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STATE OF ALASKA

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

DIVISION OF INSURANCE

In the Matter of: )  
)  
PROVIDENCE WASHINGTON )  
INSURANCE COMPANY, )  
Licensee. )

Case No. D01-08

**STIPULATED AGREEMENT AND ORDER**

The Division of Insurance ( the division) and Providence Washington Insurance Company (PW), the licensee in this case, stipulate and agree that the issues raised by the Accusation filed in this matter are resolved as follows:

**Background Facts**

1. On May 9, 2001, the division issued an Accusation against PW alleging violations of the unfair claims settlement practices statute AS 21.36.125. This Accusation arose out of a consumer complaint filed by Bruce Williams and involved PW's handling of his workers' compensation insurance claim. As a result of investigating Mr. Williams complaint, the division determined that PW had failed to make timely payment of medical bills incurred by the Mr. Williams on 22 different occasions. This determination was based on a letter from PW's claim supervisor dated August 27, 1998 stating that the company was responsible for the delays in payment and had paid penalties for late payment as calculated under the workers compensation

1 statutes. Based on these failures to timely pay claims, the division alleged violations of  
2 AS 21.36.125(6).  
3

4 2. PW responded to the Accusation denying any violations and  
5 requesting a hearing. In prehearing briefing, PW alleged that, notwithstanding the  
6 August 27, 1998 letter, PW did not untimely pay the medical bills as alleged in the  
7 Accusation, because PW was not legally obligated to pay the medical claims since the  
8 medical provider had not provided timely medical reports or evidence of work  
9 relatedness. PW also alleged that the issue of whether the medical claims had been paid  
10 timely was previously decided by the workers' compensation board in its 1998 decision  
11 on Mr. Williams case. Therefore, the division was precluded from deciding that issue in  
12 this proceeding.  
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14

15 3. In its briefing, the division disagreed that PW did not have a legal  
16 obligation to promptly pay the medical claims at issue in the Accusation. The division  
17 further disagreed that the medical claims at issue in the Accusation were intended to be  
18 within the scope of the workers compensation board's decision and/or that the division  
19 was bound by the decision with respect to determining whether PW had violated the  
20 insurance code by failing to promptly pay medical claims for which liability was  
21 reasonably clear.  
22  
23

24 4. In correspondence to PW since the filing of the Accusation, the  
25 division has also alleged violations of 3 AAC 26.050 related to prompt claims  
26

1 investigation and 3 AAC 26.030 related to required claim documentation that is subject  
2 to director examination. The alleged violation of 3 AAC 26.030 is based on PW's  
3 repeated failure to respond fully and completely to division's request for claim  
4 documentation. It is also based on PW's apparently inaccurate response in its August  
5 27, 1998 letter to the division stating the reasons for PW's delay in paying certain  
6 medical claims and stating PW had accepted responsibility for the delays. These  
7 statements are now contrary to the position PW has asserted in response to the  
8 Accusation. Violations of the above regulations were not alleged in the Accusation and  
9 would have been the subject of an amended accusation before hearing. PW also denies  
10 violations of these regulations.  
11  
12  
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14 5. With respect to the 22 medical claims at issue in the Accusation,  
15 PW agrees that three of the claims were untimely paid, even under the workers  
16 compensation code. The division agrees that four of the 22 claims presented an issue of  
17 whether the treatment was for a work-related injury, which would excuse a delay in  
18 payment. The parties are in dispute over the remaining 15 claims as to whether the  
19 claims were untimely paid. Specifically, the division disputes PW's contention that all  
20 of these remaining claims involve untimely submitted medical reports and, therefore,  
21 excused late payment. The division also disputes PW's contention that, even if the  
22 medical reports were untimely, PW did not have an obligation under the insurance code  
23 to promptly pay the medical claims. PW asserts that the terms of the Workers  
24 Compensation Act define timely payment of medical billings and that it has complied  
25  
26

1 with the Act's requirements as confirmed in the Board's Decision and Order of  
2 December 1, 1998. According to PW, the Act expressly relieves an insurer of the  
3 obligation to pay medical billings if a provider does not timely furnish reports outlining  
4 treatment. Both parties acknowledge, that a full evidentiary hearing would be needed to  
5 resolve the factual and legal issues with respect to the remaining claims in dispute.  
6

7  
8 6. Since the filing of the Accusation, another issue was raised relating  
9 to whether PW had local adjuster facilities as required under AS 23.30.030. PW,  
10 however, has confirmed in writing that it is using Crawford & Company, a licensed  
11 independent adjuster in Alaska to investigate and take part in any activities that require  
12 on-site investigation or claim handling.  
13

14 7. PW is no longer writing insurance in Alaska. Any workers  
15 compensation claims it is handling are purely run-off claims.  
16

