REPORT OF TARGETED MARKET CONDUCT EXAMINATION

OF

HUMANADENTAL INSURANCE COMPANY

NAIC# 70580

AS OF

JUNE 30, 2008

TABLE OF CONTENTS

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CHRISTINA URIAS
Director of Insurance

Honorable Christina Urias
Director of Insurance
State of Arizona
2910 North 44th Street, Suite 210
Phoenix, Arizona 85108-7269

Dear Director Urias:

Pursuant to your instructions and in conformity with the provisions of the Insurance Laws and Rules of the State of Arizona, a targeted examination has been made of the market affairs of:

HumanaDental Insurance Company

NAIC # 70580

The above examination was conducted by Sandra Lewis, CIE, MCM, Market Conduct Examiner-in-Charge, Sondra Faye Davis, Market Conduct Examiner, and James R. Dargavel, CIE, MCM, Examinations Data Specialist.

The examination covered the period of July 1, 2007, through June 30, 2008.

As a result of that examination, the following Report of Examination is respectfully submitted.

Sincerely yours,

Helene I. Tomme

Helene I. Tomme, CPCU, CIE
Market Examinations Supervisor
Market Oversight Division

AFFIDAVIT

STATE OF ARIZONA)
) ss.
County of Maricopa)

I, Sandra Lewis, CIE, MCM, being first duly sworn state that I am a duly appointed Market Conduct Examiner-in-Charge for the Arizona Department of Insurance, and that under my direction and with my participation and the participation of Sondra Faye Davis, Market Conduct Examiner, and James Dargavel, CIE, MCM, Examinations Data Specialist, the examination of HumanaDental Insurance Company, hereinafter referred to as the "Company" was performed at the offices of the Arizona Department of Insurance. A teleconference meeting with appropriate Company officials was held to discuss the findings set forth in this Report. The information contained in this Report, consisting of the following pages, is true and correct to the best of my knowledge and belief and any conclusions and recommendations contained in and made a part of this Report are such as may be reasonably warranted from the facts disclosed in the Examination Report.

Sandra Lewis

Sandra Lewis, CIE, MCM
Market Conduct Examiner-in-Charge

Subscribed and sworn to before me this 12th day of June, 2009

Frances Conte

Notary Public

My Commission Expires ~~6/12/10~~ 9/4/2009

OFFICIAL SEAL
FRANCES CONTE
NOTARY PUBLIC - State of Arizona
MARICOPA COUNTY
My Comm. Expires Sept. 4, 2009

FOREWORD

This targeted market conduct examination of HumanaDental Insurance Company ("Company"), was prepared by employees of the Arizona Department of Insurance ("Department") as well as independent examiners contracting with the Department. A targeted market conduct examination is conducted for the purpose of auditing certain business practices of insurers licensed to conduct the business of insurance in the State of Arizona. The Examiners conducted the examination of the Company in accordance with Arizona Revised Statutes (A.R.S.) §§ 20-142, 20-156, 20-157, 20-158, and 20-159. The findings in this report, including all work products developed in the production of this report, are the sole property of the Department.

The examination consisted of a review of the following components of the Company's dental insurance business:

1. The Company conducts a reasonable and timely investigation before denial of claims, and
2. The Company has appropriate procedures in place to identify and correct errors in its claim processing system.

Certain unacceptable or non-complying practices may not have been discovered in the course of this examination. Additionally, findings may not be material to all areas that would serve to assist the Director.

Failure to identify or criticize specific Company practices does not constitute acceptance of those practices by the Department.

SCOPE AND METHODOLOGY

The examination of the Company was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and the Department. The targeted market conduct examination of the Company covered the period from July 1, 2007, through June 30, 2008, for the line of business reviewed. The purpose of the examination was to determine the Company's compliance with Arizona's insurance laws and to determine whether the Company's operations and practices are consistent with the public interest. This examination was completed by applying tests to each examination standard to

determine compliance with the standard. The standards applied during the examination are stated in this Report at page 7.

In accordance with Department procedures, the Examiners completed a Preliminary Finding ("PF") on those policies, claims, complaints, and/or procedures not in apparent compliance with Arizona law. The PF forms were submitted for review and comment to the Company representative designated by Company management as being knowledgeable about the files. For each PF, the Company was requested to agree, disagree, or otherwise justify the Company's noted action.

The Examiners utilized both examination by test and examination by sample. Examination by test involves review of all records within the population, while examination by sample involves the review of a selected number of records from within the population. Due to the small size of some populations examined, examinations by test and by sample were completed as to those populations without the need to utilize computer software.

Denied claim file sampling was based on a review of denied claims overturned after a request for reconsideration made by or on behalf of the insured, and in part on statistical analysis of raw claims data. Denied claims samples were randomly or systematically selected by using ACL (formerly "Audit Command Language) software and computer data files provided by the Company's representative, Craig Zimanek, Director, Regulatory Compliance. Samples were tested for compliance with standards established by the NAIC and the Department. The tests applied to sample data resulted in an exception ratio, which determined whether or not a standard was met. If the exception ratio found in the sample was, generally, less than 5%, the standard was considered as "met." A standard in the areas of procedures, forms and policy forms use was not met if any exception was identified.

EXECUTIVE SUMMARY

This examination was completed by applying tests to each examination standard to determine compliance with the standard. Each standard applied during the examination is stated in this report at page 7, and the examination findings are reported beginning on page 4.

1. The Company failed Standard 1 in apparent violation of A.R.S. § 20-461(A)(3) and (4) and A.A.C. R20-6-801(F), by failing to perform an adequate investigation before denying the claims in 23 (10%) of the 226 files reviewed.

