

HUMANA INSURANCE COMPANY

## MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: September 18, 2006 through December 22, 2006

EXAMINATION OF: Humana Insurance Company

LOCATION: 1100 Employer Boulevard  
DePere, Wisconsin 54115

and

201 West Main  
Louisville, Kentucky 40202

PERIOD COVERED  
BY EXAMINATION: September 1, 2005 thru September 18, 2006

EXAMINERS: John J. Staples  
Alvin N. Hysler  
Danny L. Talkington  
Examiner in Charge

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I. SUMMARY

1. The Company was criticized under Section 500-80 of the Illinois Insurance Code (215 ILCS 5/500-80) for payment of commission to Producers/Entities not duly licensed.
2. The Company was criticized under Section 500-15 of the Illinois Insurance Code (215 ILCS 5/500-15) for allowing Producers/Entities to sell, solicit, or negotiate insurance while not duly licensed.
3. The Company was criticized under Section 500-85 of the Illinois Insurance Code (215 ILCS 5/500-85) for failure to notify the Director of Insurance when Producers are terminated for cause.

## II. BACKGROUND

Humana Insurance Company (“HIC”), a Wisconsin corporation, was incorporated on December 18, 1968. HIC was licensed as a life and health insurance company on December 30, 1968 in the State of Wisconsin and licensed to do business in Illinois on February 8, 1984. HIC is licensed as a life and health insurance company in all states and the District of Columbia except New York and New Hampshire. HIC is owned 100% by CareNetwork, Inc., a Wisconsin general business corporation and wholly owned subsidiary of Humana Inc. (“HUMANA”), a Delaware corporation and an insurance and health maintenance organization holding company, the ultimate controlling entity. HIC became an affiliate in the insurance holding company system on October 13, 1995, when EMPHESYS Financial Group, Inc., a Delaware corporation merged into HEW, Inc., a wholly owned subsidiary of HUMANA. EMPHESYS Financial Group, Inc. (“EFG”) was the survivor of the merger.

Effective December 31, 2001, as approved by the Wisconsin Office of the Commissioner of Insurance (“OCI”), Humana Insurance Company, a Missouri company, merged into Employers Health Insurance Company, and Employers Health Insurance Company subsequently changed its name to Humana Insurance Company. Until June 30, 2002, HIC was owned 88.7% by EFG, as listed above, and owned 11.3% by Wisconsin Employers Group, Inc., a Wisconsin corporation. Wisconsin Employers Group, Inc. was a wholly owned subsidiary of EFG. EFG was a wholly owned subsidiary of Humana Inc.

On May 1, 2002, a Form A was submitted to the OCI that requested permission for several mergers, including the merger of Wisconsin Employers Group, Inc. into EFG and the subsequent merger of EFG into CareNetwork, Inc. The mergers were approved by OCI for an effective date of June 30, 2002. As a result of the above referenced mergers, HIC became a wholly owned subsidiary of CareNetwork, Inc.

### III. METHODOLOGY

The Market Conduct Examination covered the business for the period of September 1, 2005 through September 18, 2006 for appeals, complaints and external independent reviews. Specifically, the examination focused on a review of the following areas of Medicare business.

1. Sales, advertising and procedure files.
2. Enrollment procedures.
3. Appeals, DOI complaints, consumer complaints and external independent reviews.

The review of the categories was accomplished through examination of appointed and terminated producer files and complaint files. Each of the categories was examined for compliance with Division regulations and applicable State laws. The report concerns itself with improper practices performed with such frequency as to indicate general practices. Individual criticisms were identified and communicated to the HMO, but not cited in the report if not indicative of a general trend, except to the extent that underpayments and/or overpayments in claim surveys or undercharges and/or overcharges in underwriting surveys were cited in the report.

The following methods were used to obtain the required samples and to assure a methodical selection:

#### Producer Production

New business was reviewed to determine if solicitations had been made by duly licensed Producers/Entities and commissions were paid only to duly licensed Producers/Entities.

#### Division of Insurance Complaints and Consumer Appeals

The Company was requested to provide all files relating to complaints received via the Division of Insurance and those received directly from members. The Company was also requested to provide files of all member appeals in our selection and external independent reviews handled during the survey period.

Median periods were measured from the date of notification by the complainants to the date of response by the Company.

## SELECTION OF SAMPLE

<u>Survey</u> <u>Reviewed</u>	<u>Population</u>	<u># Reviewed</u>	<u>%</u>
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### Producers Analysis

Producers/Applications	2,237/53,700	2,237/53,700	100.00
Terminated Agents Review	2	2	100.00

### DOI Complaints, Consumer Complaints and External Independent Reviews

Division of Insurance Complaints	47	47	100.00
Consumer Complaints	339	339	100.00
Appeals (includes expedited)	599	599	100.00
External Independent Review (CHDR)	51	51	100.00
Section A Complaints	58	58	100.00

### Advertising Analysis

Advertising	48	48	100.00
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### Marketing, Medicare Enrollment and Agent Training Review

Marketing	972	972	100.00
Medicare Enrollment	241	241	100.00
Agent Training	1036	1036	100.00

## IV. FINDINGS

### A. Producer Analysis

A review of the producer licensing files, first year commissions paid and agents terminated for cause produced three (3) criticisms. A general criticism was written under Section 500-15 of the Illinois Insurance Code (215 ILCS 5/500-15) for allowing 67 Producers/Entities to sell, solicit, or negotiate insurance while not duly licensed. A general criticism was written under Section 500-80 of the Illinois Insurance Code (215 ILCS 5/500-80) for payment of commission to 17 Producers/Entities not duly licensed who wrote 222 applications. A general criticism was written under Section 500-85 of the Illinois Insurance Code (215 ILCS 5/500-85) for failure to notify the Director of Insurance of two (2) Producers terminated for cause.