### 17 Terms and Conditions

18 In resolution of the issues raised in or arising out of the Accusation, the  
19 parties agree to the following terms and conditions:

20 A. PW agrees to pay a civil fine of \$5,000 with \$4,000 suspended to  
21 resolve the alleged violations of AS 21.36.125(6), 3 AAC 26.030, 3 AAC 26.050, and 3  
22 AAC 26.100. The unsuspended portion of the civil fine of \$1,000 is payable within 10  
23 days of the director signing the order approving this agreement.  
24

25 B. In the event PW violates the insurance code or applicable  
26 regulations during the next two years, the suspended portion of the fine referenced in

1 paragraph A will be reinstated. PW also will be subject to any and all sanctions  
2 authorized by the insurance code including imposition of additional fines or penalties.

3  
4 C. PW will demonstrate in writing to the director that its current  
5 procedures for handling workers compensation claims meet the standards for prompt  
6 investigation and payment under the insurance and workers compensation statutes and  
7 regulations for all medical claims where required medical reports have been submitted  
8 to the company and where payment of benefits has not been controverted. PW agrees  
9 that it will not rely on PW's date stamp of receipt to determine if a report is untimely.  
10 Exhibit A, attached hereto, is PW's written documentation that is submitted to meet the  
11 requirements of this paragraph.  
12

13  
14 D. PW agrees to report to the division on at least a quarterly basis  
15 when it pays penalties under the workers compensation code for late paid claims for  
16 medical benefits.  
17

18 PROVIDENCE WASHINGTON  
INSURANCE COMPANY

19 DATED: 12/4/01

20 By: Michael Morris  
Its: Senior Claim Manager

21  
22 DATED: 12/10/01

23 DELISIO MORAN GERAGHTY & ZOBEL  
Attorneys for Providence Washington

24 By: Patricia L. Zobel  
25 Patricia L. Zobel  
26

1 DATED: 11/21/01

2 BRUCE M. BOTELHO  
3 ATTORNEY GENERAL  
4 Attorney for Division Staff

5 By: Signe P. Andersen  
6 Signe P. Andersen  
7 Assistant Attorney General

8 **ORDER**

9 IT IS ORDERED that this Stipulated Agreement and Order is adopted in  
10 full resolution of the issues in this case, and shall constitute the final order in this matter.

11 Dated this 12th day of December, 2001, at Anchorage, Alaska

12 Robert A. Lohr  
13 Robert A. Lohr  
14 Director, Alaska Division of Insurance  
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DEPARTMENT OF LAW  
OFFICE OF THE ATTORNEY GENERAL  
ANCHORAGE BRANCH  
1031 W. FOURTH AVENUE, SUITE 200  
ANCHORAGE, ALASKA 99501  
PHONE: (907) 269-5100

STATE OF ALASKA  
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT  
DIVISION OF INSURANCE  
3601 C STREET, SUITE 1324  
ANCHORAGE, ALASKA 99503-7900  
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STATE OF ALASKA  
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT  
DIVISION OF INSURANCE

In the Matter of: )  
 )  
Providence Washington )  
Insurance Company, )  
 )  
Licensee. )  
\_\_\_\_\_ )

Case No. D 01-08

ACCUSATION

Robert A Lohr, Director, Division of Insurance, Department of Community and Economic Development, states and alleges as follows:

1. This is a proceeding under the Alaska Insurance Code (Alaska Statutes Title 21) to adjudicate and impose penalties for statutory violations.
2. Providence Washington Insurance Company (PWIC) is authorized to transact the business of insurance in Alaska under Certificate of Authority No. 191, which was first issued January 6, 1938.

Count I

3. The director re-alleges and incorporates by reference paragraphs 1 and 2 above.
4. Upon investigation of a consumer complaint, the division has determined that PWIC engaged in violation of the Alaska insurance code. Specifically, during a period of time in 1997 and 1998, in a workers' compensation matter for insured, Bruce W. Williams, PWIC failed to make timely payment of medical bills incurred by the insured on 22 different occasions. These failures are in violation of AS 21.36.125(6) and subject PWIC to penalties under AS 21.36.320.

STATE OF ALASKA  
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT  
DIVISION OF INSURANCE  
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Count II

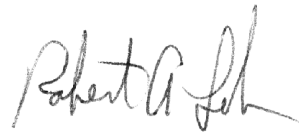
5. The director re-alleges and incorporates by reference paragraphs 1 through 4 above.

6. In a letter dated August 27, 1998 to Gloria Chauvin of the division, PWIC Claims Supervisor, Richard Wardrip, stated that: "of the (25) submissions we have paid penalties on (22)." Included with the letter was a chart listing the 25 submissions. Exhibit A. This letter and the chart further substantiate the violation of AS 21.36.125(6).

