FLORIDA DEPARTMENT OF INSURANCE

REPORT OF THE TARGET MARKET CONDUCT EXAMINATION

OF

UNITED HEALTHCARE INSURANCE COMPANY

AS OF DECEMBER 31, 2000

DIVISION OF INSURER SERVICES

BUREAU OF LIFE AND HEALTH
MARKET CONDUCT REVIEW

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June 1, 2001

Honorable Tom Gallagher

Treasurer and Insurance Commissioner

State of Florida

The Capitol, Plaza Level Eleven

Tallahassee, Florida 32399-0300

Dear Commissioner Gallagher:

Pursuant to the provisions of **Section 624.3161, Florida Statutes**, and in accordance with your Letter of Authority and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), a target market conduct examination has been performed on:

United HealthCare Insurance Company

450 Columbus Boulevard

Hartford, CT. 06103

The report of such examination is herein respectfully submitted.

INTRODUCTION

The United HealthCare Insurance Company, is hereinafter generally referred to as the "Company or UHC" when not otherwise qualified.

The Florida Department of Insurance, is hereinafter generally referred to as the "Department or DOI" when not otherwise qualified.

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

The National Association of Insurance Commissioners' Examination Handbook standards of 7% error ratio for claim resolution procedures and 10% error ratio for other procedures are applied. Any error appearing to be a pattern or a general business practice has been included in this examination report.

SCOPE OF THE EXAMINATION

The examination covered the period of the Company's operation in the State of Florida from January 1, 1998, through December 31, 2000; including any material transactions and/or transactions and events occurring subsequent to the scope period.

The target examination included, but was not limited to, the following areas of the Company's Medicare, Hospital Indemnity and Group Health insurance operations:

1. Premium Billing
2. Complaint Handling
3. Underwriting
4. Policy Cancellation
5. Claim Handling

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

DESCRIPTION OF COMPANY

History

United HealthCare Insurance Company was originally incorporated in Illinois as The Travelers Insurance Company of Illinois in 1972. The name was changed to The MetraHealth Insurance Company during 1994, at which time it was also re-domesticated to Connecticut.

On January 3, 1995, Travelers and MetLife each contributed assets associated with their group medical insurance and managed care businesses to The MetraHealth Companies, Inc. (the Company's then direct parent) or its subsidiaries. Travelers and MetLife also contributed to MetraHealth all of the capital stock of their wholly owned subsidiaries, including The MetraHealth Insurance Company, constituting their group medical insurance and managed care businesses.

On October 2, 1995, United HealthCare Corporation purchased 100% of The MetraHealth Companies Inc.

In May 1996, The MetraHealth Companies, Inc. and MetraHealth Pharmacy Management, Inc. were merged into The MetraHealth Insurance Company with the Company as the survivor.

MetraHealth Insurance Company and United Health and Life Insurance Company, a Minnesota Insurance Company, were merged effective January 1, 1997. At the same time the surviving entity, the MetraHealth Insurance Company was renamed United HealthCare Insurance Company.

TERRITORY AND PLAN OF OPERATION

United HealthCare is licensed to write group accident and health business in the District of Columbia, the U.S. Virgin Islands, Puerto Rico, Guam and all states except New York.

The insurance operations were substantially expanded at the start of 1998 through a contract to provide Medicare Supplement and other supplemental coverage to 3.7 million members of the American Association of Retired Persons (AARP).

The Company's Medicare Supplement and Hospital Indemnity business is headquartered and administered in Fort Washington, Pennsylvania. The examiner performed the review of these lines at that location. The examiner reviewed the Company's Florida group health business at the group health headquarters in Orlando, Florida.

PREMIUM BILLING REVIEW

The examiner performed a review of the United Healthcare Insurance Company's premium and billing procedures to test the Company's compliance with **Section 627.6645(1), Florida Statutes**, which requires insurers to provide policyholders at least 45 days advance notice of a change in rates.

