PROCEEDING BEFORE JANE L. CLINE, INSURANCE COMMISSIONER OF THE STATE OF WEST VIRGINIA

IN RE: MARKET CONDUCT EXAMINATION OF HIGHMARK WEST VIRGINIA, INC.

ADMINISTRATIVE PROCEEDING NUMBER: 07-AP-007

AGREED ORDER ADOPTING REPORT OF MARKET CONDUCT EXAMINATION, DIRECTING CORRECTIVE ACTION AND ASSESSING PENALTY

NOW COMES Jane L. Cline, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the Report of Market Conduct Examination for the examination of Highmark West Virginia Inc. DBA Mountain State Blue Cross Blue Shield, hereinafter referred to as MSBCBS for the examination period ending December 31, 2005 based upon the following findings, to wit:

PARTIES

1. Jane L. Cline is the Insurance Commissioner of the State of West Virginia (the "Insurance Commissioner") and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.

2. MSBCBS is a Health Service Corporation authorized by the Insurance Commissioner to transact business in the State of West Virginia as permitted and authorized under Article 24, Chapter 33 of the West Virginia Code.

FINDINGS OF FACT

1. A Market Conduct Examination of the methods of doing business of MSBCBS for the three year period ending December 31, 2005, was conducted in accordance with

West Virginia Code Section 33-2-9(c) by examiners duly appointed by the Insurance Commissioner.

2. On December 14, 2006, the examiner filed with the Insurance Commissioner, pursuant to West Virginia Code Section 33-2-9(j)(2), a Report of Market Conduct Examination.

3. On December 14, 2006, a true copy of the Report of Market Conduct Examination (attached hereto as Exhibit A) was sent to MSBCBS by certified mail, return receipt requested, and was received by MSBCBS on December 16, 2006.

4. On December 14, 2006, MSBCBS was notified that, pursuant to West Virginia Code Section 33-2-9(j)(2), it had thirty (30) working days after receipt of the Report of Market Conduct Examination to file a submission or objection with the Insurance Commissioner.

5. On January 12, 2006, MSBCBS responded to the Report of Market Conduct Examination ("MSBCBS's Response"). MSBCBS's Response is attached hereto as Exhibit B.

6. MSBCBS's Response did not dispute any facts pertaining to findings, comments, results, observations, or recommendations contained in the Report of Market Conduct Examination.

7. The findings contained in the Report of Market Conduct Examination reveal violations of West Virginia Code of State Rules Sections 114 -14-5.2, 114 -15-1 et. seq, and 114-39-1. et. seq , and violations of West Virginia Code Sections 33-12-18, 33-16-2(2) and 33-16D-4b.

8. The Insurance Commissioner has determined that the violations of the West Virginia Code and Rule sections referenced in paragraph 7 above were unintentional.

9. By entering into this Agreed Order, MSBCBS does not admit to any factual or legal determinations made by the Commissioner; does not admit to any violation of Chapter 33 of the West Virginia Code and Title 114 of the West Virginia Code of State Rules that are set forth in the attached Report of Market Conduct Examination; and reserves all rights and defenses regarding liability or responsibility in any proceedings regarding MSBCBS other than proceedings, administrative or civil, to enforce this Order.

10. MSBCBS waives notice of administrative hearing, any and all rights to an administrative hearing and to judicial review of this matter.

11. Any Finding of Fact that is more properly a Conclusion of Law is hereby adopted as such.

CONCLUSIONS OF LAW

1. The Insurance Commissioner has jurisdiction over the subject matter of, and the parties to, this proceeding.

2. This proceeding is pursuant to and in accordance with West Virginia Code Section 33-2-9.

3. Any Conclusion of Law that is more properly a Finding of Fact is hereby incorporated as such.

ORDER

Pursuant to West Virginia Code Section 33-2-9(j)(3)(A), following the review of the Report of Market Conduct Examination, the examination work papers, and MSBCBS's Response, the Insurance Commissioner and MSBCBS have agreed to enter into this

Agreed Order adopting the Report of Market Conduct Examination. The Insurance Commissioner and MSBCBS have further agreed to the imposition of an administrative penalty against MSBCBS.

It is accordingly **AGREED** and **ORDERED** as follows:

That the Report of Market Conduct Examination of Highmark West Virginia Inc. is hereby **ADOPTED** and **APPROVED** by the Insurance Commissioner;

That, within thirty (30) days of the entry date of this Agreed Order, MSBCBS shall file with the Insurance Commissioner, in accordance with West Virginia Code Section 33-2-9(j)(4), affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report of Market Conduct Examination and a copy of this AGREED ORDER ADOPTING REPORT OF MARKET CONDUCT EXAMINATION, DIRECTING CORRECTIVE ACTION AND ASSESSING PENALTY;

That MSBCBS shall ensure compliance with the West Virginia Code and the Code of State Rules. MSBCBS shall specifically cure those violations and deficiencies identified in the Report of Market Conduct Examination. MSBCBS is hereby ordered to file a Corrective Action Plan which will be subject to the approval of the Insurance Commissioner. The Corrective Action Plan shall detail MSBCBS's changes to its procedures and/or internal policies to ensure compliance with the West Virginia Code and the Code of State Rules and incorporate the recommendations of the Insurance Commissioner's examiner and address all violations specifically cited in the Report of Market Conduct Examination;

That the Corrective Action Plan outlined in this Order must be submitted to the Insurance Commissioner for approval within thirty (30) days of the entry date of this Agreed Order. MSBCBS shall implement reasonable changes to the Corrective Action Plan if suggested by the Insurance Commissioner and the Insurance Commissioner will provide notice to MSBCBS when the

Corrective Action Plan has been approved; and

The Insurance Commissioner has determined that MSBCBS shall pay an administrative penalty to the State of West Virginia in the amount of Five Thousand ($5,000.00) for non-compliance with the West Virginia Code and Code of State Rules as described herein. The payment of this administrative penalty is in lieu of any other regulatory penalty or remedy.

THE PARTIES SO AGREE:

OFFICE OF THE INSURANCE COMMISSIONER
FOR THE STATE OF WEST VIRGINIA

Dated this 7th day of March, 2007.

Jane L. Cline
Insurance Commissioner

HIGHMARK WEST VIRGINIA INC.

Gregory K. Smith

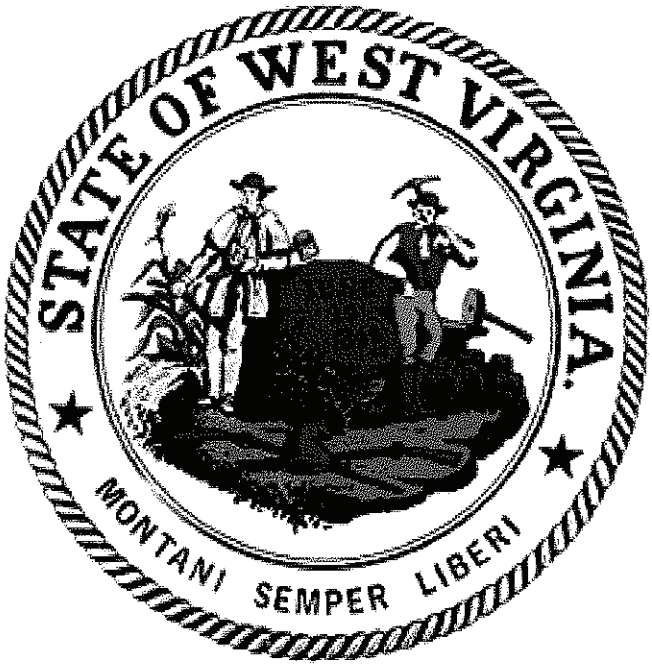
Name Gregory K. Smith

Title President & CEO

Date February 27, 2007

Report of Market Conduct Examination

As of December 31, 2005



Highmark West Virginia Inc. DBA
Mountain State Blue Cross Blue Shield
700 Market Square
Parkersburg, West Virginia 26101

NAIC COMPANY CODE 54828
Examination Number WV014-M5

EXHIBIT A

TABLE OF CONTENTS

FORWARD 3

SCOPE OF EXAMINATION 3

EXECUTIVE SUMMARY 4

HISTORY AND PROFILE 4

METHODOLOGY 5

A. COMPANY OPERATIONS/MANAGEMENT 6

B. COMPLAINT HANDLING 10

D. MARKETING AND SALES 13

F. PRODUCER LICENSING 14

H. POLICYHOLDER SERVICES 17

J. UNDERWRITING AND RATING 18

L. CLAIMS PRACTICES 28

LIST OF RECOMMENDATIONS 34

ACKNOWLEDGEMENT 35

December 13, 2006

The Honorable Jane L. Cline
West Virginia Insurance Commissioner
1124 Smith Street
Charleston, WV 25305

Dear Commissioner Cline:

Pursuant to your instructions and in accordance with W.Va. Code § 33-2-9, an examination has been made as of December 31, 2005 of the business affairs of

HIGHMARK WEST VIRGINIA INC. DBA
MOUNTAIN STATE BLUE CROSS BLUE SHIELD
700 Market Street
Parkersburg, West Virginia 26101

hereinafter referred to as the "Company." The following report of the findings of this examination is herewith respectfully submitted.

