REPORT ON TARGET

MARKET CONDUCT EXAMINATION

OF

UNIFIED LIFE INSURANCE COMPANY

MCE 14-06

AS OF DECEMBER 31, 2014

BY REPRESENTATIVES OF THE

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY AND
ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE

Report Date: April 21, 2015

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SALUTATION

April 13, 2015

Director Lori Wing-Heier
Director of Insurance
Department of Commerce, Community and Economic Development
Division of Insurance
333 Willoughby Avenue
Juneau, Alaska 99801

Dear Director Wing-Heier:

Pursuant to your instructions and in accordance with the provisions of Alaska Statute AS 21.06.120, Risk & Regulatory Consulting, LLC (RRC) assisted the Division of Insurance in conducting a target market conduct examination of the market conduct activities of the Apollo MT, LLC Program of:

UNIFIED LIFE INSURANCE COMPANY
(NAIC # 11121)
7201 West 29th #300
Overland Park, Kansas 66213

FOREWORD

This target examination reflects the Alaska insurance activities of Unified Life Insurance Company (Unified) pertaining to the Apollo MT, LLC (Apollo) Program (Apollo Program). The examination was performed jointly by examiners from the Alaska Division of Insurance (Division) and an Examiner-in-Charge (EIC) from Risk & Regulatory Consulting, LLC (RRC) (collectively, the Examiners). RRC personnel participated in this examination in their capacity as market conduct examiners. RRC provides no representations regarding questions of legal interpretation or opinion. Determination of findings constituting violations or apparent violations is the sole responsibility of the Division. All statutory citations or any other legal interpretations included herein are provided by the Division for inclusion in this Report of Examination (Report). In reviewing materials for this Report, the Examiners relied upon records provided by Unified or Apollo. In general, the Report is a report by exception. Therefore, much of the material reviewed will not be contained in this Report, as reference to any practices, procedures or files that resulted in no findings have been omitted.

SCOPE OF EXAMINATION

The target examination commenced on March 4, 2014, and covered the period of January 1, 2008 through December 31, 2013, with analyses of certain operations of Unified being conducted through March 2, 2015. The examination resulted from an Order dated August 23, 2013 by the Division to Apollo and Eric L. Stirling involving the Apollo Program. All comments made in this Report reflect conditions observed during the period of the examination.

The Division called the examination and performed it in accordance with Market Regulation standards established by the Division and procedures established by the National Association of Insurance Commissioners (NAIC). Target areas included standards relating to third party administrators, complaint handling, privacy, sales and marketing, underwriting and claims handling practices.

EXECUTIVE SUMMARY

A target market conduct examination of the Apollo Program was performed to determine compliance with Alaska statutes and administrative code. Under the Apollo Program Unified Life issued insurance policies to Apollo members that provided coverage for certain costs associated with emergency air medical transportation. Apollo was based in Fairbanks, Alaska with coverage across the Air Medical Resource Group (AMRG) network, including Alaska, Hawaii, Utah, Arizona, New Mexico, Colorado, Wyoming, Montana, North Dakota, Michigan and Puerto Rico. Premiums for the emergency air medical transportation insurance coverage were $45 for a traveler's policy and $125 annually for a standard policy. A portion of the funds collected ($25) was used to support a 24-hour nurse and physician toll-free call-in number. Claims from contracted providers were paid utilizing the current prevailing Medicaid rate at date of service. All other claims were paid leaving a zero balance to the policyholder. Applicants could apply for coverage by telephone, mail and Internet. Applications for insurance did not require underwriting as all applicants were issued a policy and all valid claims were paid.

As of June 2014, the Apollo Program has been terminated. Therefore, there have been no further sales since the termination of the program. The program is functioning in runoff at this point in time.

Neither Apollo nor Unified performed periodic audits of the Apollo Program during the examination period to verify compliance with Alaska laws and contractual obligations. Unified also disclosed that there are no written procedures for policyholder services, underwriting, and claims.

