

1 Market Conduct Affairs of Central Reserve Life Insurance Company" dated May 16,
2 2002.

3 3. Following a market conduct examination of Central Reserve Life
4 Insurance Company as of December 31, 1991, the Director entered a Consent Order,
5 Docket No. 8532, which was filed on August 29, 1994 (the "1994 Order"). Section 1 of
6 the "Order" portion of the 1994 Order stated as follows:

7 "1. Respondent (Central Reserve) shall cease and desist:
8 ... from failing to notify the claimant of acceptance or denial of the claim within 15 working
9 days after receiving the proof of loss; from failing to complete the investigation of claims
10 within 30 calendar days after notification of the claim."

11 4. Following a market conduct examination of Central Reserve Life
12 Insurance Company as of June 1, 1998, the Director entered a Consent Order, Docket
13 No. 01A-129-INS, which was filed on May 16, 2001 (the "2001 Order"). Section 1 of
14 the "Order" portion of the 2001 Order stated as follows:

15 "1. Central Reserve Life Insurance Company shall cease and desist from committing the
16 following practices:
17 a. Failing to comply with an Order of the Director. . . .
18 g. Failing to complete claims investigations within 30 days of notification of claim.
19 h. Failing to accept or deny claims within 15 days after receipt of proof of loss.
20 i. Failing to give applicants written notice of adverse underwriting decisions containing
21 the specific reasons for the decision and notification that the specific reason could
22 be obtained upon written request.

23 5. The Examiners reviewed all forms used by Central Reserve during the
24 time frame of the examination and found as follows:

25 a. Central Reserve used one claim disclosure authorization form
(AUTHOR2) that failed to state the length of time that the disclosure authorization
would be effective.

b. Central Reserve used one claim disclosure authorization form
(AUTHOR1) that:

i. Failed to state the length of time that the disclosure

1 authorization would be effective.

2 ii. Failed to provide a notice that the individual or the
3 individual's authorized representative was entitled to receive a copy of the form.

4 c. Central Reserve issued employer-sponsored group certificates in
5 which:

6 i. The Company reserved the right to cancel or rescind the
7 coverage of an Insured Person under the policy in the event of fraud or
8 misrepresentation by the Insured Person.

9 ii. The Company included statutorily excepted individuals in
10 the certificate's definition of "late enrollee."

11 iii. The Company excluded benefits for air ambulance except
12 in "life threatening emergencies."

13 d. Central Reserve used three advertising pieces (PRB-0308
14 (04/02/01), PRB-0308 (05/31/01), and PRB-0392 (09/10/01)) for large employer groups
15 that contained deceptive, untrue, and misleading information by describing benefits for
16 mental health to be less than the benefits provided for all other diseases.

17 6. The Examiners reviewed the Company's underwriting procedures and
18 practices relating to Accountable Health Plans/HIPAA and found as follows:

19 a. Central Reserve utilized four forms and procedures (Participation
20 Request and Agreement, The "Arizona Underwriting Rules (Employer Plan Eligible
21 Employees standards)," Investigating Participation Levels of Existing Employer
22 Groups, Verification of Eligibility) that:

23 i. Denied coverage to eligible small groups

24 ii. Established eligibility of the employee.
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1 7. The Examiners reviewed 153 of 1,312 large group health insurance
2 policies issued, large group health insurance policies declined, small group health
3 insurance policies issued, small group health insurance policies declined, association
4 group health insurance policies issued, and association health insurance policies
5 declined and found that Central Reserve failed to provide ten insureds with a Summary
6 of Rights in the event of an adverse underwriting decision.

7 8. The Examiners reviewed 48 of 286 informal reconsiderations processed
8 by the Company during the time frame of the examination and found as follows:

9 a. In four files, Central Reserve:

10 i. Failed to provide a written acknowledgement to the member
11 and the member's treating provider within five working days.

12 ii. Failed to notify the member and the member's treating
13 provider of the utilization review agent's decision within 30 days.

14 b. In two files, Central Reserve:

15 i. Failed to notify the member and the member's treating
16 provider of the utilization review agent's decision within 30 days.