FORWARD

This examination report is as of December 31, 2005 and shows the Highmark of West Virginia, Inc. West Virginia insurance activities of Mountain State Blue Cross Blue Shield. The report of market conduct examination is by test. All tests applied during the examination are reported.

SCOPE OF EXAMINATION

The basic areas that were examined were:

- Company Operations/Management
- Complaint Handling
- Marketing and Sales
- Producer Licensing
- Policyholder Services
- Underwriting and Rating
- Claim Handling Practices

Each business area has measurable standards. Standards are either statutory, Company and/or have contractual guidelines.

The examination focused on the methods used by the Company to manage its operations for each of the business areas subject to this examination. This includes an analysis of how the Company communicates its instructions and intentions to its staff, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the findings of the measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is then made on those areas in which the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance. Most areas are nevertheless tested to see that the Company complies with West Virginia statutes and rules.

Since this examination was the first market conduct examination of the Company, most business areas addressed by the National Association of Insurance Commissioners (NAIC) Market Conduct Examiner's Handbook were tested.

EXECUTIVE SUMMARY

The examination was the first market conduct examination of the Company. The areas of Network Adequacy, Provider Credentialing and Quality Assurance were not examined as these areas are reviewed annually in concert with the Company's renewal of its certificate of authority. The examination fieldwork began on August 14, 2006 and concluded October 13, 2006. Of the fifty - two (52) standards tested, the Company passed fifty (50) and failed two (2). Two (2) additional areas warranted a recommendation. The major areas of concern are:

- Timely response to Office of the Insurance Commissioner complaint inquiries
- Guarantee issue requirements for groups within associations

HISTORY AND PROFILE

Mountain State Blue Cross Blue Shield (herein after referred to as the Company) was formed in 1932 as the first Blue Cross Hospital Service Company in West Virginia. In 1990, Blue Cross and Blue Shield of West Central West Virginia changed its name to form Mountain State Blue Cross Blue Shield (MSBCBS) and assumed the assets and certain liabilities of the former Blue Cross and Blue Shield of West Virginia. In addition, the Company formed an association with Blue Cross Blue Shield of Ohio at that time. This association was terminated in 1997 when Blue Cross Blue Shield of Ohio lost its license status with the Blue Cross Blue Shield Association. In 1999 the Company became affiliated with Highmark Inc. (Highmark) based in Pennsylvania. The Company is also a federal contractor for the Federal Employee Health Benefit Program in West Virginia.

Currently, the Company is formally known as Highmark West Virginia Inc., doing business as, Mountain State Blue Cross Blue Shield. The Company is incorporated as a not for profit health services corporation under West Virginia law. The Company conducts business throughout West Virginia as a licensee of the Blue Cross Blue Shield Association. The Company underwrites various indemnity, preferred provider and point of service benefit programs as well as Medicare Supplement, Medicare Advantage, vision and stop loss products. The Company also administers benefit programs for self-funded groups.

The Company was directed by a Board of Ten (10) directors for the examination period. The Board consisted of the following members as of December 31, 2005.

NAME	TITLE	AFFILIATION
Kenneth R. Melani, M.D.	Board Chairman President and CEO	Highmark Inc.
Gregory K. Smith	President and CEO	MSBCBS
Thomas D. Farson	Retired President	MSBCBS
Judy Sjostedt	Executive Director	Parkersburg Area Community Foundation
David Campbell	Chief Executive Officer	West Virginia Primary Care Network, Inc.
James Hayhurst, Jr.	Executive Vice President	United Bankshares, Inc.
Kenneth Perdue	President	West Virginia Labor Federation, AFL-CIO

James M. Klingensmith	Executive Vice President	Highmark Inc.
Robert C. Gray	Executive Vice President	Highmark Inc.
J. Mark Sengewalt	Chief Financial Officer, Treasurer and Senior VP	MSBCBS

METHODOLOGY

This examination is based on the standards and tests for a market conduct examination of a health insurer found in Chapter XVII of the NAIC Market Conduct Examiners Handbook and in accordance with West Virginia statutes and rules.

Some of the standards were measured using a single type of review, while others used a combination or all types of review. The types of review used in this examination fall into three general categories: Generic, Sample, and Electronic.

A "Generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "Sample" review indicates that a standard was tested through direct review of a random sample of files using automated sampling software. The sampling techniques used are based on ninety-five percent (95%) confidence level with Poisson distribution---meaning sample sizes are the same without regard to population. For evaluation purposes, an error tolerance level of seven percent (7%) was used for claims and a ten percent (10%) tolerance was used for other types of review.

An "Electronic" review indicates that a standard was tested through use of a computer program or routine applied to a download of computer records provided by the examinee. This type of review typically reviews one hundred percent (100%) of the records of a particular type.

Standards were measured using tests designed to adequately measure how the Company met certain benchmarks. The various tests utilized are set forth in the NAIC Market Conduct Examiners Handbook for a health insurer. Each standard applied is described and the result of testing is provided under the appropriate standard. The standard, its statutory authority under West Virginia law, and its source in the NAIC Market Conduct Examiners Handbook are stated and contained within a bold border.

Each standard is accompanied by a "Comment" describing the purpose or reason for the standard. "Results" are indicated, examiner's "Observations" are noted, and in some cases, a "Recommendation" is made. Comments, Results, Observations and Recommendations are kept with the appropriate standard.

A. COMPANY OPERATIONS/MANAGEMENT

Comments: The evaluation of standards in this business area is based on a review of Company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to provide a view of how the Company is structured and how it operates and is not based on sampling techniques. Many companies have endured trouble because management has not been structured to adequately recognize and address problems that can arise. Properly operated companies generally have processes that are similar in structure. While these processes vary in detail and effectiveness from company to company, the absence of them or the ineffective application of them is often reflected in failure of the various standards tested throughout the examination. The processes usually include:

- A planning function where direction, policy, objectives and goals are formulated;
- An execution or implementation of the planning function elements;
- A measurement function that considers the results of the planning and execution; and
- A reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations

Standard A 1 ***NAIC Market Conduct Examiners Handbook - Chapter XVII, § A, Standard 1.***
The company has an up-to-date, valid internal or external audit program.

Comments: Review methodology for this standard is generic and did not have a direct statutory requirement.

Results: **Pass**

Observations: The Company provided an overview of specific audits along with the 2005 audit work plan and the 2005 audit log. The Company maintains an independent internal audit department. The Chief Audit Executive reports to the Chief Financial Officer and has direct access to the Audit and Compliance Committee. As part of the audit process, the internal audit department evaluates the effectiveness and adequacy of internal controls and evaluates compliance with applicable policies, contracts, procedures, laws and regulations. Formal reports of audits are provided to responsible management at the conclusion of each audit. The Company has a valid audit program in place and the information produced is being used as a management tool. No exceptions were noted.

Recommendations: **None**

Standard A 3 ***NAIC Market Conduct Examiners Handbook - Chapter XVII, § A, Standard 3.***
The company has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.
W.Va. Code § 33-41-1et seq.

Comments: Review methodology for this standard is generic and does have a direct statutory requirement. This standard is primarily focused on whether the Company has a process for detection and prevention of fraud. Failure to provide an appropriate process may cause harm to members and may affect the Company's financial position. W.Va. Code § 33-41-5 requires each insurer to report any suspected fraud to the Insurance Commissioner.

Results: **Pass**

Observations: The Company has a written procedure in place titled FWA, which stands for identification of potential fraud, waste and/or abuse. The Company has the ability to receive reports of potential fraud by the use of a "Hotline" phone number for external referrals and by directing internal referrals to the Special Investigations Unit (SIU). The Special Investigations Unit examines referrals on suspicious providers, subscribers and employees. The Company requires all applicants for employment or potential contractors to disclose any criminal history. The Company has sufficient antifraud initiatives in place.