### B. Complaints, Appeals and External Independent Reviews

#### 1. Division of Insurance Complaints

A review of the Division of Insurance complaint files produced no criticisms.

The median for response to the Division of Insurance was four (4) days.

#### 2. Consumer Complaints

A review of the consumer complaint files produced no criticisms.

The median for response was seven (7) days.

#### 3. Appeals

A review of the appeal files produced no criticisms.

The median for response was seventeen days.

#### 4. External Independent Review (CHDR)

A review of the External Independent Reviews produced no criticisms.

The median for response from the reviewer was forty six days.

4. Section A Complaints

A review of the Section A complaints produced no criticisms.

The median for response was thirty six days.

C. Advertising Review

A review of the advertising examples produced no criticisms.

D. Marketing, Medicare Enrollment and Agent Training Review

1. Marketing Review

A review of the marketing material produced no criticisms.

2. Medicare Enrollment Review

A review of Medicare Enrollment Forms produced no criticisms.

3. Agent Training Review

A review of the agent training material produced no criticisms.

## V. INTERRELATED FINDINGS

During the course of the exam, which focused on Medicare enrollment procedures and results, the examiners identified problems with solicitation of the Prescription Drug Plans by producers (agents) at Wal-Mart Stores. Medicare eligible people, who talked with agents located in the stores about the Prescription Drug Plan, were encouraged to consider the Medicare Advantage Plan. The company commission schedule for the Advantage plan was considerably more than the Prescription Drug Plan which would be a natural incentive to steer applicants toward the Advantage Plan. The commission schedules are included under the Technical Appendices section of this report.

The majority of Section A Complaints reviewed by the examiners were filed by people who claimed they did not know they were changing their existing Medicare plan, they only wanted to add the PDP, or they did not know they were being changed to an HMO or PPO plan. Agents were instructed to confirm sales by telephone and the sales were to be recorded on tape. In certain limited cases, the agents claimed Company lines were busy so they failed to connect and confirmation tapes were not available. In the limited cases where no telephone verification was obtained for MA and MAPD enrollments, the Company mailed out written verifications to the members. In addition, all PDP enrollments were verified in writing.

Agents were instructed to complete Suitability Forms but the Company was unable to provide them because they were retained by the agents and not submitted to the Company. Agent discipline for improper sales procedures was enforced where determinations were made that the Section A complaints were founded, with two being terminated and seven reprimanded and required to complete remedial training.

There were two parts of the Agent Sales Presentation that were questionable:

1. PowerPoint slide show  
Page 3 “Entering and modifying text on a slide.”  
The instructions say not to modify the presentation, and then proceeds to tell how to change it. There were instances where agents did change the form.
2. Presentation – MAPD/PDP  
The presentation emphasizes the advantages of the Humana Advantage Plan first and then proceeds to describe Medicare Part D.

VI TECHNICAL APPENDICES

This Market Conduct Examination was conducted pursuant to Sections 131.21, 132, 402 and 425 of the Illinois Insurance Code (215 ILCS 5/131.21, 5/132, 5/402 and 5/425). It was conducted in accordance with standard procedures of the Market Conduct Examination Section by duly qualified examiners of the Illinois Department of Insurance.

This report is divided into eight parts. They are as follows: Summary, Background, HMO Structure, Quality Assurance: Complaint and Appeals, Policy Forms, Methodology, Findings and Technical Appendices. All files reviewed were reviewed on the basis of the files' contents at the time of the examination. Unless otherwise noted, all overcharges (underwriting) and/or underpayments (claims) were reimbursed during the course of the examination.

No company, corporation, or individual shall use this report or any statement, excerpt, portion or section thereof for any advertising, marketing or solicitation purpose. Any company, corporation or individual action contrary to the above shall be deemed a violation of Section 149 of the Illinois Insurance Code (215 ILCS 5/149).

The Examiner-in-Charge was responsible for the conduct of this examination. The Examiner-in-Charge did approve of each criticism contained herein and has sworn to the accuracy of this report.

Michael W. Hessler, C.I.E.  
Deputy Director  
Market Conduct Examination Section

# STATE OF ILLINOIS



## Department of Financial and Professional Regulation Division of Insurance

IN THE MATTER OF  
THE EXAMINATION OF

HUMANA INSURANCE COMPANY  
1100 EMPLOYERS BOULEVARD  
DE PERE, WISCONSIN 54115

### MARKET CONDUCT EXAMINATION WARRANT

I, the undersigned, Director of Insurance of the State of Illinois, pursuant to Sections 131.21, 132, 401, 402, 403 and 425 of the Illinois Insurance Code (215 ILCS 5/131.21, 5/132, 5/401, 5/402 and 5/425) do hereby appoint Danny Talkington, Examiner-In-Charge, Alvin Hysler, John Staples and associates as the proper persons to examine the insurance business and affairs of Humana Insurance Company of De Pere, Wisconsin, and to make a full and true report to me of the examination made by them of Humana Insurance Company with a full statement of the condition and operation of the business and affairs of Humana Insurance Company with any other information as shall in their opinion be requisite to furnish me a statement of the condition and operation of its business and affairs and the manner in which it conducts its business.

The persons so appointed shall also have the power to administer oaths and to examine any person concerning the business, conduct, or affairs of Humana Insurance Company.

### IN TESTIMONY WHEREOF,

I hereto set my hand and cause to be affixed the Seal of my office.  
Done at the City of Springfield, this 6<sup>th</sup> day of Sept, 2006

*Michael T. McRaith*

Michael T. McRaith

Director

