

Why was the multi-state examination undertaken?

The multi-state examination was initiated by the National Association of Insurance Commissioners (NAIC) after several states reported having similar concerns about marketing activities and claim practices of the Health Markets insurance subsidiaries. In mid-2004, it became apparent that there were issues and problems with procedures and policies that extended beyond state lines and across jurisdictional authorities. Regulators in the affected states agreed that the most orderly and effective way to proceed was in a collaborative fashion with lead states handling the examination process and the Market Analysis Working Group (MAWG) overseeing the activity on behalf of the NAIC.

What is a multi-state examination? How does it differ from a single state examination?

A multi-state examination allows multiple jurisdictions to focus and consolidate regulatory efforts on common issues and problems in the companies that might be occurring in multiple jurisdictions. A cooperative, multi-state approach allows both states and companies to conserve resources, and address problems and resolve issues throughout the companies' operations. Single-state examinations focus on company activities within that jurisdiction only. Accordingly, a company may end up with several states calling examinations for the same issue, often at the same time.

If there were on-going issues with the Health Markets companies, why didn't states address issues as they came to their attention?

Several states were addressing similar issues with the companies at the same time, but on an individual basis. This created overlapping examinations and was time consuming for both the company and regulators. Further complicating matters was the fact that issues and problems identified and addressed in one jurisdiction often spawned identical or related examinations in other states. Finally, as individual states brought company issues to the national level, it became apparent that coordinated oversight of the company was warranted.

What was the focus of this examination?

The examination focused on seven specific areas:

- The companies' adherence to the 11/30/2004 National Compliance Plan
- A general practices and procedures review to ensure that management oversees insurance company operations appropriately
- A determination of the types of policies sold in each jurisdiction
- A review claims settlements practices and procedures
- A determination of the distribution systems used for each of the products sold by the Companies
- A review of marketing practices
- A determination of the nature of the companies relationship with each of the associations affiliated with the insurance products

What time period was covered by the examination?

January 1, 2000 through December 31, 2005.

What were the findings in the exam?

While the examination team found many areas for comment, the primary findings were:

- The companies' did not provide sufficient training to their agents and did not provide proactive oversight of agent activities.
- There were many deficiencies in the companies' claim handling practices and procedures.
- Transparency of activities, relationships and financial arrangements between various affiliated HealthMarkets entities and the associations was insufficient and an ongoing area of concern.
- During the examination period, the companies' handling of complaints and grievances was inconsistent from department to department, and did not follow a prescribed process.
- Until November 2004, the companies did not have a formal corporate compliance plan or a centralized corporate compliance department.

What are the next steps?

State law in Washington calls for a two-step procedure in the administration of a market conduct examination. Once the field work is completed, state law requires that a report be adopted by order. Once that has happened, discussions about enforcement and settlement will occur.

Why isn't there a fine or other penalty/sanction yet?

With the first part of the examination completed, regulators will now turn to the enforcement portion of the process. A settlement team of regulators will start working on recommendations for enforcement action. This team will consist of the lead states and the states where the affiliated companies are domiciled (headquartered).

There is a long list of required actions to be taken by the companies. Have they started working on them yet? Who will oversee this phase?

Actions undertaken by the companies to date to correct those issues found in the examination process are listed in the report and Subsequent Events section. The examination staff has not reviewed the companies' process changes at this point, so these are unsubstantiated. This will become part of the settlement process and will be overseen by MAWG.

Most examinations state violations of specific law. Why doesn't this report show specific violations?

This report deals with violations and issues that are company-wide in nature and affect multiple jurisdictions. Individual statutes and regulations differ from jurisdiction to jurisdiction, and so the examination staff looked to processes and procedures rather than specific laws to measure company performance. In the Attribute section, you will see that

the examination staff measured performance against specific state laws in a limited number of situations.

When will the final settlement be made public?

The settlement team will start working on this phase of the examination process in January. As soon as their work is complete, the settlement will be made public. There is no exact timeline, but the team hopes to have this phase completed within six months.

Where can I find a copy of the report?

You can find it on the Insurance Commissioner's website at <http://www.insurance.wa.gov>.

The Office of the Insurance Commissioner can help you!

If you have any questions or need additional information about your rights, call our Insurance Consumer Hotline at

1-800-562-6900

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Q & A

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