Findings relating to the maintenance of records were identified as Unified failed to retain key documents related to underwriting transactions and claims processing. Failure to retain or produce key claim documents prevented the Examiners from completely assessing whether claims were paid timely and accurately. The Examiners also identified a finding relative to the prompt payment of claims as well as failure to provide evidence that an Explanation of Benefits (EOB) or statement of coverage under which the claim payment was made was provided to the claimant.

The following table summarizes key findings. Specific details are found in each section of the Report.

Table of Apparent Violations

Criticism #	Statute/Rule	Description of Apparent Violation	Population	Files Reviewed	Number of Violations	Error Ratio
Underwriting #1 and #4	AS 21.09.320	Failure to maintain a copy of the application for insurance	34,237	50	23	46%
Underwriting #1 and #4	AS 21.09.320	Failure to maintain merchant or email receipts for electronic transactions	34,237	50	5	10%
Underwriting #1 and #4	AS 21.09.320	Inadequate email receipts	34,237	50	2	4%
Underwriting #1 and #4	AS 21.09.320	Failure to provide group insurance contract	34,237	50	1	2%
Underwriting #1 and #4	AS 21.42.120	Use of form containing disapproved language	34,237	50	29	58%
Claims #2 and #5	AS 21.36.495	Failure to pay claims within 30 days of receipt	691	100	1	1%
Claims #2 and #5	AS 21.36.495	Examiners were unable to verify Medicaid rates paid	691	100	22	22%
Claims #2 and #5	AS 21.36.495	Claim not paid	691	100	1	1%
Claims #2 and #5	AS 21.36.125	Failure to send Explanation of Benefits to claimants	691	100	100	100%
Claims #2 and #5	AS 21.09.320	Failure to provide evidence of transporter agreement	691	100	35	35%
Claims #2 and #5	AS 21.09.320	Failure to provide claim form	691	100	15	15%
Claims #2 and #5	AS 21.09.320	Unable to confirm whether additional information was requested to assist with claim processing	691	100	73	73%

THIRD PARTY ADMINISTRATORS

Unified used the services of J. Allan Hall (Hall) as a third party administrator (TPA) of the Apollo Program during the examination period. Hall collects premium, pays claims, handles reinsurance activities and premium tax submissions for the Apollo Program on behalf of Unified. Hall is licensed as a TPA in Indiana. As there is reciprocity between Indiana and Alaska, Hall is authorized as a TPA in the state of Alaska.

COMPLAINT HANDLING

The Examiners requested Unified provide a population of all consumer complaints and complaints submitted to the Division during the examination period. Unified responded that no complaints were received relative to the Apollo Program during the examination period. The Division reviewed its complaint records and confirmed that there were no complaints submitted to the Division relative to the Apollo Program during the examination period.

Although no complaints were received during the examination period, Apollo also responded on behalf of Unified indicating that if complaints or inquiries are received, procedures for all telephone complaint inquiries require handling by office staff or a producer depending upon the nature of the complaint. If the complaint cannot be resolved immediately, the complaint is referred to a producer, medical director, or appropriate Apollo Program partner.

PRIVACY

Unified's privacy of financial and health information policies and procedures for the Apollo Program are administered by Apollo. Apollo provided privacy policies, procedures and disclosure notices utilized during the examination period for the Examiner's review. No irregularities, adverse trends, or unfair trade practices were noted in this section of the examination.

MARKETING

Sales and Advertising

The Examiners requested and reviewed all sales and advertising material provided by and in use by Apollo during the examination period including the Apollo web page at www.apollomt.com. No irregularities, adverse trends, or unfair trade practices were noted in this section of the examination.

UNDERWRITING

The Examiners reviewed Unified's underwriting practices to determine adherence to company guidelines and compliance with Alaska statutes and regulations. Review of the underwriting material provided by Unified disclosed that due to the nature of this product, no underwriting is performed. Insurance was issued on a non-medical basis and without questions related to health status.