Recommendations: **None**

Standard A 6	***NAIC Market Conduct Examiners Handbook – Chapter XVII, § A, Standard 6.***
Records are adequate, accessible, consistent, and orderly and comply with state record retention requirements.	***W. Va. Code St. R.. § 114-15.-1 et seq.***

Comments: The review methodology for this standard is generic. The standard has some direct statutory requirements. This standard is intended to assure that an adequate and accessible record exists of the Company's transactions. The focus is on the records and actions considered in a market conduct examination such as but not limited to, trade practices, claim practices, policy selection and issuance, rating, complaint handling, etc. Inadequate, disorderly, inconsistent, and/or inaccessible records can lead to inappropriate rates and other issues, which can provide harm to the public.

Results: **Pass with recommendation**

Observations: Throughout the examination, Company records and files were reviewed to determine if documentation supported the decisions made. In the testing of declined underwriting files the Company failed to retain seventeen files received subsequent to May 6, 2005 which is a violation of Legislative Rule 114-15-4.3 (b) which requires declined underwriting files be maintained for the calendar year plus five (5) additional calendar years.

Recommendations: It is recommended the Company adopt and implement procedures to ensure retention of files in compliance with Legislative Rule 114-15-4.3 (b) which requires declined underwriting files be maintained for the calendar year plus five (5) additional calendar years.

Standard A 7	***NAIC Market Conduct Examiners Handbook – Chapter XVII, § A, Standard 7.***
The company is licensed for the lines of business that are being written.	***W.Va. Code § 33-3-1et seq W.Va. Code § 33-24-1et seq***

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard is intended to assure that the Company's operations are in conformance with its certificate of authority.

Results: **Pass**
Observations: The Company is properly licensed to transact business in accordance with W.Va. Code § 33-3-1 et seq. and was operating within the scope of their Certificate of Authority.

Recommendations: **None**

Standard A 8	*NAIC Market Conduct Examiners Handbook – Chapter XVII, § A, Standard 8.*
The company cooperates with examiners on a timely basis.	*W.Va. Code § 33-2-9 & W. Va. Code St. R.. § 114-15-1 et seq*

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard is aimed at assuring that the Company is cooperating with the State in the completion of an open and cogent review of the Company's operations in West Virginia. Cooperation with examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely fashion and minimizing cost.

Results: **Pass**

Observations: The Company was cooperative and the examination proceeded in a cordial atmosphere. Data provided was responsive and timely.

Recommendations: **None**

Standard A 11	*NAIC Market Conduct Examiners Handbook – Chapter XVII, § A, Standard 11.*
The company has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customer.	*W.Va. Code St. R. § 114-62-1, et seq.*

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: **Pass**

Observations: The Company has a fully dedicated HIPAA Privacy and Security department, consisting of five (5) full time employees. The Company provided fifty-three (53) documents pertaining to Privacy Procedures. Procedures include such areas as Consent, Authorization, Oral Agreement, Information permitted without authorization, members and personal representatives, and individual's rights regarding confidential communications, complaint procedures and privacy notices. In addition, the Company has adequate procedures for employees regarding the treatment of nonpublic personal information. No exceptions were noted.

Recommendations: **None**

Standard A 12	*NAIC Market Conduct Examiners Handbook – Chapter XVII, § A, Standard 12.*
The company provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.	*W.Va. Code St. R. § 114-57-1, et seq.*

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides

adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: **Pass**

Observations: Privacy notices were reviewed and it was determined they contained appropriate content and were clear, conspicuous and reasonably understandable. The Company properly indicates the categories of nonpublic personal financial information it discloses. The notices were in compliance with W. Va. Code St. R. §114-57-1-3.1. No exceptions were noted.

Recommendations: **None**

Standard A 13 *NAIC Market Conduct Examiners Handbook – Chapter XVII, § A, Standard 13.*
If the company discloses information subject to an "opt out" right, the Company has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has "opted out", and the Company provides "opt out" notices to its customers and other affected consumers.
W.Va. Code St. R. § 114-57-1, et seq.

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: **Pass**

Observations: The Company is not required to provide customers and other affected consumers an opportunity to "opt out" of the process to disclose their nonpublic personal financial information to nonaffiliated third parties. The regulation provides for exceptions to the "opt out" requirements. Company disclosures of nonpublic personal financial information to nonaffiliated third parties fall under the exceptions. No exceptions were noted.

Recommendations: **None**

Standard A 14 *NAIC Market Conduct Examiners Handbook – Chapter XVII, § A, Standard 14.*
The Company's procedures for the collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules, and regulations.
W.Va. Code St. R. § 114-57-1 et seq.

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: **Pass**

Observations: The Company Privacy Notice and Privacy Operating Procedures were reviewed for compliance with W.Va. Code St. R. § 114-57-1 to determine how nonpublic personal

financial information received from a nonaffiliated financial institution is handled. The Company does not receive nonpublic personal financial information from nonaffiliated financial institutions and is in compliance with W.Va. Code St. R. § 114-57-1.

Recommendations: **None**

Standard A 15	*NAIC Market Conduct Examiners Handbook – Chapter XVII, § A, Standard 15.*
In states promulgating the health information provisions of the NAIC model regulation, or providing equivalent protection through other substantially similar laws under the jurisdiction of the Department of Insurance, the company has policies and procedures in place so that nonpublic personal health information will not be disclosed except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure.	*W.Va. Code St. R. § 114-57-1 et seq.*

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: **Pass**

Observations: The Company provided their Privacy Operating Procedures, which included procedures for securing authorizations from customers and consumers prior to disclosing nonpublic personal information. Procedures in place were deemed adequate.

Recommendations: **None**

B. COMPLAINT HANDLING

Comments: Evaluations of the standards in this business area are based on Company responses to various information requests and review of complaint files at the Company. West Virginia Code §33-11-4(10) requires the Company to "...maintain a complete record of all the complaints which it has received since the date of its last examination." The statute also requires that "this record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, and the disposition of these complaints and the time it took to process each complaint." The definition of a complaint is "...any written communication primarily expressing a grievance."

Standard B 1	*NAIC Market Conduct Examiners Handbook – Chapter VIII, § B, Standard 1.*
All complaints are recorded in the required format on the company complaint register.	*W. Va. Code § 33-11-4(10)*

Comments: The review methodology for this standard is sample and generic. The standard has a direct statutory requirement. This standard is concerned with whether the Company keeps a formal record of complaints or grievances as required by statute. An insurer is required to maintain a complete record of all complaints received. The record must indicate the total

number of complaints received in the examination period, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint.

Results: **Pass**

Observations: The Examiners reviewed complaints that were received directly from the consumer as well as complaints that were referred from the Offices of the Insurance Commissioner. The registers contained the required information including dates received and resolved and were kept on a calendar year basis. The format of the complaint records meets the requirements set forth in W.Va. Code § 33-11-4(10).

Recommendations: **None**

Standard B 2	*NAIC Market Conduct Examiners Handbook – Chapter VIII, § B, Standard 2.*
The company has adequate complaint handling procedures in place and communicates such procedures to policyholders.	*W. Va. Code § 33-11-4(10) & W. Va. Code St. R. §114-14-5.2*

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard is concerned with whether the Company has adequate complaint handling procedures and whether the Company communicates complaint handling procedures to its policyholders.

Results: **Pass**

Observations: The Company has written procedures for benefit appeals titled "Customer Service Appeals, policy and procedures." The Company also provided a flow chart for handling member complaints. The flow chart provides enough detail to analyze areas developing complaints and to respond to complaints timely. The Company provides a telephone number on all member identification cards that may be used for benefit inquiries or appeals.

Recommendations: **None**

Standard B 3	*NAIC Market Conduct Examiners Handbook – Chapter VIII, § B, Standard 3.*
The company should take adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations and contract language.	*W. Va. Code § 33-11-4(10) & W. Va. Code St. R.. § 114-14-5.2*

Comments: The review methodology for this standard is sample. The standard does not have a direct statutory requirement. This standard is concerned with whether the Company took adequate steps to finalize or resolve all issues raised in complaint inquiries.

Results: Pass

Observations: Complaint files were reviewed to determine if the Company took adequate steps to finalize the issues raised in the inquiry and if file documentation supported the decisions

made. The examination included a review of one hundred and ninety-nine (199) complaints received by the Office of the Insurance Commissioner of which one hundred and thirty-six (136) were not applicable due to a lack of jurisdiction by being either self funded ERISA plans or plans issued by a Blue Cross Blue Shield of another state. Complaints were resolved and file documentation supported the decisions made. No exceptions were noted.