Medicare Supplement and Hospital Indemnity

The examiner reviewed a sample of fifty (50) policyholder premium records. Premium history records for the years 1998, 1999 and 2000 were reviewed by the examiner to determine if premium rate increases had occurred during the period. Forty-three (43) rate increases were identified among the one hundred fifty (150) potential rate change periods (50 policyholders x 3 years reviewed = 150). The review revealed that the Company provided proper notice to the policyholders for all forty-three (43) rate-increases identified by the examiner. No errors were noted.

COMPLAINT REVIEW

The examiner performed a review of the Company's complaint handling practices to ensure sufficient procedures are in place for the handling of policyholder complaints. The review is separated by exam location.

Fort Washington Location – Medicare Supplement and Hospital Indemnity

The examiner determined that the Company maintained a complete and accurate record of all complaints received during the period under review.

Three (3) complaints of the fifty (50) reviewed by the examiner indicated that the Company is failing to properly refund unearned premium on cancelled policies in accordance with Florida Statutes. The examiner performed an extensive review of the unearned premium refunds and has detailed the findings in the section of this report titled "Policy Cancellation and Termination Review".

The examiner tested a sample of fifty (50) complaints to determine the time required for the Company to respond to Florida DOI complaints. The average time required to respond to DOI complaints was 6.4 days. The examiner found the Company's complaint handling procedures to be adequate. No exceptions were noted.

Orlando Location – Group Health

The examiner determined that the Company maintained a complete and accurate record of all complaints received during the period under review. The examiner determined that the Company fairly and adequately resolved all complaints reviewed.

The examiner tested the sample of fifty (50) complaints to determine the time required for the Company to respond to Florida DOI complaints. The average time required to respond

to DOI complaints was 15.3 days. The examiner found the Company's complaint handling procedures to be adequate.

CLAIMS REVIEW

The examiner performed a time study for paid and denied claims to determine the "calendar days" required to process a claim after receiving proper proof of loss.

The term "calendar days" included Saturday, Sunday and holidays. Cycle time used in the analysis was for the following groups of days: 1-45, 46-120, 121 and over.

TIME STUDY FOR PAID AND DENIED CLAIMS

Claims-Paid: Medicare Supplement

Calendar Days	Number of Claims	Percentage
1-45	100	100 %
46-120	0	0 %
121 and over	0	0 %
Total	100	100 %

The average time required to process a paid Medicare claim was 5.1 days.

Claims-Denied: Medicare Supplement

Calendar Days	Number of Claims	Percentage
1-120	98	100 %
121 and over	0	0 %
Total	98	100 %

The average time required to process a denied Medicare claim was 4.5 days.

Claims-Paid: Hospital Indemnity

Calendar Days	Number of Claims	Percentage
1-45	100	100 %
46-120	0	0 %
121 and over	0	0 %
Total	100	100 %

The average time required to process a paid Hospital Indemnity claim was 8.0 days.

Claims-Denied: Hospital Indemnity

Calendar Days	Number of Claims	Percentage
1-120	97	100 %
121 and over	0	0 %
Total	97	100 %

The average time required to process a denied Hospital Indemnity claim was 5.0 days.

Claims-Paid: Group Health

Calendar Days	Number of Claims	Percentage
1-45	93	100 %
46-120	0	0 %
121 and over	0	0 %
Total	93	100 %

The average time required to process a paid Group Health claim was 7.6 days.

Claims-Denied: Group Health

Calendar Days	Number of Claims	Percentage
1-120	95	100 %
121 and over	0	0 %
Total	95	100 %

The average time required to process a denied Group Health claim was 5.5 days.

ANALYSIS OF CLAIM STUDY

Claims-Paid: Medicare

The examiner selected a sample of one hundred (100) paid claims for review. One (1) error was noted, resulting in an error ratio of 1 %. The error is detailed below:

The examiner identified one (1) claim as having been overpaid by an amount of $35.35. The examiner determined this error to be an isolated incident representing human error. No violation will be cited as a result of this finding.

Claims-Denied: Medicare

The examiner selected a sample of ninety-eight (98) denied claims for review. No errors were noted.

Claims-Paid: Hospital Indemnity

The examiner selected a sample of one hundred (100) paid claims for review. No errors were noted.

Claims-Denied: Hospital Indemnity

The examiner selected a sample of ninety-seven (97) denied claims for review. No errors were noted.