The following findings and recommendations are based upon an examination of a random sample of 50 underwriting files from a population of 34,237 policies.

Maintenance of Records

Findings:

Unified is in apparent violation of the provisions of AS 21.09.320 based upon the examination of fifty (50) randomly selected underwriting files (policies), as follows:

1. Twenty-three (23) underwriting files (46.0% error rate) were not completed electronically and did not contain a copy of the application. Unified acknowledged the error and informed the Examiners that the error was due to the improper digital conversion of the paper applications.

2. Five (5) underwriting files (10.0% error rate) that were completed electronically did not capture the merchant receipt or email receipts that were to be sent to consumers as confirmation of the insurance transaction.

3. Two (2) underwriting files (4.0% error rate) did not contain adequate identifying information for the Examiners to confirm whether the email receipts were for the insured in the sample.

4. One (1) underwriting file (2.0% error rate) did not contain evidence of the group policy form. Unified provided the policy for the Alaska Boat Company. Unified could not provide the group insurance contract issued to this group, although there were group insurance contracts filed and approved with the Division.

Recommendations

1. Unified shall establish policies and procedures to maintain paper applications received and premium payment records.

2. Unified shall establish auditing procedures to ensure that contracts comply with maintenance of records laws.

Filing and Approval of Forms

Findings:

Unified is in apparent violation of the provisions of AS 21.42.120 based upon the examination of fifty randomly selected underwriting files (policies), as follows:

1. Twenty-nine (29) underwriting files (58.0% error rate) contained evidence that Unified used a version of form IPEMER 1-09K which was filed with but disapproved by the Division. Investigation

showed that the language in the issued policy was the same language in the original filed form that was disapproved by the Division. In late 2008, Unified resubmitted the form with corrections to the language and the form was subsequently approved.

Form IPEMER 1-09K contained the following language noted as being used by Unified that had been disapproved by the Division:

- ""Usual and Customary Charge" means the fee normally charged by providers with like training and experience for the same service in the specific geographic or associated economic area where the service is provided, but not to exceed a negotiated contracted amount, if applicable.

- Time of Payments of Claims. As soon as written proof of loss is received, we will pay all benefits then due for which we are liable.

- "Family Members" means the legal spouse of the Primary Insured and all natural born or legally adopted children living at the same residence as the Primary Insured, who have not yet reached their 21st birthday. Any children who are full-time students at an accredited school, college, or university will be covered until they reach their 25th birthday or become married, whichever shall first occur.

- Reimburse to the Company, to the extent of any payment the Company has made, for benefits received from such other insurance.

- Claim Forms. When we receive a notice of claim, we will send You forms for filing proofs of loss. If such forms are not sent to You within 15 days, You will meet the proof of loss requirements if You give us a written statement of the nature and extent of the loss within the time limit stated in Proof of Loss."

2. One (1) underwriting file (2.0% error rate) disclosed that Unified issued a policy to a Wyoming resident using form number IPEME 2010 WY, which was not filed with or approved by the Division. As Apollo operated solely in Alaska, issuance to a Wyoming resident should not have occurred.

Recommendations

1. Unified shall implement procedures to verify that only approved forms are issued to Alaska consumers.

2. Unified shall implement procedures to verify the location of applicants to ensure that only eligible applicants are issued coverage.

CLAIMS

The Examiners reviewed Unified's claim practices for compliance with Alaska statutes and regulations. The policy contract language states the following: "If the sending caregiver and the receiving Legally Qualified Physician determines that air transportation to a Hospital or medical facility is safe, appropriate and medically necessary to treat an unforeseen sickness or injury which is acute or life threatening and adequate medical treatment is not available in the immediate area, the transportation expense incurred will be paid for the lesser of the negotiated rate or the Usual and Customary Charges for Your transportation to the closest Hospital or medical facility capable of providing that treatment." The Examiners verified completion of a "transporter agreement", where applicable, to confirm that the transportation was deemed necessary.