17 ii. Failed to provide notice of the option to proceed, after the
18 formal appeals process, to an external independent review.

19 c. In three files, Central Reserve:

20 i. Failed to provide a written acknowledgement to the member
21 and the member's treating provider within five working days.

22 ii. Failed to provide notice of the option to proceed, after the
23 formal appeals process, to an external independent review.

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1 d. In one file, Central Reserve failed to provide a written
2 acknowledgement to the member and the member's treating provider within five
3 working days.

4 e. In eight files, Central Reserve failed to notify the member and the
5 member's treating provider of the utilization review agent's decision within 30 days.

6 f. In five files, Central Reserve failed to provide notice of the option
7 to proceed, after the formal appeals process, to an external independent review.

8 9. The Examiners reviewed 28 of 28 formal appeals processed by the
9 Company during the time frame of the examination and found in five files, that Central
10 Reserve failed to provide a written notification of the decision within 60 days that
11 included the criteria used and the clinical reasons for that decision.

12 10. The Examiners reviewed 419 of 126,520 In-Network paid and denied
13 claims, Indemnity and Out-of-Network Provider paid and denied claims processed by
14 the Company during the time frame of the examination and found that Central Reserve
15 failed to approve or deny 55 clean claims from a health care provider within 30 days
16 after the health care insurer receives the clean claim or within the time period specified
17 by contract.

18 11. The Examiners reviewed 213 of 2,352 In-Network Insured paid and
19 denied claims, Out-of-Network Insured paid and denied claims and found as follows:

20 a. Central Reserve failed to complete the investigation of 40 first-
21 party claims within 30 days of notification of claim.

22 b. Central Reserve failed to accept or deny 66 first-party claims within
23 15 working days of receipt.

24 c. Central Reserve failed to acknowledge the receipt of 13 claims
25 within ten working days.

1 **CONCLUSIONS OF LAW**

2 1. Central Reserve violated A.R.S. § 20-2106(8) by failing to state the length
3 of time that the authorization remains valid on a claim authorization disclosure form.

4 2. Central Reserve violated A.R.S. § 20-2106(9) by failing to state that the
5 individual or the individual's authorized representative was entitled to receive a copy of
6 the form on a claim authorization disclosure form.

7 3. Central Reserve violated A.R.S. § 20-2309(B) and (D) by using language
8 in its employer-sponsored group health certificates which permitted the Company to
9 cancel or rescind coverage of the Insured Person in the event of fraud or
10 misrepresentation by the Insured Person.

11 4. Central Reserve violated A.R.S. § 20-2304(H) by using language in its
12 employer-sponsored group health certificates that included statutorily excepted
13 individuals in its definition of "late enrollees."

14 5. Central Reserve violated A.R.S. § 20-2803(B) by using language in its
15 employer-sponsored group health certificates that excluded benefits for air ambulance
16 except in "life threatening emergencies."

17 6. Central Reserve violated A.R.S. § 20-444(A) by using untrue, deceptive
18 and misleading language in its advertising materials that described benefits for mental
19 health to be less than the benefits provided for all other diseases.

20 7. Central Reserve violated A.R.S. § 20-2304(A) by denying coverage to
21 eligible small groups.

22 8. Central Reserve violated A.R.S. § 20-2307(A) by establishing eligibility
23 requirements for employees.

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1 9. Central Reserve violated A.R.S. § 20-2110(A) and the 2001 Order by
2 failing to provide a compliant Summary of Rights in the event of an adverse
3 underwriting decision.

4 10. Central Reserve violated A.R.S. § 20-2535(B) by failing to provide a
5 written acknowledgement to the member and the member's treating provider within five
6 working days.

7 11. Central Reserve violated A.R.S. § 20-2535(D) by failing to notify the
8 member and the member's treating provider of the utilization review agent's decision
9 within 30 days.

10 12. Central Reserve violated A.R.S. § 20-2535(F) by failing to provide notice
11 of the option to proceed, after the formal appeals process, to an external independent
12 review.

