FLORIDA DEPARTMENT OF INSURANCE

TARGET MARKET CONDUCT REPORT OF EXAMINATION

OF

CELTIC INSURANCE COMPANY

AS OF JUNE 30, 2000

DIVISION OF INSURER SERVICES

BUREAU OF LIFE AND HEALTH
INSURER SOLVENCY & MARKET CONDUCT REVIEW

MARKET CONDUCT SECTION

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December 1, 2000

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:

CELTIC INSURANCE COMPANY

233 SOUTH WACKER DRIVE SUITE 700

CHICAGO, ILLINOIS 60606-6393

The report of such examination is herein respectfully submitted.

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Terrence J. Corlett, AIE, FLMI

Independent Contract EXaminer

INTRODUCTION

Celtic Insurance Company, is hereinafter generally referred to as "the Company" when not otherwise qualified.

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

The last Market Conduct Examination conducted by Jorge Rodriguez of the Florida Department of Insurance was as of December 31, 1992.

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.

Statistical information is included in this examination report. 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 EXAMINATION

The examination covered the period of the Company's operation in the State of Florida from January 1, 1997, through June 30, 2000; including any material transactions and/or transactions and events occurring subsequent to the examination period.

The examination included, but was not limited to, the following areas of the Company's health insurance operations:

1. Advertising and Producer Training
2. Agent Oversight
3. Underwriting

4. Claims
5. Complaint Handling Procedures
6. Cancellation and Non-Renewal Practices

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 or improvement.

DESCRIPTION OF COMPANY

History

During the period under review, Celtic Insurance Company was domiciled in the State of Illinois and is a wholly-owned subsidiary of the holding company, Celtic Group, Inc. Celtic Group, Inc. is primarily owned by its chairman, Frederick J. Manning. The Company changed its name from Celtic Life Insurance Company to Celtic Insurance Company effective January 1, 2000.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in forty-nine states and the District of Columbia. The Company is not licensed in the state of New York.

The Company markets its products through the use of independent insurance agents. During the period under examination, the Company was primarily writing individual health insurance certificates under out-of-state group health policies and medicare supplement insurance in the state of Florida.

The Company's out-of-state group health product is targeted toward the individual health consumer in the state of Florida and is written under a group trust master policy issued in the state of Illinois.

This product is individually underwritten health insurance subject to the Company's underwriting guidelines and policy provisions including the provisions mandated under **Section 627.6515(2)(c), Florida Statutes**. All certificates issued to Florida insured's include the following clause:

"The benefits of the policy providing your coverage are governed by the law of a state other than Florida."

The Company utilizes the services of a third party administrator, Health Plan Services of Tampa, Florida, hereinafter referred to as "the TPA", to administer some of its Florida small employer and out-of-state group health business. Samples reviewed by the examiner, included selections from both the Chicago home office site and the third party administrator, where appropriate. In cases where errors are noted, the examiner has segregated the two locations to identify the location of the specific errors.

The Company had small employer group health business in force during the examination period but had not written new business during the examination period. The Company withdrew from the small employer group health market in the state of Florida effective May 1, 1999. The non-renewal of the small employer group policies was conducted in accordance with **Section 624.430, Florida Statutes** and **Section 627.6571(3)(b)(1)(a), Florida Statutes.**

The Company entered into an "Automatic Coinsurance, 100% Quota Share" reinsurance agreement with Cologne Life Reinsurance Company on July 1, 1996 to reinsure its entire book of medicare supplement insurance. All medicare supplement business written during the examination period and in force during the examination period was administered by North American Insurance Company.

AGENT OVERSIGHT

Producer Licensing

A random sample of two hundred (200) health insurance applications was reviewed to determine if agents were properly licensed and appointed by the Company at the time of policy issue. Four (4) agents were identified where the Company could not provide documentation as proof that those agents were properly appointed by the Company in the state of Florida. This is a violation of **Section 626.112(2), Florida Statutes**.

The Company is directed to process the necessary appointments for these agents and forward any fees due to the Florida Department of Insurance for these appointments. Fees dating back to the time the agent's first application was accepted in Florida should be paid. These un-appointed agents are listed in the section of the report titled "Exhibit A".

A random sample of one hundred (100) paid agent commissions was reviewed to ensure that the agents receiving these commissions were properly appointed by the Company at the time of policy issue. Four (4) agents were identified as having received a commission for business written in Florida without the Company being able to provide documentation as proof that those agents had been appointed by the Company. This is a violation of **Section 626.112(2), Florida Statutes**.