Due to the lack of documentation, including support for claim receipt date and Medicaid payment rates, the Examiners were unable to test and quantify the timeliness and accuracy of claim payments in at least 73% of the claim files reviewed.

The following findings and recommendations are based upon an examination of a random sample of 100 claim files from a population of 691 claims.

Prompt Payment

Findings:

Unified is in apparent violation of the provisions of AS 21.36.495 based upon the examination of 100 randomly selected claim files, as follows:

1. One (1) claim (1% error rate) was not paid within thirty (30) calendar days after receipt. The Examiners were unable to determine whether Unified requested additional information to assist with processing the claim. In addition, Unified failed to pay interest on the claim resulting from the untimely processing. Unified informed the Examiners on February 10, 2015 that a check would be mailed on February 11, 2015, representing a subsequent payment of $10 to the City of Fairbanks SE. Unified provided the Examiners with a copy of the check to be sent. However, the City of Fairbanks informed the examiners on March 10, 2015 that they had not received the check and that the $10 had been paid by the claimant. Given that the outstanding balance of $10 had been paid by the claimant per the City of Fairbanks SE, the examiners requested the Company submit a check in the amount of $10 to the claimant for reimbursement. Unified chose to resolve the outstanding check issue by directly contacting the City of Fairbanks SE. Due to the City Fairbanks SE moving their offices and having phone issues, Unified was unable to speak with representatives of the City until April 3, 2015. At that time, the City of Fairbanks SE informed Unified of the details of the claim and that they had been paid in full. The Company, in order to resolve this issue, mailed the check to the claimant on April 8, 2015, without any request of proof of loss from claimant, and requested that the City of Fairbanks SE return or destroy the outstanding check.

2. Twenty-two (22) claims (22% error rate) had payment calculations that did not agree to the Medicaid rates in effect on the date of service. Unified failed to respond to the Examiner's request for the Medicaid rates in effect for the selected claims. As such, the Examiners were unable to verify the accuracy of the claim payment.

3. One (1) claim (1% error rate) disclosed that a replacement check had not been issued to replace the initial claim check that was voided by Unified because the check was outstanding. Unified informed the Examiners that the original claim check was voided because it was still outstanding. Upon further review, Unified decided to issue a replacement check." The Examiners contacted the provider on January 30, 2015, and was informed that they had not received payment for the ground transportation invoice. The provider had previously received payment for air transportation services and was unclear whether the ground transportation services were included in the negotiated air services payment. Unified informed the Examiners on February 10, 2015 that a check would be issued to the provider on February 11, 2015. The Examiners confirmed that the check was received by LifeMed on February 17, 2015.

Recommendation

1. The Company shall implement appropriate internal controls designed to ensure payment of claims in a timely manner and in compliance with relevant Alaska laws and regulations, the insurance contracts, any provider or other applicable agreements.

Unfair Claim Settlement Practices

Finding:

The Company is in apparent violation of the provisions of AS 21.36.125(11) based upon the examination of 100 claim files, as follows:

One hundred (100) claim files (100% error rate) did not contain evidence that an EOB or a statement of the coverage under which the claim payment was made was provided to the claimant. As the contract of insurance is with the insured and Unified is required to pay claims in accordance with the provisions of the contract, there is an obligation on the part of Unified to explain to insureds any payment, denial of payment, or partial payment made.

Recommendation

1. The Company shall develop and provide an EOB or statement of coverage under which a claim payment was made to all Alaska insureds prospectively in accordance with Alaska law. The EOB or statement of coverage form must be submitted to the Division for review and approval. Unified must certify to the Division that such procedures have been implemented.

Maintenance of Records

Findings:

The Company is in apparent violation of the provisions of AS 21.09.320 based upon the examination of 100 claim files, as follows:

1. Thirty-five (35) claim files (35% error rate) did not contain a copy of the transporter agreement required by the policy indicating that air transportation of the insured was deemed necessary and agreed upon by both the sending and receiving physician, or did not contain adequate information to determine if transportation occurred.

