

STATE OF ARIZONA  
FILED

JUL 14 2003

DEPT. OF INSURANCE  
BY Kate

STATE OF ARIZONA  
DEPARTMENT OF INSURANCE

In the Matter of:

**HEALTH NET LIFE INSURANCE COMPANY**  
NAIC #66141;  
Respondent.

) Docket No.03A-113-INS  
)  
)  
) **CONSENT ORDER**  
)  
)

Examiners for the Department of Insurance (the "Department") conducted a timely payment and grievance examination of Health Net Life Insurance Company ("Health Net Life").

The Report of the Timely Payment and Grievance Examination of Health Net Life, dated November 30, 2001 (the "Report") alleges that Health Net Life has violated A.R.S. §§ 20-3102(A), 20-3102(B), and 20-3102(F). The Report also alleges that certain Health Net Life practices did not conform to requirements established in Circular Letter 2000-15.

Health Net Life wishes to resolve this matter without formal proceedings. Health Net Life admits the following Findings of Fact are true solely for purposes of resolving the allegations contained in the Report. Health Net Life consents to the entry of the following Conclusions of Law and Order.

**FINDINGS OF FACT**

1. Health Net Life is authorized to operate as a disability insurer pursuant to a Certificate of Authority issued by the Director.
2. The Examiners were authorized by the Director to conduct a timely payment and grievance examination of Health Net Life. The on-site examination covered the time period from January 1, 2001 through July 15, 2001, and was concluded on November 27, 2001. Based on the findings the Examiners prepared the "Report of the Timely Payment and Grievance Examination of Health Net Life Insurance Company" dated November 27, 2001.

1           3. During the Examination Period, Health Net Life's Provider Agreements did not  
2 provide a number of days within which Health Net Life must pay clean claims after they were  
3 approved. Instead, Health Net Life's Provider Agreements provided a number of days within  
4 which Health Net Life must pay clean claims after they were received.

5           4. Health Net Life failed to approve or deny clean claims within 30 days after receipt of  
6 the clean claims by Health Net Life.

7           5. During the Examination Period, Health Net Life's Provider Agreements contained  
8 interest provisions that did not reflect the statutory requirement in A.R.S. § 20-3102(A) that  
9 interest shall be calculated beginning on the date payment is due.

10          6. During the Examination Period, Health Net Life denied claims for which it required  
11 additional information before requesting or obtaining the additional information.

12          7. Health Net Life failed to request additional information within 30 days after receipt of  
13 unclean claims.

14          8. Health Net Life's method of processing resubmitted claims prevented Health Net Life  
15 from identifying such claims in its system. As a result, neither the Examiners nor Health Net Life  
16 could determine Health Net Life's compliance with the following requirements:

17           a. A health care insurer shall approve or deny resubmitted claims within thirty  
18 days after receiving additional information.

19           b. A health care insurer shall pay claims that are approved after receiving  
20 additional information within thirty days after the additional information is received.

21           c. A health care insurer shall not request a health care provider to resubmit  
22 claim information the health care provider can document it has already provided.

23          9. Health Net Life's Internal Policy GC-019 ("Provider Grievances") was in effect during  
24 the Examination Period. Policy GC-019 did not establish a time frame in which Health Net Life  
25 would resolve grievances.

10. Health Net Life 's Internal Policy GC-148, ("Provider Reconsiderations/Appeals") was

1 in effect during the Examination Period. Internal Policy GC-148 established that "the standard  
2 time frame for resolving and responding to recommendations/appeals is within 30 calendar days  
3 of Health Net Life receiving the request".

4 11. Health Net Life advised the Examiners that during the Examination Period its  
5 business practice was to use the 30-day standard from the Reconsiderations/Appeals Policy as  
6 the standard for resolving grievances under the Provider Grievances Policy. The Examiners  
7 applied the 30-day standard to evaluate Health Net Life's compliance with its own policy.

8 12. Health Net Life failed to resolve grievances within 30 days after receipt of the  
9 grievances.

10 13. During the Examination Period, Health Net Life took an average of 93.5 days to  
11 resolve its grievances.

12 14. The grievance data Health Net Life provided to the Examiners for the period January  
13 1, 2001 through June 30, 2001, was inconsistent with the grievance data Health Net Life  
14 provided separately to the Department in the Semi-annual Report.