The Company is directed to process the appointments for these agents and forward the fees due to the Florida Department of Insurance for those appointments. Fees dating back to the time the agent's first application was accepted in Florida should be paid. These un-appointed agents are listed in the section of the report titled "Exhibit A".

Producer Termination

A random sample of fifty (50) terminated agent's personnel files was examined to determine compliance with **Section 626.511 (2), Florida Statutes.** No discrepancies were noted.

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ADVERTISING AND PRODUCER TRAINING

The Company's marketing materials are targeted to independent agents for recruitment and training purposes. The Company does not directly solicit business via advertising materials targeted to consumers.

The Company often references its out-of-state group trust health product as "health coverage for individuals and families". The Company should ensure that any marketing/advertising literature distributed in the state of Florida fully discloses the true nature of the product being offered.
The above review included examination of the company's internet web site.

UNDERWRITING

The underwriting review included an analysis of the following Company procedures:

1. Basic underwriting guidelines
2. Proper issuance of forms, riders and endorsements
3. Application Review
4. Unfair discrimination
5. Declined applications
6. Correspondence during the policy issue process

OUT-OF-STATE GROUP-TRUST HEALTH UNDERWRITING REVIEW

A random sample of one hundred twenty (120) underwriting files, from a total population of 29,992 certificates issued during the period under examination, was reviewed.

A random sample of one hundred (100) declined application files, from a total population of 1,526 declined during the period of examination was reviewed.

Underwriting guidelines comply with Florida Statutes, are non-discriminatory and are applied uniformly.

It is noted that the Department had initiated two (2) investigations prior to the commencement of this target examination regarding specific underwriting issues applicable to the Company's Out of State Group health products. A brief description of the issues, which remain pending are, listed below:

Case #1465 – This file relates to the Company's practice of underwriting and rating up HIPPA eligible applicants by as much a 500%. The Company is working with the Department's Market Conduct Investigations Unit and Legal Division to reach a resolution on the matter.

Case #1626 – This file pertains to an incident wherein the Company declined a Florida applicant solely due to a previous breast cancer condition. Section 627.6419(2), Florida Statutes, prohibits such declinations when the applicant has been free from breast cancer for more than two (2) years prior to the date of application. The examiner was alerted to this issue and specifically looked for application declinations during the random sampling of declined health applications. No such declinations were noted in that particular sample. The Company is working with the Department's Market Conduct Investigations Unit and Legal Division to quantify such occurrences subsequent to the January 1, 1998 date of the statute in order to reach a resolution on the matter.

MEDICARE SUPPLEMENT UNDERWRITING REVIEW

A random sample of one hundred (100) underwriting files, from a total population of 13,307 issued during the examination, was reviewed.

Six (6) medicare supplement insurance applications were declined during the examination period, all six (6) applications were reviewed.

Underwriting guidelines comply with Florida Statutes, are non-discriminatory and are applied uniformly.

CANCELLATION AND NON-RENEWAL PRACTICES

Out-of-State Group Health – Cancellations

A random sample of one hundred (100) Chicago home office administered, out-of-state group health cancellations, from a total population of 9,701, was reviewed to determine if insureds were given at least forty-five (45) days advance written notice of cancellation as required by **Section 627.6645(1), Florida Statutes**. One (1) error was noted resulting in an error ratio of
1 %, which falls within the accepted range.

A random sample of fifty (50) TPA administered, out-of-state group health cancellations, from a total population of 3,501, was reviewed to determine if insureds were given at least forty-five (45) days advance written notice of cancellation as required by **Section 627.6645(1), Florida Statutes**. Ten (10) errors were noted resulting in an error rate of 20 %. The TPA's failure to provide documentation that insureds were given at least forty-five (45) days notice before cancellation/termination of their insurance is a violation of **Section 627.6645(1), Florida Statutes**.

Medicare Supplement – Cancellations

A random sample of fifty (50) medicare supplement cancellations, from total population of 3,354, was reviewed to determine if policyholders were given at least forty-five (45) days advance written

notice of cancellation as required by **Section 627.6741(2)(a), Florida Statutes.** No discrepancies were noted.

Small Employer Group Health – Non Renewal

The Company withdrew from the Florida small employer group health market effective May 1999. A random sample of fifty (50) small employer group health cancellation files was reviewed to determine if policyholders were given at least one hundred eighty (180) days advance written notice of non-renewal as required by **Section 627.6571(3)(b)(1)(a) Florida Statutes**. No discrepancies were noted.