2. Fifteen (15) claim files (15% error rate) did not contain a copy of the claim form. Unified was unable to provide the submitted claim form. Unified informed the Examiners that, in some instances, claims were processed based upon the charter flight bill, or Unified provided reimbursement to another transportation service provider. In these instances, Unified only provided screenshots of the information used to process the claim.

3. The Examiners were unable to verify whether seventy-three (73) claim files (73% error rate) were paid within 30 calendar days after receipt as Unified failed to maintain evidence to determine whether additional information was requested to assist with processing the claim.

Recommendations

1. Unified shall review each claim in accordance with the policy provisions to ensure an adequate level of oversight is exercised and that the claim is handled in a manner consistent with policy provisions. .

2. Unified shall require completion of a claim form or comparable form for each claim submitted prior to processing the claim.

3. Unified shall document each request for additional information to assist with processing of claim files in writing and retain such information in the claim file in accordance with AS 21.09.320.

4. Unified shall retain complete records supporting each claim transaction in accordance with AS 21.09.320.

ADDITIONAL CONCERNS

During the review of underwriting and claims, the Examiners identified that Unified does not assign or utilize policy numbers to policies or claim numbers to claims on a consistent basis. For the most part, insureds and claimants are identified by their name. This approach is not consistent with standard industry practice or good internal controls. The Examiners recommend that Unified assign unique policy numbers to all policies issued and unique claim numbers to all claims submitted to ensure accurate reference can be made to policies and claims.

SUMMARY

The Market Conduct examination disclosed the following:

1. Underwriting

    a. Unified is in apparent violation of the provisions of AS 21.09.320 as:

        - 46% of the underwriting files were not completed electronically and did not contain a copy of the application.

        - 10% of the underwriting files that were completed electronically did not contain the merchant receipt or email receipts.

        - 4% of the underwriting files did not contain adequate identifying information for the Examiners to confirm whether the email receipts were for the insured in the sample.

        - 2% of the underwriting files did not contain evidence of the group policy form.

    b. Unified is in apparent violation of the provisions of AS 21.42.120 as:

        - 58% of the underwriting files contained evidence that a disapproved form was used.

2. Claims

    a. Unified is in apparent violation of the provisions of AS 21.36.495 as follows:

        - 1% of the claims were not paid within 30 calendar days after receipt. The Examiners were unable to determine whether Unified requested additional information to assist with processing the claim.

        - 22% of the claims had calculations that did not agree to the Medicaid rates in effect on the date of service.

        - 1% of the claims had not been paid after the initial claim check was voided.

b. Unified is in apparent violation of the provisions of AS 21.36.125 as 100% of the claim files did not contain evidence that an EOB or a statement of the coverage under which payment was made was sent to the claimant.

c. Unified is in apparent violation of the provisions of AS 21.09.320 as:

- 35% of the claim files did not contain a copy of the transporter agreement.
- 15% of the claim files did not contain a copy of the claim form.
- 73% of the claim files did not contain adequate documentation to determine whether the claim was paid timely in accordance with Alaska laws or additional information was requested by Unified to assist with processing of the claim.

CONCLUSION

An examination has been conducted on the market conduct affairs of Unified's Apollo Program for the period January 1, 2008 through December 31, 2013, with analyses of certain operations of Unified being conducted through March 2, 2015. This target examination was conducted in accordance with the Alaska Division of Insurance and the applicable National Association of Insurance Commissioners Market Regulation Handbook procedures in the areas of third party administrators, complaint handling, privacy, sales and marketing, underwriting, and claims practices.

In addition to the undersigned, Sarah Bailey and Jacob Lauten, Alaska Division of Insurance market conduct examiners, participated in this examination and in the preparation of this Report.

Respectfully submitted,

Ernest L. Nickerson, AIE, FLMI, RHU, ARM, AIRC, ACS, AMCM