Claims-Paid: Group Health

The examiner selected a sample of ninety-three (93) paid claims for review. No errors were noted.

Claims-Denied: Group Health

The examiner selected a sample of ninety-five (95) denied claims for review. No errors were noted.

Interest on Claims

No claims reviewed by the examiner during this examination were identified as having been paid "late". The claim examination procedures utilized by the examiner routinely includes a test to ensure that claims paid "late" (as defined in **Section 627.613(2), Florida Statutes**) are

paid interest in accordance with **Section 627.613(6), Florida Statutes**. The examiner obtained a data listing of claims that had been paid interest during the examination. The examiner performed a test on claims selected from the listing to ensure that proper interest was included on the claims paid "late". The examiner's review of the claims paid with interest during the exam period indicated that the Company is complying with **Section 627.613(6), Florida Statutes**. No exceptions were noted.

A review of the group health claims on which interest was paid in the year 2000 indicated that the Company has shifted from a manual system of interest calculation to a system that automatically calculates interest due on late paid claims. The examiner selected and reviewed a sample of twenty (20) on which interest was paid to ensure interest was properly calculated and included with the claim payment. No exceptions were noted.

POLICY CANCELLATION AND TERMINATION REVIEW

The examiner performed a review of cancelled/terminated policies to determine if the Company was complying with the statutory requirements pertaining to the cancellation of Medicare, Hospital Indemnity and Group Health policies.

Medicare Supplement Cancellations

The examiner reviewed a sample of ninety-nine (99) terminated Medicare Supplement policies for compliance with **Section 627.6741, Florida Statutes**. The findings related to this review are detailed below:

The examiner determined that the Company does not refund unearned policyholder premium from the date of the death of an insured. Fifty-three (53) of the ninety-nine (99) policies reviewed by the examiner were identified as having been terminated due to the death of an insured. In all cases reviewed, the examiner determined that the Company calculated the

refund of unearned premium from the first day of the month following the date of the death of the insured. The Company's response to the examiner's criticism forms, received on 3-19-01 from the exam coordinator Linda Miller, explains that UHC believes that premium is earned on the first day of a month of coverage and that no premium is to be returned for mid-month cancellations.

Proper refund of unearned premium should be calculated from the date of death of an insured. Insurance coverage ceases to be possible after the death of an insured, premium accruing after the date of death is considered unearned and should be refunded in accordance with **Section 627.6741(4), Florida Statutes**.

The examiner's review of policies that terminated due to the death of an insured, concluded that the Company is failing to verify and document the policyholder's exact date of death on a consistent basis. Since a refund of unearned premium is contingent on identifying the exact date of death of an insured, the Company should obtain and maintain documentation. A copy of a death certificate would be the preferred method of proper record maintenance.

The examiner's review of terminated Medicare Supplement policies also indicated that the Company does not refund unearned premium from the date of requested cancellation, if the requested termination date does not coincide with the end of a month. Linda Miller, the Company exam coordinator responded, again, UHC believes a premium is earned as of the first day of the month, and they do not believe an unearned premium refund is due for policies terminated mid-month.

The examiner was unable to quantify the number of policyholders that had requested cancellation or termination of their policies *prior* to month end because the Company does not document the date policyholders request their policies be terminated. The Company's procedure is to recognize the policy termination date as the first day of the month following the month in which a cancellation request was received from a policyholder.

The examiner identified three (3) Company DOI complaints, of the fifty (50) complaints reviewed that specifically pertain to the Company's failure/refusal to issue a pro-rata "mid-month" premium refund despite the policyholder's insistence that they intended for the policy to be cancelled prior to the end of a month. The complaint numbers referenced are S-9899-0031935, S-9798-0071508 and S-9798-0023853.

The Company's failure to refund unearned Medicare Supplement premium from the specific date of requested termination by an insured is a violation of **Section 627.6741(4), Florida Statutes**.

Eighty-five (85) of the ninety-nine (99) terminated policies reviewed were identified as policies that were cancelled pursuant to the request of the policyholder or a policyholder representative. The Company was unable to provide the examiner with documentation showing the date of cancellation request for forty-six (46) of the eighty-five (85) terminations classified as a "requested cancellation."