Table B3 Finalize Complaint

Type	Sampled	N/A	Pass	Fail	%Pass
Complaint Finalized	199	136	63	0	100%

Recommendations: **None**

Standard B 4 *NAIC Market Conduct Examiners Handbook – Chapter VIII, § B, Standard 4.*
The time frame within which the company responds to complaints is in accordance with applicable statutes, rules and regulations.
W.Va. Code St. R § 114-14-5.

Comments: The review methodology for this standard is sample. The standard has a direct statutory requirement. In the case of complaints concerning claims, direct time requirements are found in regulation. This standard is concerned with whether the Company responded to complaints timely. West Virginia's complaint handling section requires a fifteen (15) working day standard for responses to complaints.

Results: Failed

Observations: The examination included a review of one hundred and ninety-nine (199) complaints received by the Office of the Insurance Commissioner of which one hundred and thirty-six (136) were not applicable due to a lack of jurisdiction by being either self-funded plans or plans issued by a Blue Cross Blue Shield of another state. Of the remaining sixty-three (63) the Company did not respond timely to thirty-five (35) of the complaint inquiries received from the Office of the Insurance Commissioner. The examiners noted that despite jurisdictional issues the Company responded to all inquiries.

Table B4 Timely Response

Type	Sampled	N/A	Pass	Fail	%Pass
Complaint Response Time	199	136	28	35	44%

Recommendations: It is recommended the Company adopt and implement written procedures in accordance with W.Va. Code St. R § 114-14-5.2, which requires a complete written response to Insurance Commissioner inquiries within 15 working days. A "complete written response" addresses all issues raised by the complainant or the Commissioner and includes copies of any documentation requested.

D. MARKETING AND SALES

Comments: The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews and presentations made to the examiner. This portion of the examination is designed to evaluate the representations made by the

Company about its products. The review is not typically based on sampling techniques but can be. The areas to be considered in this review include all media (radio, television, videotape, etc.), written and verbal advertising and sales materials.

Standard D 1 *NAIC Market Conduct Examiners Handbook - Chapter XVII, § D, Standard 1.*
All advertising and sales materials are in compliance with applicable statutes, rules and regulations.
W.Va. Code § 33-11-4 W.Va. Code § 33-16D-4 W. Va. Code St. R.. § 114-10-1

Comments: Review methodology for this standard is generic. This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. The review is concerned with all forms of media (print, radio, television, internet, etc.).

Results: **Pass**

Observations: The Company's advertising program primarily consists of point of sale product material, name recognition print media, public service announcements and a Company internet website. Items in use for the period beginning 2003 through 2005 were reviewed for misrepresentation. No exceptions were noted.

Table D1 Marketing and Sales Results

Type	Sampled	N/A	Pass	Fail	%Pass
2003-2005 Marketing Material	42	0	42	0	100%

Recommendations: **None**

Standard D 2 *NAIC Market Conduct Examiners Handbook - Chapter XVII, § D, Standard 2.*
Company internal producer training materials are in compliance with applicable statutes, rules, and regulations.
W.Va. Code § 33-16D-4, W. Va. Code St. R.. § 114-10-1 et. seq

Comments: Review methodology for this standard is generic. This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation and is specifically concerned with training or instructional representations made by the Company to its producers.

Results: **Pass**

Observations: The review of this standard involved the review of training materials and communications to Company producers known as Agent Bulletins. The material was reviewed for violations and misrepresentation.

Table D2 Producer Training Materials

Type	Sampled	N/A	Pass	Fail	%Pass
2003-2005 Producer Training Material	9	0	9	0	100%

Recommendations: **None**

Standard D 4	*NAIC Market Conduct Examiners Handbook - Chapter XVII, § D, Standard 4.*
Outlines of coverage are in compliance with applicable statutes, rules, and regulations.	*W.Va. Code § 33- 11-6 & W. Va. Code St. R.. § 114-10-1 et. seq*

Comments: Review methodology for this standard is generic. This standard has a direct statutory requirement. This standard is aimed at assuring compliance with the prohibitions on misrepresentation. It is concerned with representations made by the Company to its members through outlines of coverage.

Results: **Pass**

Observations: Evidences (Outlines) of Coverage were reviewed for adherence to W.Va. Code § 33- 11-6 & W. Va. Code St. R. § 114-10-1 et. seq. and no exceptions were noted.

Recommendations: **None**

F. PRODUCER LICENSING

Comments: The evaluation of these standards is based on review of the Insurance Commissioner's files, and Company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to test the Company's compliance with West Virginia producer licensing laws and rules.

Standard F 1	*NAIC Market Conduct Examiners Handbook – Chapter XVII, § F, Standard 1.*
Company records of licensed and appointed producers agree with department of insurance records.	*W.Va. Code § 33-12-18 & W. Va. Code St. R.. § 114-02-1et. Seq.*

Comments: This standard has a direct statutory requirement. This standard is aimed at assuring compliance with the requirement that producers be properly licensed and appointed. West Virginia Code §33-12-18(f) states: "Each insurer shall maintain a current list of individual insurance producers appointed to accept applications on behalf of the insurer. Each insurer shall make a list available to the Commissioner upon reasonable request for purposes of conducting investigations and enforcing the provisions of this chapter."

Results: Pass

Observations: The Company's list of 1129 licensed producers was reconciled with the Insurance Commissioner's list of producers appointed by the Company. The reconciliation between the two lists revealed two exceptions.

Table F1 Terminated Producer Sample Results

Type	Sampled	N/A	Pass	Fail	%Pass
2005 Small Group Renewals	1129	0	1127	2	99.8%

Recommendations: **None**

Standard F 2	*NAIC Market Conduct Examiners Handbook – Chapter XVII, § F, 2.*
The producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken.	*W.Va. Code § 33-12-18*

Comments: Review methodology for this standard is sample. This standard has a direct statutory requirement. As applied in this section, it is not file specific. This standard is aimed at assuring compliance with the requirement that producers be properly licensed and appointed for business solicited in West Virginia.

Results: **Pass with recommendations**

Observations: The Company utilizes salaried marketing personnel and independent agents to solicit their insurance products in West Virginia. A sample of sixty (60) individual and sixty (60) group underwriting files were reviewed to determine if each producer was properly licensed and appointed, prior to the date of new business or renewal transactions. One (1) contract was issued in which the servicing producer was not appointed by the Company within fifteen (15) days of the transaction.

Table J F2 Producer Licensing

Type	Sampled	N/A	Pass	Fail	%Pass
Individual Files	60	0	60	0	100%
Small Group Files	60	0	59	1	98%
TOTAL	120	0	119	0	99%

Recommendations: **None**

Standard F 3	*NAIC Market Conduct Examiners Handbook – Chapter XVII, § F, Standard 3.*
Termination of producers complies with statutes regarding notification to the producer and notification to the state if applicable	*W.Va. Code § 33-12-25 & W. Va. Code St. R.. § 114-02-1et seq*

Comments: Review methodology for this standard is sample. This standard has a direct statutory requirement. It is generally file specific. This standard is aimed at both avoiding unlicensed placements of insurance as well as ensuring that producers are treated fairly with respect to terminations. West Virginia Code §33-12-25 requires the Company to notify the Commissioner (on a form prescribed by the Commissioner) within thirty (30) days of terminating the producer's authority. The same code section further requires the producer to be notified simultaneously.

Results: **Pass**

Observations: A sample of sixty (60) producer files terminated during the examination period determined that the Company notified the Insurance Commissioner and the affected producer.

Table F3 Terminated Producer Sample Results

Type	Sampled	N/A	Pass	Fail	%Pass
2005 Small Group Renewals	60	0	60	0	100%

Recommendations: **None**

Standard F 5	*NAIC Market Conduct Examiners Handbook – Chapter XVII, § F, Standard 5.*
Records of terminated producers adequately document reasons for terminations.	*W.Va. Code § 33-12-25 & W. Va. Code St. R. § 114-02-1et Seq*

Comments: Review methodology for this standard is sample. This standard has a direct statutory requirement. It is generally file specific. This standard is intended to aid in the identification of producers involved in unprofessional behavior, which is harmful to the public.

Results: **Pass with recommendation**

Observations: In twenty-two (22) of the sixty (60) files reviewed the reason for termination was not provided. For termination reason the Company used the reason code "W" and defined this reason as "other," or non-renewed by Company. The definitions are not adequate to determine the reason for termination. Because W. Va. Code does not detail the degree of specificity regarding terminations, these files were not considered to be failures for the purposes of this examination.

Table F4 Terminated Producer Sample Results

Type	Sampled	N/A	Pass	Fail	%Pass
2005 Small Group Renewals	60	0	60	0	100%

Recommendations: It is recommended that the Company document the actual reason for producer terminations.