15 15. Health Net Life failed to provide a reconciliation of discrepancies in grievance data  
16 described above in Finding of Fact No. 15 when requested by the Examiners to do so.

17 16. The Examiners did not find evidence that the violations alleged in the following  
18 Conclusions of Law were intentional.

19 **CONCLUSIONS OF LAW**

20 1. Health Net Life violated A.R.S. § 20-3102(A) by failing to approve or deny clean  
21 claims within 30 days of receipt.

22 2. Health Net Life violated A.R.S. § 20-3102(A) by having Provider Agreement  
23 provisions that did not reflect the statutory requirement in A.R.S. § 20-3102(A) that interest shall  
24 be calculated beginning on the date payment is due.

25 3. Health Net Life violated A.R.S. § 20-3102(B) by denying claims for which it required  
additional information before requesting or obtaining the additional information.



1 CAP 1, Health Net Life shall submit to the director evidence that Health Net Life has  
2 communicated CAP 1 to the appropriate personnel and begun implementation. Evidence of  
3 communication and implementation includes without limitation memos, bulletins, e-mails,  
4 correspondence, procedure manuals, print screens and training materials.

5 2. Within 90 days of the filed date of this Order, Health Net Life shall submit to the  
6 Arizona Department of Insurance for the Director's approval a plan for corrective action  
7 regarding its contracting practices ("CAP 2").

8 a. CAP 2 shall provide specific steps Health Net Life will take by certain dates  
9 to assure that by a specified implementation date, Health Net Life has:

10 i. Amended all health care provider agreement templates and  
11 existing health care provider agreements that provide for Health Net Life to pay clean claims  
12 within a certain number of days after they are received instead of within a certain number of  
13 days after they are approved.

14 ii. Amended all health care provider agreement templates and  
15 existing health care provider agreements that provide for Health Net Life to calculate and pay  
16 interest beginning on some date other than the date that payment to the health care provider  
17 is due.

18 b. CAP 2 shall contain enough detail to allow the Director to determine whether  
19 the CAP will accomplish its purpose.

20 c. CAP 2 shall provide for Health Net Life to report to the Director on a monthly  
21 basis regarding implementation of the CAP, in a form that includes documentation and is  
22 approved by the Director.

23 d. Within 10 business days of receiving notice that the Director has approved  
24 CAP 2, Health Net Life shall submit to the director evidence that Health Net Life has  
25 communicated CAP 2 to the appropriate personnel and begun implementation. Evidence of  
communication and implementation includes without limitation memos, bulletins, e-mails,

1 correspondence, procedures manuals, print screens and training materials.

2 3. Within 90 days of the filed date of this Order, Health Net Life shall submit to the  
3 Arizona Department of Insurance for the Director's approval a plan for corrective action  
4 regarding its grievance-resolution practices ("CAP 3").

5 a. CAP 3 shall provide specific steps Health Net Life will take by certain dates  
6 to assure that by a specified implementation date, the Health Net Life grievance-resolution  
7 system shall, without limitation:

8 i. Be administratively simple and designed to promptly resolve  
9 disputes.

10 ii. Be consistent with, and accurately reflected in, a comprehensive  
11 written provider-grievance policy that includes, without limitation, the designation of a  
12 reasonable and achievable number of days in which Health Net Life will resolve grievances;

13 iii. Maintain records as required by law, including records necessary  
14 to support the semi-annual grievance report required by statute to be provided to the  
15 Department.

16 b. CAP 3 shall contain enough detail to allow the Director to determine whether  
17 the CAP will accomplish its purpose.

18 c. CAP 3 shall provide for Health Net Life to report to the Director on a monthly  
19 basis regarding implementation of the CAP, in a form that includes documentation and is  
20 approved by the Director.

21 d. Within 10 business days of receiving notice that the Director has approved  
22 CAP 3, Health Net Life shall submit to the director evidence that Health Net Life has  
23 communicated CAP 3 to the appropriate personnel and begun implementation. Evidence of  
24 communication and implementation includes without limitation memos, bulletins, e-mails,  
25 correspondence, procedures manuals, print screens and training materials.