Failure to maintain the records pertaining to the cancellation requests of Medicare Supplement policies is a violation of **Section 624.318(2), Florida Statutes**. The date of requested cancellation is necessary information needed for the calculation of unearned premiums due on policies cancelled in accordance with Section **627.6741(4), Florida Statutes.**

Hospital Indemnity Cancellations

The examiner reviewed a sample of ninety-eight (98) terminated Hospital Indemnity policies for compliance with **Section 627.6645, Florida Statutes**. The findings related to this review are detailed below:

The examiner determined that the Company does not refund unearned policyholder premium from the date of death of an insured. Twenty-three (23) of the ninety-eight (98) policies reviewed by the examiner were identified as having been terminated due to the death of an insured. In all cases reviewed, the examiner determined that the Company calculated the refund of unearned premium from the first day of the month following the date of the death of the insured. The Company's response to the examiner's criticism forms were received on 3-19-01 from the exam coordinator Linda Miller in which she explained that UHC believes that premium is earned on the first day of a month of coverage and that no premium is to be returned for mid-month cancellations.

Proper refund of unearned premium should be calculated from the date of death of an insured. Insurance coverage ceases to be possible after death of an insured, therefore premium accruing after the date of the death is considered unearned and should be refunded in accordance with **Section 627.6645(4), Florida Statutes**. The Company's general business practice of failing to refund unearned premium from the date of the death of an insured is a violation of **Section 627.6645(4), Florida Statutes**.

The examiner's review of policies terminated due to the death of an insured, determined that the Company is failing to verify and document the policyholder's exact date of death on a consistent basis. Since a refund of unearned premium is contingent on identifying the exact date of death of an insured, the Company should obtain and maintain documentation of the exact date of death. A copy of a death certificate would be the preferred method of proper record maintenance.

The examiner's review of terminated Hospital Indemnity policies also indicated that the Company does not refund unearned premium from the date of the requested cancellation, if the requested termination date does not coincide with the end of a month. Linda Miller, the Company exam coordinator, responded that UHC believes a premium is earned as of the first day of the month and does not believe an unearned premium refund is due on policies terminated mid-month.

The examiner was unable to quantify the number of policyholders that had requested cancellation or termination of their policies *prior* to month end because the Company does not document the date policyholders request their policies be terminated. The Company's procedure is to recognize the policy termination date as the first day of the month following the month in which a cancellation request was received from a policyholder.

The examiner identified three (3) Company DOI complaints, of the fifty (50) complaints reviewed, that specifically pertain to the Company's failure/refusal to issue a pro-rata "mid-month" premium refund despite the policyholder's insistence that they intended for the policy to be cancelled prior to the end of a month. The complaint numbers referenced are S-9899-0031935, S-9798-0071508 and S-9798-0023853.

The Company's failure to refund unearned Hospital Indemnity premium from the specific date of requested termination by an insured, is a violation of **Section 627.6645(4), Florida Statutes**.

Sixty-four (64) of the ninety-eight (98) terminated policies reviewed were identified as policies that could have been cancelled by request of the policyholder or a policyholder representative. The Company was unable to provide the examiner documentation showing the date of cancellation request for thirty-four (34) of the sixty-four (64) terminations classified as a "requested cancellation".

Failure to maintain the records pertaining to the cancellation requests of Hospital Indemnity policies is a violation of **Section 624.318(2), Florida Statutes**. The date of requested cancellation is necessary information needed for the calculation of unearned premiums due on policies cancelled in accordance with Section **627.6645(4), Florida Statutes**.

UNDERWRITING REVIEW

Medicare Supplement

The examiner performed a review of the Company's underwriting policies and procedures guidelines. The examiner determined that the Company's underwriting standards were in compliance with Florida Statutes. No exceptions were noted.

The examiner reviewed a sample of fifty (50) Medicare Supplement underwriting files. No exceptions were noted.

Hospital Indemnity

The examiner performed a review of the Company's underwriting policies and procedures guidelines. The examiner determined that the Company's underwriting standards were in compliance with Florida Statutes. No exceptions were noted.