H. POLICYHOLDER SERVICES

Comments: The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews, and presentations made to the examiner and file sampling during the examination process. The policyholder service portion of the examination is designed to test a Company's compliance with statutes regarding notice/billing, delays/no response, premium refund and coverage questions.

Standard H 1	*NAIC Market Conduct Examiners Handbook - Chapter XVII, § H, Standard 1.*
Premium notices and billing notices are sent out with an adequate amount of advance notice.	

Comments: Review methodology for this standard is generic, sample, and electronic. There is no direct statutory requirement. This standard is intended to provide insureds with information in a timely fashion so they can make informed decisions. West Virginia Code does not specify time processing requirements for distribution of premium notices. Where rate increases were applicable, the Company issued notices 45 days prior to the effective date of the change.

Table H-1 Policyholder Services Sample Results

Type	Sampled	N/A	Pass	Fail	%Pass
2005 Small Group Renewals	60	1	59	0	100%

One (1) Company submitted file did not match a requested file number.

Observations: The population of fifty-nine (59) renewed groups was reviewed for adherence to the Company's internal guidelines. No exceptions were noted.

Recommendations: **None**

Standard H 2 *NAIC Market Conduct Examiners Handbook - Chapter XVII, § H, Standard 4*
Policy issuance and insured requested cancellations are timely.

Comments: Review methodology for this standard is generic. There is no direct statutory requirement. This standard is intended to provide insureds with information in a timely fashion so they can make informed decisions.

Results: **Pass**

Observations: The Company issues a renewal letter forty-five (45) days prior to the renewal date that provides the client with information as to the type of coverage, enrollment numbers, current monthly premium, the renewal monthly premium, and the percent of change in monthly premiums. The client accepts the renewal rate by paying premium when due.

Recommendations: **None**

Standard H 7 *NAIC Market Conduct Examiners Handbook - Chapter X VII, § H, Standard 67*
Evidence of creditable coverage is provided in accordance with the requirements of HIPAA and/or statutes, rules, and regulations.
W. Va. Code St. R.. § 114-54-5.1

Comments: Review methodology for this standard is generic. The focus of this standard is to assure portability of coverage. West Virginia law is silent regarding the number of days a carrier has to distribute the Certificates of Creditable Coverage after the member termination date. Additionally, there is no requirement to distribute a Certificate of Creditable Coverage to an insured being terminated from "individual" coverage.

Results: **Pass**

Observations: The Company provided a screen print outlining the procedure for producing a certificate of "Creditable Coverage" when a member requested a copy. When individual coverage is cancelled, the system automatically produces a certificate of creditable coverage. Procedures in place were deemed adequate. No exceptions were noted.

Recommendations: **None**

J. UNDERWRITING AND RATING

Comments: The evaluation of standards in this business area is based on a review of Company responses to information requests, questions, interviews, presentations made to the examiner and file sampling. The underwriting and rating practices portion of the examination is designed to provide a view of how the Company treats the public and whether that treatment complies with applicable statutes and rules. It is typically determined by testing a random sample of files and applying various tests to those files. These standards are concerned with compliance issues.

Standard J 1: Rating Practices *NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 1.*
The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company rating plan.
W.Va. Code § 33-15-1 et. seq & W.Va. Code § 33-16D-5

Comments: Review methodology for this standard is sample. This standard has a direct statutory requirement. It is file specific. It is necessary to determine if the Company complies with the rating systems that have been filed and approved by the West Virginia Insurance Commissioner. Wide scale application of incorrect rates by a company may raise financial solvency questions or be indicative of inadequate management oversight. Deviation from established rating plans may also indicate a company is engaged in unfair competitive practices.

Results: **Pass with recommendation**

Observations: The Company provided their underwriting guidelines and rate filing for the exam period. A sample of sixty (60) individual and sixty (60) "small group" underwriting files were reviewed to determine adherence to the guidelines and rate filings. Premiums charged were recalculated based on Company guidelines and premium rates filed. Factors used in the group and individual underwriting files were verified to ensure no unfairly discriminatory factors were used for the basis of the underwriting decision. Proper premiums were charged and there were no exceptions noted in the individual underwriting files.

Correct premium was recalculated in fifty six (56) "small group" underwriting files. In four (4) small group underwriting files, the Company used a different durational adjustment (tier) than what was indicated by the Company's internal rating manual. Rate tiers were adjusted at management's discretion and were favorable to the groups in all cases.

Table J 1 Underwriting

Type	Sampled	N/A	Pass	Fail	%Pass
Individual Files	60	0	60	0	100%
Small Group Files	60	0	60	0	100%
TOTAL	120	0	120	0	100%

Recommendations: It is recommended that future rate filings contain more detail with respect to the methodology of determining the durational adjustment (tier) for both new business and renewals. If any judgmental deviations are used, the filing should explain what acceptable criteria can be used for this type of deviation and with whom the authority rests to make this decision.

Standard J 2: Rating Practices *NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 2.*
Disclosures to insured concerning rates and coverage are accurate and timely.
W. Va. Code § 33-11-4(7) & W. Va. Code § 33-30-1 et seq.

***Comments*:** Review methodology for this standard is sample. This standard does not have a direct insurance statutory requirement. It is necessary to provide insureds with appropriate disclosures, both mandated and reasonable. Without appropriate disclosures, insureds find it difficult to make informed decisions. The W.Va. Code discusses required disclosure provisions for carriers issuing individual Accident and Health contracts as follows:

- 10 day free look period
- Pre-existing provisions
- Renewal and non-renewal coverage provisions
- Replacement notices if existing coverage is being replaced

Results: **Pass**

Observations: The review of group and individual policy forms including an assessment to verify disclosure requirements noted above satisfied the requirements outlined.

Recommendations: **None**

Standard J 3: Rating Practices *NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 3.*
The company does not permit illegal rebating, commission cutting, or inducements.
W.Va. Code § 33-12-24

***Comments*:** Review methodology for this standard is sample and generic. This standard has a direct insurance statutory requirement. It is generally file specific. Illegal rebating, commission cutting, or other illegal inducements are forms of unfair discrimination.

Results: **Pass**

Observations: A review of the samples of sixty (60) individual and sixty (60) "small group" underwriting files did not reveal any rebating, commission cutting or other inducements.

Table J 3 Underwriting

Type	Sampled	N/A	Pass	Fail	%Pass
Individual Files	60	0	60	0	100%
Small Group Files	60	0	60	0	100%
TOTAL	120	0	120	0	100%

Recommendations: **None**

Standard J 4 *NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 4.*
All forms, including contracts, riders, and endorsement forms and certificates, are filed with the department of insurance, if applicable.
W.Va. Code § 33-6-8 W.Va. Code § 33-16D-8

Comments: Review methodology for this standard is generic and sample. This standard has a direct insurance statutory requirement. A Company contract issued with forms that have not been filed and approved are technically not a part of the contract.

The concerns tested with the standard include:

- Determining if the forms and endorsements have been filed.
- Where required, determining that either prior approval has been obtained or that the applicable waiting periods following the filing have been met.

Results: **Pass**

Observations: All forms and endorsement used in the underwriting files were on file with the Offices of the Insurance Commissioner. No exceptions were noted.

Table J 4 Underwriting

Type	Sampled	N/A	Pass	Fail	%Pass
Individual Files	**60**	**0**	**60**	**0**	**100%**
Small Group Files	**60**	**0**	**60**	**0**	**100%**
TOTAL	**120**	**0**	**120**	**0**	**100%**

Recommendations: **None**

Standard J 5 ***NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 5.***
The company underwriting practices are not to be unfairly discriminatory. The company adheres to applicable statutes, rules and regulations, and company guidelines in selection of risks.
W.Va. Code § 33-16D-4

Comments: Review methodology for this standard is generic, sample and electronic. This standard has an indirect statutory requirement. It is necessary to provide insureds with appropriate protections from unfair discrimination. Inconsistent handling of rating or underwriting practices, including requests for supplemental information, even if not intentional, can result in unfair discrimination. Concerns tested with this standard include:

- Underwriting decisions supported by data in the underwriting file.
- Consistent application of underwriting criteria.
- Company is following its underwriting guidelines.
- Underwriting guidelines are consistent with W. Va. Code.

Results: **Pass**

Observations: The Company's underwriting guidelines and samples of sixty (60) individual and sixty (60) "small group" underwriting files were reviewed to determine whether the Company refused to insure, continued to insure, or limited the coverage for any unfair discriminatory reason. The Company has not employed any unfairly discriminatory practices in this review. No exceptions were noted.

Recommendations: ***None***

Standard J 7 ***NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 7.***

File documentation adequately supports decisions made.

