applications. The Company filed the same forms with different unique numbers for each of its private label marketers.

All charges in use during the scope period of the examination have been filed with and approved by the Office.

No violations were noted during the review of forms or charges.

CANCELLATION REVIEW

During the scope of the examination, the Company reported that 14 members cancelled their membership within the first 30 days after the effective date of enrollment in the plan. All of the cancellations were members who had enrolled through private label marketers.

One (1) member failed to receive reimbursement of periodic charges because the Company received no initial payment.

Eleven (11) cancellations were members who enrolled through OIS. OIS purchases the discount cards on a monthly basis, at a rate per member, and then includes that in the members' services as a complementary piece to the program. No reimbursement was made to OIS, as the Company advised that an adjustment is made on the monthly invoice to OIS.

Two (2) members who cancelled were enrolled through a group plan, Modern Business Association. Their employer withheld $14.16 from their paychecks representing the first month's periodic charge. When the member left their place of employment, within the first 30 days of enrolling in the plan, they were no longer eligible for the group plan and the Company terminated their membership at the end of the first month. The Company did not issue a pro rata reimbursement of the periodic charge to these members because no additional periodic charges were deducted after the first month. The Company did offer the 2 employees an opportunity to enroll as an individual at the same price as the group rate.

During the review of membership cancellations, no violations were noted.

COMPLAINT/GRIEVANCE REVIEW

The Company recorded 3 complaints on its complaint log during the scope of the examination. All of the complaints were received by telephone and were resolved in a timely manner. Complaints received by telephone are not recorded other than on the complaint log unless they are not able to be resolved in a timely manner.

Policies and procedures are in place to facilitate the resolution of member grievances and complaints as required by Section 636.205(1)(d), Florida Statutes.

WEBSITE REVIEW

As a condition of licensure, a discount medical plan organization must establish and maintain an internet website page that complies with Section 636.226, Florida Statutes. The Company maintains one website: www.wbclub.net.

The first page of the website contains a link for consumers to locate a provider in their area as required by Section 636.226, Florida Statutes. The first page of the website also contains the proper disclosures as required by Section 636.212, Florida Statutes. No violations were noted.

ADVERTISING REVIEW

The Company provided 14 advertising pieces used during the scope of the review. The pieces were various PowerPoint presentations, presentations for marketers, presentations for plan sponsors and tri-fold brochures. No violations were noted.

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.