7. Under AS 21.36.320(d), a person the director determines has violated a provision of AS 21.36 is subject to an order of restitution and a penalty of \$2,500 for each violation or \$25,000 for engaging in a general business practice in violation of this chapter. Under AS 21.36.320(e), if the director also determines that the person charged knew or should have known that the person's conduct was in violation of this chapter, the person charged is also subject to a suspension or revocation of the person's license and a penalty of not more than \$25,000 for each violation or \$250,000 for engaging in a general business practice.

WHEREFORE, the Division of Insurance is seeking to adjudicate Providence Washington Insurance Company as having violated the Alaska Insurance Code by the activities described in Counts I and II above, and to impose appropriate penalties.

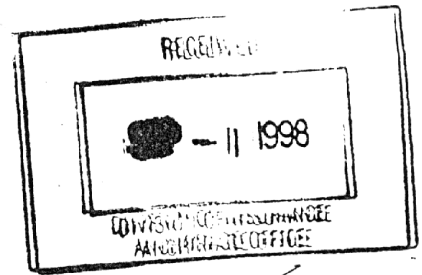
Dated this 9th day of May, 2001 in Anchorage, Alaska.



Robert A. Lohr  
Director



**Providence**  
**Washington**  
Insurance Companies  
EAST PROVIDENCE CLAIM DEPARTMENT  
88 BOYD AVE  
EAST PROVIDENCE RHODE ISLAND 02914  
(800) 556-3825 FAX: (401) 453-7354



August 27, 1998

Ms. Gloria Chauvin  
c/o State of Alaska  
Division of Insurance  
3601 C Street, Suite 1324  
Anchorage, Alaska 99503

RE: Bruce Williams  
DOL: 8/21/92  
File: A1WC026844  
Your File: 98-00088-GC

Dear Ms. Chauvin:

Thank you for your correspondence of 8/18/98. We have reviewed the information you provided and attached, please find a tabulated response to your inquiry. Of the (25) submissions we have paid penalties on (22). The amount of the penalties paid are listed in the penalty column with the corresponding charge and provider name. The penalties were paid in one draft which was processed on 6/2/98. Enclosed please find a copy of our payment screen along with a copy of a cover letter forwarded with the draft to Mr. William's Attorney, Daryl Jones, which was hand delivered on 6/9/98.

The delays in payment for services other than gastrointestinal, psychological, and CPAP were due to a delay in processing by Providence Washington Insurance. We have accepted responsibility for the delay and issued payment for the appropriate penalty amount. The penalty amount was tabulated based on the amount paid not the actual billed amount as previously listed in Ms. William's spreadsheet.

The charges for gastrointestinal, psychological treatment, and CPAP required additional documentation prior to making a payment determination. When the appropriate documentation was obtained causally relating the charges to the accident, Providence Washington issued payment.

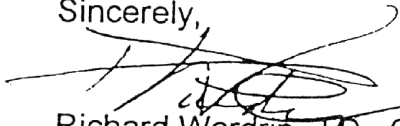
As requested, actual copies of the billing statements and payments tendered are attached for the charges of Dr. Dunn for the service date of 12/3/97 and Geneva Woods for service date of 8/15/97. No late payment was issued for the Geneva Woods billing as the statement was not received by Providence Washington until 2/2/98 and payment was issued on 2/3/98.

*Exhibit A-1*

Should additional information be required kindly contact our office by telephone or submit a written request, specifically stating the information desired.

Thank you for your continuing cooperation in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Richard Wardrip', written over a horizontal line.

Richard Wardrip, J.D., CCLA  
Claims Supervisor

# DE LISIO MORAN GERAGHTY & ZOBEL, P.C.

---

Law Offices

HAND DELIVERED  
12/10/01 3:45 PM  
ATTORNEY GENERAL'S OFFICE  
ANCHORAGE CIVIL DIVISION  
ANCHORAGE, ALASKA

Stephen S. DeLisio, *Of Counsel*  
Joseph M. Moran  
Michael C. Geraghty  
Patricia L. Zobel  
Gregory L. Youngmun  
David D. Floerchinger  
Deirdre Darling Ford  
John D. Harjehausen  
Dennis R. Acker  
Duane A. Petersen  
Sarah Diemer Moyer

December 10, 2001

Robert A Lohr, Director  
Division of Insurance  
3601 C Street, Suite 1324  
Anchorage, AK 99503-7900

Re: In Re: Providence Washington Insurance Co.  
Case No. D-01-08

Dear Director Lohr:

As part of our resolution of the accusation against Providence Washington Insurance Co., you have asked for information regarding the current procedures for Providence Washington in handling workers' compensation claims and specifically payment of medical billings. In discussing this with the adjuster, Chris Preston, I have determined that they are actually following a slightly modified procedure when dealing with Williams' claims directly so as to prevent any further problems with his case providers. When a medical billing arrives, if the medical reports are attached and the billing is for treatment by his usual providers and for his usual complaints, the medical bill and report are immediately faxed to CorVel, who is responsible for doing the audits of the medical billings for Providence Washington. If the billing and medical reports indicate that this is for unknown treatment or a new course of treatment, the documentation is faxed to counsel for Providence Washington for review and advice.