Comments: Review methodology for this standard is sample. This standard does not have a direct insurance statutory requirement. Proper documentation of files reduces the likelihood of unfair discrimination.

Results: **Pass**

Observations: The samples of sixty (60) individual and sixty (60) "small group" underwriting files do not reveal any adverse underwriting decisions. Documentation with respect to rate development and eligibility was adequate.

Table J 7 Underwriting

Type	Sampled	N/A	Pass	Fail	%Pass
Individual Files	60	0	60	0	100%
Small Group Files	60	0	60	0	100%
TOTAL	120	0	120	0	100%

Recommendations: **None**

Standard J 8 *NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 8.*
Policies, riders and endorsements are issued or renewed accurately, timely and completely.
W.Va. Code § 33 -15-1 W.Va Code § 33 -16-1

Comments: Review methodology for this standard is generic and sample. Policies, riders and endorsements should be issued timely and consistent with the information contained in the underwriting file.

Results: Pass

Observations: The samples of sixty (60) individual and sixty (60) "small group" underwriting files were reviewed to determine whether the coverage issued was accurate and consistent with the information contained in the underwriting files and no alterations were made to applications. No exceptions were noted.

Table J 8 Underwriting

Type	Sampled	N/A	Pass	Fail	%Pass
Individual Files	60	0	60	0	100%
Small Group Files	60	0	60	0	100%
TOTAL	120	0	120	0	100%

Recommendations: None

Standard J 9 *NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 9.*
Rejections and declinations are not unfairly discriminatory
W.Va. Code § 33-16D-5 W.Va. Code § 33-11-7(b)

Comments: Review methodology for this standard is sample. This standard has a direct insurance statutory requirement to determine if the company uses reasons for rejection/declination that are not discriminatory and that the company provides such reasons to the policyholder where required. Concerns tested with this standard include:

- The company is following its Internal Underwriting guidelines.
- Underwriting practices are not unfairly discriminatory

Results: **Pass**

Observations: The Company was requested to provide samples of fifty-six (56) group and sixty-two (62) individual declined underwriting files. The examiners were unable to review group declinations. The Company indicated they decline very few groups and they do not track the declinations in their database.

The Company provided six (6) individual underwriting files. The Company discards declined underwriting files after six (6) months of retention. The Underwriting Department takes all information and enters it into a database and then shreds the documents. The database has detailed information. The Company provided computer screen prints of the remaining fifty six (56) declined individual files. The reasons for declinations were not unfairly discriminatory and were in accordance with Company guidelines.

However, seventeen (17) applications received subsequent to May 6, 2005 were subject to and in violation of Legislative Rule 114-15-4.3 which requires declined underwriting files be maintained for the lesser of the date from the previous examination or the current calendar year plus five (5) additional calendar years.

Recommendations: It is recommend the Company adopt and implement procedures to ensure declined underwriting files are retained in compliance with Legislative Rule 114-15-4 which requires declined underwriting files be maintained for the calendar year plus 5 additional calendar years.

Standard J 10 *NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 10.*
Cancellation/non-renewal/discontinuance notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract.
W.Va. Code § 33-16D-5

Comments: An enrollee shall be given thirty (30) days notice of any cancellation or nonrenewal and the notice shall include the reasons for the cancellation or nonrenewal. Additionally, health insurers shall furnish Certificates of creditable coverage, without charge, for individuals covered under a health benefit plan when either the group or individual terminates from the plan.

Results: **Pass**

Observations: A sample of sixty four (64) "small group" cancellations were tested to determine if insureds were properly notified of cancellation. The notifications to the insureds were timely and contained specific reasons for cancellation. Certificates of creditable coverage were issued when appropriate. No exceptions were noted.

Table J 10 Underwriting and Rating Sample Results

Type	Sampled	N/A	Pass	Fail	%Pass
2003-2005 Cancellations	64	0	64	0	100%

Recommendations: **None**

Standard J 11 *NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 11.*
Cancellation practices comply with policy provisions, HIPAA , and state laws.

***Comments*:** Review methodology for this standard is sample. Companies may not cancel or fail to renew the coverage of an enrollee except for: (a) Failure to pay the charge for health care coverage; (b) termination of the group plan; (c) enrollee moving out of the area served; (d) enrollee moving out of an eligible group; or (e) other reasons established in rules promulgated by the commissioner.

Results: Pass

Observations: A sample of sixty four (64) "small group" cancellations were tested and it was determined the reasons for cancellation were in compliance with policy provisions and applicable State law. The sample contained the following cancellation reasons; 46 for non payment of premium, 10 groups did not have enough subscribers to meet participation requirements, 6 groups requested cancellation, 1 group moved out of state and one group failed to provide necessary documentation.

Table J 11 Underwriting and Rating Sample Results

Type	Sampled	N/A	Pass	Fail	%Pass
2003-2005 Cancellations	64	0	64	0	100%

Recommendations: **None**

Standard J 12 *NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 12.*
Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

***Comments*:** Review methodology for this standard is sample. Companies are required to return unearned premium in a timely manner.

Results: Pass

Observations: The sample of "small group" cancellations was tested to determine if unearned premium was correctly calculated. Most cancellations were for non-payment of premium. The Company did correctly calculate unearned premium in all cases where unearned premium was received. Unearned premium was returned timely. No exceptions were noted.

Recommendations: **None**

Standard J 14 *NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 14.*
Pertinent information on applications that form a part of the policy are complete and accurate.

Comments: Review methodology for this standard is sample. Applications should be signed and any changes to the application and supplements to the application should be initialed by the applicant.

Results: Pass

Observations: All applications contained in the individual new business, "small group" new business and "small group" cancellation samples were reviewed to determine they were signed and any alterations were initialed. No exceptions were noted.

Table J 7 Underwriting

Type	Sampled	N/A	Pass	Fail	%Pass
Individual Files	**60**	**0**	**60**	**0**	**100%**
Small Group Files	**60**	**0**	**60**	**0**	**100%**
TOTAL	**120**	**0**	**120**	**0**	**100%**

Recommendations: **None**

Standard J 15 ***NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 15.***
Company complies with the provisions of COBRA and/or continuation of benefits procedures contained in policy forms, statutes, rules and regulations.

Comments: Review methodology for this standard is generic. The Company should have procedures for providing information pertaining to continuation of benefits, for processing applications for continuation of benefits, and for notification to insureds.

Results: Pass

Observations: The Company's written procedures for continuation of benefits were reviewed for the above noted criteria. The procedures in place were adequate and in compliance with COBRA.

Recommendations: **None**

Standard J 16 ***NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 16.***
The company complies with proper use and protection of health information in accordance with statutes, rules, and regulations.

Comments: Review methodology for this standard is generic. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: Pass

Observations: The Company has procedures in place for the proper use of protected health information including underwriting guidelines for AIDS and the use of medical/lifestyle questions.

Recommendations: **None**

Standard J 17	*NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 17.*
The company complies with the provisions of HIPAA and state laws regarding limits on the use of pre-existing exclusions.	*W.Va. Code § 33-16D-5 & W.Va. Code St. R. 114-54-1 et seq.*

***Comments*:** Review methodology for this standard is sample and generic. This standard has a direct statutory requirement. A health insuring entity may impose a pre-existing condition exclusion with respect to an individual covered under a health benefit plan only if medical advice, diagnosis, care or treatment for the condition was recommended or received within the six-month period which began on the six-month anniversary date preceding the individual's enrollment date and ends on the enrollment date. Medical advice, diagnosis, care or treatment is taken into account only if it is recommended by or received from, a medical care provider. Genetic information is not a pre-existing condition unless a condition related to the information has been diagnosed. Pregnancy may not be excluded from coverage as a preexisting condition. Unless a child has had a significant break in coverage, no pre-existing condition exclusion may be imposed with regard to a child who:

- Is covered under any creditable coverage as of the last day of the thirty-day period beginning with the date of birth; or
- Is adopted or placed for adoption before attaining the age of eighteen years and who, as of the last day of the thirty-day period beginning on the date of the adoption or placement for adoption, is covered under creditable coverage.

A pre-existing condition exclusion may not extend for more than a twelve-month period (eighteen-month period for a late enrollee) beginning on an individual's enrollment date. Any preexisting condition exclusion otherwise applicable to an individual shall be reduced by the number of days of creditable coverage the individual has as of the enrollment date, as provided in W. Va. Code St R. §114-54-4 & § 114-54-5.