13 13. Central Reserve violated A.R.S. § 20-2536(B) by failing to provide a
14 written notification of the decision within 60 days that included the criteria used and the
15 clinical reasons for that decision.

16 14. Central Reserve violated A.R.S. § 20-3102(A) by failing to approve or
17 deny a clean claim from a health care provider within 30 days after the health care
18 insurer receives the clean claim or within the time period specified by contract.

19 15. Central Reserve violated A.R.S. § 20-461(A)(2) and A.A.C. R20-6-
20 801(E)(1) by failing to acknowledge receipt of a first-party claim within ten working
21 days.

22 16. Central Reserve violated A.R.S. § 20-461(A)(5), A.A.C. R20-6-
23 801(G)(1)(a), the 1994 Order, and the 2001 Order by failing to accept or deny a first
24 party claim within 15 working days of receipt of an acceptable proof of loss.

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- 1 h. Denying coverage to eligible small groups.
- 2 i. Establishing eligibility requirements for employees.
- 3 j. Failing to provide a compliant Summary of Rights in the event of
- 4 an adverse underwriting decision.
- 5 k. Failing to provide a written acknowledgement to the member and
- 6 the member's treating provider within five working days, regarding an informal
- 7 reconsideration.
- 8 l. Failing to notify the member and the member's treating provider of
- 9 the utilization review agent's decision within 30 days, regarding an informal
- 10 reconsideration.
- 11 m. Failing to provide notice of the option to proceed, after the formal
- 12 appeals process, to an external independent review.
- 13 n. Failing to provide a written notification of the decision within 60
- 14 days that includes the criteria used and the clinical reasons for that decision, regarding
- 15 a formal appeal.
- 16 o. Failing to approve or deny a clean claim submitted by a health
- 17 care provider within 30 days after the health care insurer receives the clean claim or
- 18 within the time period specified by contract.
- 19 p. Failing to acknowledge the receipt of a first-party claim within ten
- 20 working days.
- 21 q. Failing to accept or deny a first-party claim within 15 working days.
- 22 r. Failing to complete the investigation of a claim within 30 days.
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CONSENT TO ORDER

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2 1. Central Reserve Life Insurance Company has reviewed the foregoing
3 Order.

4 2. Central Reserve Life Insurance Company admits the jurisdiction of the
5 Director of Insurance, State of Arizona, admits the foregoing Findings of Fact, and
6 consents to the entry of the Conclusions of Law and Order.

7 3. Central Reserve Life Insurance Company is aware of the right to a
8 hearing, at which it may be represented by counsel, present evidence and cross-
9 examine witnesses. Central Reserve Life Insurance Company irrevocably waives the
10 right to such notice and hearing and to any court appeals related to this Order.

11 4. Central Reserve Life Insurance Company states that no promise of any
12 kind or nature whatsoever was made to it to induce it to enter into this Consent Order
13 and that it has entered into this Consent Order voluntarily.

14 5. Central Reserve Life Insurance Company acknowledges that the
15 acceptance of this Order by the Director of the Arizona Department of Insurance is
16 solely for the purpose of settling this matter and does not preclude any other agency or
17 officer of this state or its subdivisions or any other person from instituting proceedings,
18 whether civil, criminal, or administrative, as may be appropriate now or in the future.

19 6. MARY ELLEN LARKIN, who holds the office of
20 S.R. U.P. COMPLIANCE of Central Reserve Life Insurance Company, is
21 authorized to enter into this Order for it and on its behalf.

22
23 **CENTRAL RESERVE LIFE INSURANCE COMPANY**

24 3-13-03
25 Date

By

Mary Ellen Larkin

1 COPY of the foregoing mailed/delivered
2 this 19th day of March , 2003, to:

3 Sara Begley
4 Deputy Director
5 Mary Butterfield
6 Assistant Director
7 Consumer Affairs Division
8 Paul J. Hogan
9 Chief Market Conduct Examiner
10 Deloris E. Williamson
11 Assistant Director
12 Rates & Regulations Division
13 Steve Ferguson
14 Assistant Director
15 Financial Affairs Division
16 Alan Griffieth
17 Chief Financial Examiner
18 Alexandra Schafer
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