Policy Conversion

The Company received eleven (11) requests for policy conversion during the examination period, all eleven (11) applications were reviewed. All applications were issued insurance in accordance with conversion provisions. No exceptions were noted.

CLAIMS ADMINISTRATION

Claim Settlement Procedures

The examiner reviewed company procedures, training manuals and claim bulletins and determined that company standards exist and comply with state laws and contract provisions.

ANALYSIS OF CLAIM STUDY

A time study for paid and denied claims was conducted 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: Out of State Group Health, Chicago Home Office Administered

Calendar Days	Number of Claims	Percentage
1-45	96	96 %
46-120	4	4 %
121 and over	0	0 %
Total	100	100 %

The average time required to process a claim was 23.8 days.

Claims-Denied: Out of State Group Health, Chicago Home Office Administered

Calendar Days	Number of Claims	Percentage
1-45	87	87 %
46-120	9	9 %
121 and over	4	4 %
Total	100	100 %

The average time required to process a denied claim was 33.2 days.

Claims-Paid: Out of State Group Health, TPA Administered

Calendar Days	Number of Claims	Percentage
1-45	94	94 %
46-120	6	6 %
121 and over	0	0 %
Total	100	100 %

The average time required to process a claim was 20.9 days.

Claims-Denied: Out of State Group Health, TPA Administered

Calendar Days	Number of Claims	Percentage
1-45	48	96 %
46-120	2	4 %
121 and over	0	0 %
Total	100	100 %

The average time required to process a denied claim was 21.6 days.

Claims-Paid: Small Employer Group Health, TPA Administered

Calendar Days	Number of Claims	Percentage
1-45	49	98 %
46-120	1	2 %
121 and over	0	0 %
Total	50	100 %

The average time required to process a claim was 20.3 days.

Claims-Denied: Small Employer Group Health, TPA Administered

Calendar Days	Number of Claims	Percentage
1-45	46	92 %
46-120	4	8 %
121 and over	0	0 %
Total	50	100 %

The average time required to process a denied claim was 19.5 days.

ANALYSIS OF CLAIM STUDY

Claims-Paid: Out of State Group Health, Chicago Home Office Administered

A sample of one hundred (100) paid claims, from a population of 196,590, was reviewed, four (4) errors were noted resulting in an error rate of 4 %. The error rate of 4 %, falls below the accepted 7% level set by the NAIC examiners handbook guidelines, therefore, no violation is cited. The errors are detailed below:

Four (4) claims were identified as having been paid beyond forty-five (45) days of receipt of written proof of loss. **Section 627.613(2), Florida Statutes** requires claims to be paid within forty-five (45) days written proof of loss. Claims paid beyond forty-five (45) days of written proof of loss are entitled to interest of 10 % annually in accordance with **Section 627.613(6), Florida Statutes**.

One (1) of the above claims, (Claim # 96-337-1163) was identified as having been underpaid claim benefits for inpatient psychiatric care. The Company agreed to re-adjudicate the claim during the examination. Additional claim benefits plus interest were forwarded to the insured during the examination. The additional claim benefits and interest are detailed in the "Consumer Recoveries" section of this report.

Claims-Denied: Out of State Group Health, Chicago Home Office Administered

A sample of one hundred (100) denied claims, from a population of 11,873, was reviewed, one (1) error was noted resulting in an error rate of 1 %. The error rate of 1 %, falls below the accepted 7% level set by the NAIC examiners handbook guidelines, therefore, no violation is cited. The error is detailed on the following page:

One (1) claim (Claim # 99-193-0496) was improperly denied benefits for a "missed abortion" (miscarriage). Missed abortion is classified as a covered benefit under the "complications of

pregnancy" section of the certificate holder's policy. The Company agreed to re-adjudicate the claim during the examination. Claim benefits plus interest were forwarded to the insured during the examination. The claim benefits and interest are detailed in the "Consumer Recoveries" section of this report.

Claims-Paid: Out of State Group Health, TPA Administered

A sample of one hundred (100) paid claims, from a population of 15,096 was reviewed, six (6) errors were noted resulting in an error rate of 6 %. The error rate of 6 %, falls below the accepted 7% level set by the NAIC examiners handbook guidelines, therefore, no violation is cited. The errors are detailed below:

Six (6) claims were identified as having been paid beyond forty-five (45) days of receipt of written proof of loss. **Section 627.613(2), Florida Statutes** requires claims to be paid within forty-five (45) days of written proof of loss. Claims paid beyond forty-five (45) days of written proof of loss are entitled to interest of 10 % annually in accordance with **Section 627.613(6), Florida Statutes**.