2. The Company failed Standard No. 2 in apparent violation of A.R.S. § 20-2533(D) by misstating the time period for filing a first-level appeal as 180 days rather than two years as provided by A.R.S. §§ 20-2535(A) and/or 20-2536(A).

3. The Company passed Standard No. 3.

PROCEDURES PERFORMED

The Examiners reviewed the Company's appeal policies and procedures, claims manuals, training manuals, and responses to interrogatories in preparation for the file reviews to be conducted.

The Company provided appeal logs indicating it had processed 54 appeals from denied claims during the examination period. The Examiners selected all 54 appeals for review. The Examiners did not note any trends of overturned denials related to similar procedural codes or Explanation of Benefits ("EOB") messages during the review of the appeal files.

The Company provided a population of 20,584 claims denied during the examination period. Using procedural codes and EOB reason codes identified during the review of the denied claims data, the Examiners extracted a subpopulation of 3,387 denied claims. From this subpopulation, the Examiners selected five claim sample groups of 55 files each for review, using the reason for the denial of the claim as the selection criterion. Forty-nine files of the 275 files selected were eliminated from review as duplicates.

The following table summarizes the samples reviewed by the Examiners:

ADOI Prefix	Description	Population	Sample Reviewed
HD-NC	Not covered	2,382	54
HD-CR	Crown, implants, similar services	515	51
HD-MN	Medical necessity	173	46
HD-AB	Allowable benefits	87	35
HD-SE	Sealants	230	40
	Totals =	**3,387**	**226**

As a result of the review of the Attachment A and B information and the 226 denied claims, the Examiners identified the following findings.

EXAMINATION FINDINGS – FAILED STANDARD 1

Based on the Examiners' review of the Company's denied dental claims, the Company failed to meet the following standard for review:

#	STANDARD	REGULATORY AUTHORITY
1	The Company conducts timely investigations of claims and does not deny claims without conducting a reasonable investigation.	A.R.S. § 20-461(A)(3) and (4) and A.A.C. R20-6-801

The Examiners reviewed five samples of denied claims, for a total of 226 files reviewed. As described by the table below, the Examiners identified 23 (10%) of the 226 denied claims where the Company failed to perform an adequate investigation by requesting additional information necessary to process the claim.

The Company's claims processing procedures during the examination period were to deny claims that were missing the supporting documentation necessary to adjudicate the claim. The Company would then request the missing documentation and request that the claim be resubmitted. The result was to deny the claim before conducting an investigation. The Company has not met Standard No. 1 and is in apparent violation of A.R.S. § 20-461(A)(3) and (4) and A.A.C. R20-6-801(F). Reference PFs # 002, 003, and 004.

Summary of Findings – Standard 1 File Review

ADOI Prefix	Population	Sample Reviewed	Exceptions	Error Ratio	PF #
HD-NC	2,382	54	0	0%	
HD-CR	515	51	10	20%	002
HD-MN	173	46	4	9%	003
HD-AB	87	35	9	26%	004
HD-SE	230	40	0	0%	
Totals =	**3,387**	**226**	**23**	**10%**	

A 10% error ratio does not meet the standard; therefore recommendations are warranted.

Subsequent Events

The Company agreed with the findings of PFs 002, 003, and 004, and supplied revised policies and procedures to ensure that future Arizona claims are properly investigated prior to the denial of the claim. The Examiners have submitted these policies and procedures to the Department.

EXAMINATION FINDINGS – FAILED STANDARD 2

Based on the Examiners' review of the Company's claim procedures, forms and denied dental claims, the Company failed to meet the following standard for review:

#	STANDARD	REGULATORY AUTHORITY
2	The Company provides a prompt and reasonable explanation for the denial of a claim in sufficient detail to allow members and providers to appeal an adverse decision.	A.R.S. § 20-461(A)(5) and A.A.C. R20-6-801(G)(1)(a)

The Company failed to meet the standard for claim procedures, forms and claims denied because the appeal rights notification sent to the insured (Form # GN-14135-HH) misstated the time limit for filing a first-level appeal as 180 days instead of two years as prescribed by A.R.S. §§ 20-2535(A) and/or 20-2536(A). The Company has not met Standard 2 and is in apparent violation of A.R.S. § 20-2533(D). Reference PF # 001.

Subsequent Events

The Company agreed with the findings of PF 001, and supplied a copy of its revised notice of appeal rights, which was implemented on June 20, 2008, which was prior to the commencement of this examination. The Examiners have submitted this document to the Department.

RECOMMENDATIONS

The Company has taken corrective that appears to have brought it into compliance with all issues identified during this examination. The Company should continue to monitor claim denials to ensure that:

1. All claims are adequately investigated before a denial notice is sent; and
2. All members receive accurate notices of their right to appeal an adverse claim decision.

No further compliance action appears to be needed.

SUMMARY OF STANDARDS

#	STANDARD FOR REVIEW	PASS	FAIL
1	The Company conducts timely investigations of claims and does not deny claims without conducting a reasonable investigation, per A.R.S. § 20-461(A)(3) and (4) and A.A.C. R20-6-801(F).		X
2	The Company provides a prompt and reasonable explanation for the denial of a claim in sufficient detail to allow members and providers to appeal an adverse decision, per A.R.S. §§ 20-461(A)(15) and 20-2533(D), and A.A.C. R20-6-801.		X
3	Where appropriate under the circumstances, the Company pays interest on overturned denied claims, per A.R.S. § 20-462(A).	X	