4. Within 120 days of the filed date of this Order, Health Net Life shall submit to the

1 Arizona Department of Insurance for the Director's approval a status report regarding all  
2 grievances received by Health Net Life on or after January 1, 2001 and not resolved as of  
3 February 1, 2003. The status report shall contain unique identifiers for grievances so that the  
4 Director can review compliance with this Order Number 4.

5 a. The status report shall provide the following information:

- 6 i. Date the grievance was received.
- 7 ii. Date the grievance was resolved.
- 8 iii. Brief explanation of the disposition of the grievance.

9 b. The status report shall include a corrective action plan to resolve any such  
10 grievances still not resolved as of February 1, 2003 ("CAP 4"). CAP 4 shall provide specific  
11 steps Health Net Life will take by certain dates to assure that by a specified implementation  
12 date:

- 13 i. All grievances outstanding as of February 1, 2003 shall be  
14 resolved.
- 15 ii. Health Net Life shall give every provider written notice of the  
16 resolution of the provider's grievances, including an explanation of the delay in resolution, in a  
17 form approved by the Director. This Notice shall apply only to those "open" grievances from  
18 the period of January 1, 2001 to February 1, 2003.

19 c. CAP 4 shall contain enough detail to allow the Director to determine whether  
20 the CAP will accomplish its purpose.

21 d. CAP 4 shall provide for Health Net Life to report to the Director on a monthly  
22 basis regarding implementation of the CAP, in a form that includes documentation and is  
23 approved by the Director.

24 e. Within 10 business days of receiving notice that the Director has approved  
25 CAP 4, Health Net Life shall submit to the director evidence that Health Net Life has  
communicated CAP 4 to the appropriate personnel and begun implementation. Evidence of

1 communication and implementation includes without limitation memos, bulletins, e-mails,  
2 correspondence, procedures manuals, print screens and training materials.

3 5. The Department shall be permitted, through examiners or other authorized  
4 representatives to verify that Health Net Life has complied with all provisions of this Order.

5 6. Health Net Life shall pay a civil penalty of \$41,600 to the Director for deposit in the  
6 State General Fund for violations of A.R.S. § 20-3102. The civil penalty shall be provided to  
7 the Life & Health Division of the Department prior to the filing of this Order.

8 7. The Report of Timely Payment and Grievance Examination of Health Net Life  
9 Insurance Company, including the letter submitted in response to the Report of Examination,  
10 shall be filed with the Department upon the filing of this order.

11  
12 DATED at Phoenix, Arizona this 14<sup>th</sup> day of July, 2003.

13  
14 

15 Charles R. Cohen  
16 Director of Insurance



**CONSENT TO ORDER**

1  
2 1. Health Net Life Insurance Company has reviewed the foregoing Order.

3 2. Health Net Life Insurance Company admits the jurisdiction of the Director of  
4 Insurance, State of Arizona, admits the Findings of Fact are true solely for purposes of  
5 resolving the allegations contained in the Report and and consents to the entry of the  
6 Conclusions of Law and Order.

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

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

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

19 6. Douglas A. King, who holds the office of President of Health Net Life Insurance  
20 Company, is authorized to enter into this Order for it and on its behalf.

21  
22 **HEALTH NET LIFE INSURANCE COMPANY**

23  
24 6/19/03

Date

By



1 COPY of the foregoing mailed/delivered  
2 this 14<sup>th</sup> day of July, 2003, to:

- 3 Sara Begley  
Deputy Director  
4 Mary Butterfield  
Assistant Director  
5 Consumer Affairs Division  
Paul J. Hogan  
6 Market Oversight Division Chief  
Chief Market Conduct Examiner  
7 Deloris E. Williamson  
Assistant Director  
8 Rates & Regulations Division  
Steve Ferguson  
9 Assistant Director  
Financial Affairs Division  
10 Alan Griffith  
Chief Financial Examiner  
11 Alexandra Shafer  
Assistant Director  
12 Life and Health Division  
Terry L. Cooper  
13 Fraud Unit Chief

14 DEPARTMENT OF INSURANCE  
2910 North 44th Street, Suite 210  
15 Phoenix, AZ 85018

16 Health Net Life Insurance Company  
Bruce Anderson, Director of Operations  
17 21281 Burbank Boulevard  
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19  
20 Katly Linder  
21  
22  
23  
24  
25