One (1) claim (Claim # 9180B7580) was identified as being due interest in accordance with **Section 627.613(6), Florida Statutes**. This claim is detailed in the "Consumer Recoveries" section of this report.

Claims-Denied: Out of State Group Health, TPA Administered

A sample of fifty (50) denied claims, from a population of 9,971, was reviewed. The examiner determined that claims were denied in accordance with policy provisions.

Claims-Paid: Small Employer Group Health, TPA Administered

A sample of fifty (50) paid claims, from a population of 39,927, was reviewed, one (1) error was noted resulting in an error rate of 2 %. The error rate of 2 %, falls below the accepted 7% level set by the NAIC examiners handbook guidelines, therefore, no violation is cited. The error is detailed below:

One (1) claim was identified as having been paid beyond forty-five (45) days of receipt of written proof of loss. **Section 627.613(2), Florida Statutes** requires claims to be paid within forty-five (45) days of written proof of loss. Claims paid beyond forty-five (45) days of written proof of loss are entitled to interest of 10 % annually in accordance with **Section 627.613(6), Florida Statutes**.

Claims-Denied: Small Employer Group Health, TPA Administered

A sample of fifty (50) denied claims, from a population of 5,148, was reviewed, claims were denied in accordance with policy provisions.

Interest on Claims

The examiner determined that the Company and its TPA failed to pay interest on late paid health claims and did not have a system in place to include interest on late paid claims and thus does not comply with **Section 627.613(6), Florida Statutes**.

COMPLAINT HANDLING PROCEDURES

Complaint Handling Procedures

The Company maintains complaint-handling procedures as required **by Section 626.954(1)(j), Florida Statutes.** The Company maintained both manual and computerized tracking of complaints allowing for timely complaint resolution.

Record of Complaints

The Company maintains a complete record of all complaints received as required by **Section 626.9541(1)(j), Florida Statutes.**

Complaint Analysis

A sample of fifty (50) complaint files was reviewed to determine if a disproportionate number of complaints involved a particular company practice or specific producer. All files reviewed were found to be fully and adequately resolved.

Calendar Days to Resolve Complaints

A sample of fifty (50) complaint files from a total population of 149 received during the scope period was reviewed to determine the number of calendar days taken to resolve a complaint from the time of receipt to the final disposition. Calendar days included workdays, weekends and holidays.

Calendar Days	Number of Complaints	Percentage
1-15	28	56 %
16-30	16	32 %
31 and over	6	12 %
Total	50	100 %

The average number of days to handle a complaint for the entire review period was 17.3 days.

CONSUMER RECOVERIES

As a result of this target market conduct examination of Celtic Insurance Company, the following payments have been made to residents of the State of Florida.

Policyholder/Group	Claim #	Recovery
C595806490	96-337-1163	$348.94
C592368549	991930496	$313.53
109363679	9180B7580	$5.80
Total		$668.27

FINDINGS AND RECOMMENDATIONS

The following findings were made in the preceding pages of this report. The Company is directed to:

Page 7 Comply with **Section 626.112(2), Florida Statutes** to ensure that all agents writing business in the state of Florida are properly appointed. The Company is directed to pay any applicable appointment fees due to the Department for all agents listed on "Exhibit A".

Page 11 Comply with **Section 627.6645(1), Florida Statutes.** Provide required notice and reason of cancellation when policies are cancelled/lapsed for non-payment of premium.

Page 18 Comply with **Section 627.613(6), Florida Statutes.** Establish claim handling procedures to ensure that interest is paid on all overdue claim payments.

The following findings were made in the preceding pages of this report. It is recommended that the Company:

Page 8 Ensure that any marketing/advertising literature distributed in the state of Florida fully disclose the true nature of the product being offered.

CONCLUSION

The customary practices and procedures promulgated by the National Association of Insurance Commissioners were followed in performing the Market Conduct Examination of Celtic Insurance Company as of June 30, 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

EXHIBIT A

The agents listed below were identified during the examination as having written insurance in the state of Florida without a proper appointment, as required by **Section 626.112(2), Florida Statutes.** The Company should forward any fees due for appointment of these agents to the Florida Department of Insurance.

Agent	Agent's ID Number
K. Dimond	513-24-5612
M. Whitlow	526-98-7618
S. Katz	051-40-1722
F. Hanrahan	197-52-6617
S. Gray	529-64-4820
K. Smith	266-42-0136
S. Nagy	146-28-4990
K. Davis	485-86-6167