The examiner reviewed a sample of fifty (50) Hospital Indemnity underwriting files. No exceptions were noted.

Declined Applications-Medicare Supplement and Hospital Indemnity

The examiner selected and reviewed a sample of fifty (50) declined insurance policy applications for Medicare Supplement and Hospital Indemnity coverage. The findings are noted below:

The Company was unable to provide the examiner with three (3) of the fifty (50) applications requested for review. No exceptions were noted during the review of the other forty-seven (47) applications provided for review. Failure to provide three (3) of the fifty (50) files requested for review is a violation of **Section 624.318(2), Florida Statutes**. The examiner recommends that the Company maintain all records pertaining to the application/underwriting process regardless of the underwriting decision.

Declined Applications-Group Health

The examiner selected and reviewed a sample of twenty (20) declined insurance policy applications for Group Health coverage. No exceptions were noted.

MISCELLANEOUS COMMENTS

This examiner experienced extensive delays resulting from the UHC-Orlando Group Health Division's inability to provide the required data requests and selected review samples to the examiner in a reasonable and timely manner. Review of the policy-conversion and underwriting functions were reduced in scope due to the Company's inability to provide the examiner with data listings requested in the Initial Data Request Memo dated December 8, 2000. Findings detailed in this report for the UHC-Orlando group health line of business are based upon the number of files provided to the examiner and reviewed as of May 24, 2001.

FINDINGS AND RECOMMENDATIONS

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

Page 15 Comply with **Section 627.6741(4), Florida Statutes**. The Company should review and identify all Medicare Supplement policies terminated as a result of death for the period 1998 through the present. The Company should pay a refund of unearned premium for the pro-rata portion of the premium not previously refunded. The additional refund should be calculated from the date of death, up to the date the previous unearned refund (if any) was calculated. The Company should refund unearned premium from the date of death on all unearned premium refunds processed from the receipt of this report forward.

Page 17 Comply with **Section 627.6741(4), Florida Statutes**. The Company should review and identify all Medicare Supplement policy terminations that occurred as a result of a policyholder request. If a policyholder requested their policy be canceled on a day other than a day coinciding with a month end date, the Company should pay a refund of unearned premium for the pro-rata portion of the premium not previously refunded. The Company should refund unearned premium from the date of requested cancellation on all unearned premium refunds processed from the receipt of this report forward.

Page 17 Comply with **Section 624.318(2), Florida Statutes.** The Company should obtain and maintain any and all records necessary to process and document

the refunds due to policyholders for unearned premium on Medicare Supplement policies.

Page 17 Comply with **Section 627.6645(4), Florida Statutes**. The Company should review and identify all Hospital Indemnity policies terminated as a result of death for the period 1998 through the present. The Company should pay a refund of unearned premium for the pro-rata portion of the premium not previously refunded. The additional refund should be calculated from the date of death, up to the date the previous unearned refund (if any) was calculated.

The Company should refund unearned premium from the date of death on all unearned premium refunds processed from the receipt of this report forward.

Page 17 Comply with **Section 627.6645(4), Florida Statutes**. The Company should review and identify all Hospital Indemnity policy terminations that occurred as a result of a policyholder request. If a policyholder requested their policy be canceled on a day other than a day coinciding with a month end date, then the Company should pay a refund of unearned premium for the pro-rata portion of the premium not previously refunded. The Company should refund unearned premium from the date of requested cancellation on all unearned premium refunds processed from the receipt of this report forward.

Page 17 Comply with **Section 624.318(2), Florida Statutes.** The Company should obtain and maintain any and all records necessary to process and document the refunds due to policyholders for unearned premium on Hospital Indemnity policies.

Page 18 **Comply with Section 624.318(2), Florida Statutes**. The Company should maintain all records related to the application of Medicare Supplement insurance regardless of the underwriting decision.

CONCLUSION

The practices and procedures promulgated by the National Association of Insurance Commissioners were followed in performing the Target Market Conduct Examination of the United HealthCare Insurance Company as of December 31, 2000, with due regard to the Insurance Laws of the State of Florida.

Respectfully submitted,

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Terrence J. Corlett, AIE, FLMI
Independent Contract Examiner