Results: **Pass**

Observations: The Company does not apply pre-existing condition exclusions (PECE) on individuals who meet the 12-month creditable coverage criteria as defined by HIPAA. PECE is waived on all initial new group enrollment for 10+ groups. PECE is applied to 2-9 new group enrollment, subject to the individual's portability rights. PECE generally is applied to subsequent enrollment enrollees subject to portability rights. The Company handled all cases of pre-existing conditions in the individual underwriting files in accordance with State law and HIPAA. No exceptions were noted.

Table J 17 Underwriting and Rating Sample Results

Type	Sampled	N/A	Pass	Fail	%Pass
Small Group files	60	0	60	0	100%

Recommendations: **None**

Standard J 18	*NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 18.*

The company does not improperly deny coverage or discriminate based on health status in the group market or against eligible individuals in the individual market in conflict with the requirements of HIPAA.

W.Va. Code St. R. 114-54-1 et seq.

Comments: Review methodology for this standard is sample and generic. No individual eligibility determination may be made using health status, physical or mental medical condition, claims experience, receipt of health care, medical history, genetic information, evidence of insurability, or disability. A special enrollment period must be allowed for changes in family status including a spouse that declined coverage at open enrollment due to "other coverage" and subsequently lost coverage. Similarly situated individuals cannot be charged a higher premium, pay higher contribution amounts, or have limitations or restrictions on their benefits or coverage.

Results: Pass

Observations: A review of sixty (60) "small group" underwriting files indicated the Company did not deny coverage or rate up individuals within a group for a mental medical condition, claim experience, receipt of health care, medical history, genetic information, or disability.

Table J 18 Underwriting and Rating Sample Results

Type	Sampled	N/A	Pass	Fail	%Pass
Individual files	60	0	60	0	100%

Recommendations: None

Standard J 19 *NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 19.*

The company issues coverage that complies with guaranteed issue requirements of HIPAA and related state laws for groups of 2 to 50.

W.Va. Code § 33-16D-4

Comments: Review methodology for this standard is sample and generic. "Small group" coverage must be issued on a guaranteed issue basis for all products, subject to participation and contribution requirements. No eligible employee or dependent may be excluded on the basis of health status or related factors.

Results: **Pass**

Observations: The Company did not deny coverage to any groups with two (2) to fifty (50) eligible employees.

Recommendations: None

Standard J 19 A *NAIC Market Conduct Examiners Handbook – Chapter XVII, § J, Standard 19.*

The company issues coverage that complies with guaranteed issue requirements with respect to Association Health Plans

W.Va. Code § 33-16D-4(b) W. Va. Code 33-16-2(2) W.Va. Code St. R. 114-39-1et seq

Comments: Review methodology for this standard is sample and generic. Prior to offering a group accident and sickness insurance policy to an association, an insurer must submit evidence to the Commissioner that the association meets the requirements under W. Va. Code 33-16-1a(a)

or 33-16-2(b). The Commissioner shall review the evidence and may request additional evidence as needed.

Results: Fail

Observations: The examiners reviewed the entire population of two (2) associations. Concerns tested the Company's compliance with the guaranteed issue requirement of W.Va. Code §33-16D-4(b) or requirements of bona fide associations in W.Va. Code §33-16-2(2) and filing requirements for bona fide associations outlined by W. Va. Code St. R.§§ 114-39-9.1 and 9.2 Neither association plan was filed or updated as required by W. Va. Code St. R. § § 114-39-9.1 and 9.2. Since neither association met these filing requirements, each member group was subject to guaranteed issue requirements under W. Va. Code §33-16D-3. West Virginia Code §33-16D-4(b) states "each carrier shall accept every small employer that applies for coverage under a health benefit plan, unless such health benefit plan is made available only through a bona fide association." This practice enabled the Company to improperly reject four (4) small employer groups (2-50 eligible) during the examination period.

Table J 19A Declined Association Groups

Type	Sampled	N/A	Pass	Fail	%Pass
Individual files	4	0	0	4	0%

Recommendations: It is recommended the Company file bona fide association guidelines with the Insurance Commissioner consistent with W.Va. Code §33-16-2(2) and W. Va. Code St. R.§§ 114-39-9.1 and 9.2 and meet all guaranteed issue requirements contained therein. It is also recommended that the Company actively solicit enrollment from any association member who was previously rejected to the extent that solicitation is consistent with bona fide association underwriting guidelines approved by the Commissioner.

L. CLAIMS PRACTICES

Comments: The evaluation of standards in this business area was based on the Company's responses to information requested by the examiner, discussions with the Company's staff, electronic testing of claim databases, and file sampling during the examination process. This portion of the examination is designed to provide a view of how the Company treats claimants and whether that treatment complies with applicable statutes and rules.

Claims to the Company usually arise from a provider who delivers services to a member of the Company. These providers are usually under contract to the Company to provide certain services reimbursed at contracted levels).

Standard L 3 *NAIC Market Conduct Examiners Handbook - Chapter XVII, § L, Standard 3.*
Claims are resolved in a timely manner.
W.Va. Code § 33-45-2

Comments: Review methodology for this standard is generic, sample and electronic. This standard has a direct insurance statutory requirement. In a Company setting, failure to resolve claims timely can result in a migration of providers from the network, with resultant disruption of service to members. W.Va. Code §33-45-2 requires claim resolution or written explanation

within thirty (30) days of receipt of claim if submitted electronically and forty (40) days if submitted by other means.

Results: **Pass**

Observations: The examiners electronically reviewed the entire population of the Company's adjudicated claims between January 1, 2005 and December 31, 2005 for adherence to the aforementioned criteria. The Company either paid or denied 92.46% of its claims within thirty (30) days. The average time to settle a claim for 2005 was 15.16 calendar days.

Table L 3 (a) Total Claims Settled

Days to Resolution	Number of Claims	Percent of Total
0 - 30	1,310,120	92.46%
31 - 40	62,771	4.43%
41 - 60	7493	0.53%
61 - 180	1,162	0.08%
181 - 365	14	0.%
Over 365	27	0.%
Total	1,416,950	100.00%

The Company converted to a new computer claim handling system on August 1, 2005. The Company improved the average time to settle a claim from 16.73 calendar days prior to conversion to 11.88 calendar days post conversion.

Table L 3 (b) Total Claims Settled Before Conversion

Days to Resolution	Number of Claims	Percent of Total
0 - 30	896,488	97.19%
31 – 60	22,691	2.46%
61 - 90	2,688	0.29%
91 - 180	411	0.04%
181 - 365	14	0.%
Over 365	27	0.%
Total	957,682	100.00%

Table L 3 (c) Total Claims Settled After Conversion

Days to Resolution	Number of Claims	Percent of Total
0 - 30	413,632	90.06%
31 – 60	40,080	8.73%
61 - 90	4,805	1.05%
91 - 180	751	0.16%
181 - 365	0	0.%
Over 365	0	0.%
Total	459,268	100.00%

Additionally, the examiners reviewed a sample of one hundred and twenty (120) paid claims and one hundred and twenty (120) closed-without-payment claims to verify accuracy of the electronic data and to verify compliance with resolution times required by W.Va. Code §33-45-2.

Table L 3 (d) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims	120	0	117	3	97.5%
Closed-Without-Payment Claims	120	0	114	6	95.0%
TOTAL	240	0	231	9	96.3%

Recommendations: **None**

Standard L 5 *NAIC Market Conduct Examiners Handbook - Chapter XVII, § L, Standard 5.*
Claim files are adequately documented.
W. Va. Code St. R. § 114-14-3. 1

Comments: Review methodology for this standard is generic, sample, and electronic. This standard has a direct statutory requirement. Without adequate documentation, the various periods required by statute and/or regulation cannot be demonstrated. West Virginia requires that an insurer's claim files contain all notes and work papers pertaining to the claim in such detail that such pertinent events and the dates of such events can be reconstructed.

Results: **Pass**

Observations: All claim files are maintained electronically on the Company's computer claim handling system. Claim files included claim forms, scanned documents, adjuster's notes and an EOB. The examiners reviewed the samples of one hundred and twenty (120) paid claims and one hundred and twenty (120) closed-without-payment claims to determine if claim file documentation sufficiently supported or justified the ultimate claim determination. Claim files contained adequate documentation. No exceptions were noted.

Table L 5 Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims	120	0	120	0	100%
Closed-Without-Payment Claims	120	0	120	0	100%
TOTAL	240	0	120	0	100%

Recommendations: **None**

Standard L 6 *NAIC Market Conduct Examiners Handbook - Chapter XVII, § L, Standard 6.*
Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations. *W.Va. Code § 33-11-4 (9)*

Comments: Review methodology for this standard is generic and sample. This standard has a direct insurance statutory requirement. Claim files should be handled in accordance with policy provisions and the requirements of the Health Insurance Portability and Accountability Act (HIPAA).