Within 24 to 48 hours of receipt of the bills and records, CorVel returns the medical audit by fax to the adjuster. Once the audit is received, the payment is made within one to two days. Thus, the medical billings for Mr. Williams' claim are being paid within approximately seven working days of receipt.

Exhibit No. A  
Page 1 of 3

Robert A. Lohr, Director

December 10, 2001

Page 2

With regard to the remainder of the Alaska Workers' Compensation claims, they are being paid within 20 days. Instead of faxing all of the material to CorVel, the communication is done by a mail-out to CorVel, and then the billings are paid upon return receipt.

With regard to prescriptions, if they are for the usual and customary treatment and are not new prescriptions, these are paid immediately to Geneva Woods in the case of Mr. Williams, or reimbursements are made immediately without respect to any audit. If they are for new prescriptions, then they are matched to medical reports or an inquiry is made of the physician who has prescribed the medication to ascertain the purpose of such medications. The same is true with regard to medical billings arriving without medical reports. In such a case, a letter is immediately sent to the provider, requesting information. Because Mr. Williams has expressed an interest in receiving notice when the providers do not send medical reports, copies of those inquiry letters are sent to the attorney for Mr. Williams, although the statute and regulations do not require such communications.

Under the current procedures, there should not be any further issue with regard to timely payment of these billings. As I previously noted to you, the three billings that we believe were late paid were an aberration in the procedure. At the time this late payment occurred, there was a change in the regulation wherein billings which had been due and payable within 37 days became due and payable within 21 days. This is a substantial change in procedure, given the fact that audits need to be performed and the adjusters are responsible to handle multiple files from multiple jurisdictions.

This fact also, I believe, contributed to the response that you received from Providence Washington when you began making inquiries regarding the complaint of Mr. and Mrs. Williams. In August of 1997, the Workers' Compensation Board approved a Partial Compromise and Release, which resolved all questions of any later payment and penalties that had occurred prior to that date. Thus, in Mr. Wardrips' first response, he noted that those should not any longer be at issue. This seems to have been a misunderstanding on his part, as the Division of Insurance has taken the position that although the issue may be resolved in the context of workers' compensation, that the Division still has the right and responsibility to investigate complaints in the context of compliance with the insurance code. Providence Washington does not disagree with that position, but had thought that they had resolved all complaints between themselves and Mr. and Mrs. Williams at

Robert A. Lohr, Director  
December 10, 2001  
Page 3

the time of the inquiries. There also may have been a difficulty with regard to responses to the Division because there had been a change in the regulations, as well as the fact that Providence Washington services many states.

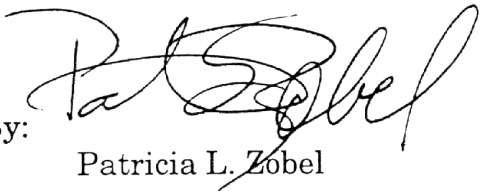
I would also note that Providence Washington is no longer in the market writing policies in Alaska. They, in fact, have not been selling policies in Alaska for many years. Thus, the claims that are still being processed under Alaska law are very limited and will continue to dwindle as those claims are resolved.

Providence Washington is dedicated to providing the benefits which are due and owing under this state's jurisdiction and as provided for in the policies for compensation. In some cases, such as Mr. Williams' case, appropriate adjustment of the policy does not always satisfy the injured worker. We believe that many of the disputes and misunderstandings in this claim have arisen because of basic misunderstandings on the parts of Mr. and Mrs. Williams as to what workers' compensation is supposed to provide in the way of benefits and their nonacceptance of the limitations of such a policy. This has made adjustment of their claim problematic and focusing on this matter I do not believe is reflective of Providence Washington's claims handling practices. In excess of \$500,000 worth of medicals have been paid in this case, and yet the complaints have centered on three to 11 different billings that occurred in 1997 and 1998. Further, when Mr. Williams took his claims to the Workers' Compensation Board, with very limited exceptions, the insurance carrier was exonerated in its claims handling practices. We believe all of this should be taken into account in the Division's agreement to resolve this claim. If you have questions, please do not hesitate to call me.

Yours truly,

DeLISIO MORAN GERAGHTY & ZOBEL, P.C.

By:

  
Patricia L. Zobel

Enclosure

cc: Mike Morris, Unit Manager  
55605

Exhibit No. A  
Page 3 of 3