Results: **Pass**

Observations: The examiners reviewed Company procedures and policy provisions and a sample of one hundred and twenty (120) paid claims to determine compliance with policy provisions and the requirements of HIPAA. No exceptions were noted.

Table L 6 Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims	120	0	120	0	100%

***Recommendations*:** **None**

Standard L 7 ***NAIC Market Conduct Examiners Handbook - Chapter XVII, § L, Standard 7.***
Company claim forms are appropriate for the type of product.

Comments: Review methodology for this standard is generic. This standard does not have a direct insurance statutory requirement.

Results: **Pass**

Observations: The review of the claim forms used by the Company determined the forms included the appropriate content including a fraud warning statement. The review further determined the claim forms were used appropriately. No exceptions were noted.

Recommendations: **None**

Standard L 8 ***NAIC Market Conduct Examiners Handbook - Chapter XVII, § L, Standard 8.***
Claim files are reserved in accordance with the Company's established procedures.

Comments: Review methodology for this standard is generic. This standard does not have a direct insurance statutory requirement.

Results: **Pass**

Observations: Company procedures were reviewed to determine if reserve adjustments are made, and if reserves are adequate. Claims are not reserved on an individual basis. The claims reserving process begins with the estimation of claims activity. Reserve adjustments are based on these estimates, and are performed monthly as part of the Company's monthly closing process. In order to match income and the related claims liability, estimates are calculated to approximate the inventory on the claims handling system as well as claims incurred but not yet reported. Claim reserving practices appear to be adequate. No exceptions were noted.

Recommendations: **None**

Standard L 9 ***NAIC Market Conduct Examiners Handbook - Chapter XVII, § L, Standard 9.***

Denied and closed-without-payment claims are handled in accordance with policy provisions, HIPAA and West Virginia law.

W.Va. Code § 33-11-4-(9)

Comments: Review methodology for this standard is sample and generic. This standard does not have a direct insurance statutory requirement. Claim files should be handled in accordance with policy provisions and the requirements of the Health Insurance Portability and Accountability Act (HIPAA). The Company should have procedures in place, which assure that no exclusions of coverage are imposed for a pre-existing condition where HIPAA pre-existing condition exclusion maximums have been reached, or claims denied where an individual has periods of creditable coverage that should be credited from prior coverage. The claims were reviewed for the following:

- Claims are not inappropriately denied
- Deductibles and Co-payments and Coinsurance were properly applied
- Explanation of Benefits correctly explained member responsibility

Results: **Pass**

Observations: A sample of one hundred twenty (120) closed-without-payment claims was reviewed to verify claims were handled appropriately. The review found that one claim was improperly denied. The Company made restitution to the provider prior to the conclusion of the examination.

Table L 9 Closed Without Payment Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Closed-Without-Payment Claims	120	0	119	1	99.2%

Recommendations: **None**

Standard L 10 *NAIC Market Conduct Examiners Handbook - Chapter XVII, § L, Standard 10.*
Canceled benefit checks and drafts reflect appropriate claim handling practices.

Comments: Review methodology for this standard is sample. This standard does not have a direct insurance statutory requirement. Concerns tested with this standard include:

- Payments are to the correct payee and in the correct amount
- Whether checks purport to release the Company from further liability

Results: **Pass**

Observations: A random sample of ten (10) paid claim files was reviewed from the listing of claims paid during the period under examination. The Company does not typically use drafts in payment of its claims. Payment of claims is made via check or electronically. It also does not use releases. Claim payments are made primarily to the provider on a billing basis rather than to a member on a reimbursement basis, therefore, releases are not needed.

Table L 10 Canceled Benefit Checks

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims	10	0	10	0	100%

Recommendations: **None**

Standard L 11 *NAIC Market Conduct Examiners Handbook - Chapter XVII, § L, Standard 11.*
Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.
W.Va. Code § 33-11-4(9)(g)

Comments: Review methodology for this standard is sample. This standard does have a direct insurance statutory requirement.

Results: **Pass**

Observations: The Company provided claim files for the total population of four (4) litigated claims for the examination period. A review of the claims determined claim handling was not problematic and did not compel claimants to institute litigation in order to pursue benefits. No exceptions were noted.

Recommendations: **None**

Standard L 12 *NAIC Market Conduct Examiners Handbook - Chapter XVII, § L, Standard 12.*
The company complies with the requirements of The Newborns' and Mothers' Health Protection Act of 1996.

Comments: Review methodology for this standard is generic. This standard has a direct insurance statutory requirement. The act requires that all companies offering health coverage for hospital stays in connection with the birth of a child must provide health coverage for a minimum of forty-eight (48) hours for a normal vaginal delivery and ninety-six (96) hours for a caesarian section. (Coverage is required for both the mother and the newborn). West Virginia has adopted the federal law by statute. Deductibles, co-insurance and other cost sharing methods may be applied.

Results: **Pass**

Observations: Benefits outlined in member certificates and handbooks were in accordance with the Newborns' and Mothers' Health Protection Act. No deviation from the Law was detected in claim testing. No exceptions were noted.

Recommendations: **None**

Standard L 13 *NAIC Market Conduct Examiners Handbook - Chapter XVII, § L, Standard 13.*
The Company complies with the requirements of the Mental Health Parity Act of 1996.

Comments: Review methodology for this standard is generic. This standard has a direct insurance statutory requirement. Mental Health Parity Act (MHPA) requirements do not apply to: (1) small employer groups of 2 to 50 employees or (2) any group health plan where the required federal notice has been filed documenting that costs increased 1% or more due to the application of the MHPA requirements for at least six (6) consecutive months (special rules

apply to plans that are in a combined pool for rating purposes). West Virginia has adopted the federal law by statute. The law does not affect the terms and conditions (such as cost sharing, limits on numbers of visits, days of coverage, and requirements relating to medical necessity) relating to the amount, duration or scope of mental health benefits. MHPA protections apply to benefits for mental health services as defined under the terms of the Company contract or policy, but do not extend to benefits for substance abuse or chemical dependency. MHPA does not apply to any policies sold in the individual market.

Results: **Pass**

Observations:
The Company Explanations of Coverage and Member Handbooks were reviewed for adherence to the above criteria and Company procedures and policies were reviewed to verify that the annual or lifetime dollar limits on mental health benefits are not lower than the dollar limits for medical and surgical benefits. No exceptions were noted.

Recommendations: **None**

SUMMARY OF RECOMMENDATIONS

Recommendation B-4
It is recommended the Company adopt and implement written procedures in accordance with W.Va. Code St. R § 114-14-5.2, which requires a complete written response to Insurance Commissioner inquiries within 15 working days. A "complete written response" addresses all issues raised by the complainant or the Commissioner and includes copies of any documentation requested.

Recommendation F-5
It is recommended the Company document the actual reason for producer terminations.

Recommendation J-1
It is recommended that future rate filings contain more detail with respect to the methodology of determining the durational adjustment (tier) for both new business and renewals. If any judgmentally deviations are used, the filing should explain what acceptable criteria can be used for this type of deviation and with whom the authority rests to make this decision.

Recommendation J-19 A
It is recommended the Company file bona fide association guidelines with the Insurance Commissioner consistent with Chapter 33 and Title 114 of the W.Va. Code of State Rule and meet all guaranteed issue requirements contained therein. It is also recommend that the Company actively solicit enrollment from any association member who was previously rejected to the extent that solicitation is consistent with bona fide association underwriting guidelines approved by the Commissioner.

ACKNOWLEDGMENT

The examiner would like to acknowledge the cooperation and assistance extended by the Company during the course of the examination.

In addition to the undersigned, Mark A. Hooker, AIE, CPCU, JoAnn Wheaton and Charles L. Swanson also participated in the examination.

Timothy R Nutt, CIE
Examiner-in-Charge

EXAMINER'S AFFIDAVIT

State of West Virginia

County of Kanawha

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

Timothy R. Nutt, being duly sworn, states as follows:

1. I have the authority to represent West Virginia in the examination of Highmark of West Virginia, Inc. DBA Mountain State Blue Cross Blue Shield.

2. I have reviewed the examination work papers and examination report, and the examination of Highmark of West Virginia DBA Mountain State Blue Cross Blue Shield was performed in a manner consistent with the standards and procedures outlined in the NAIC Market Conduct Examiner's Handbook and the laws of West Virginia.

The affiant says nothing further.

Timothy R. Nutt, CIE
Examiner in Charge

Subscribed and sworn before me by Timothy R. Nutt, on this 11th day of December 2006.

Notary Public

My commission expires My Commission Expires March 21, 2015