REPORT OF TARGETED EXAMINATION

OF

FIDELITY SECURITY LIFE INSURANCE COMPANY

NAIC# 71870

AS OF

JUNE 30, 2006

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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:

FIDELITY SECURITY LIFE INSURANCE COMPANY

NAIC # 71870

The above examination was conducted by Sandra Lewis, CIE, Examiner-in-Charge, and Sondra F. Davis, Market Examiner.

The examination covered the period of July 1, 2005, through June 30, 2006.

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

Sincerely yours,

Paul J. Hogan, JD, FLMI, ALHC, CIE
Market Oversight Administrator
Market Oversight Division

AFFIDAVIT

STATE OF ARIZONA)
) ss.
County of Maricopa)

I, Sandra Lewis, CIE, being first duly sworn state that I am a duly appointed Market Examinations Examiner-in-Charge for the Arizona Department of Insurance, and that under my direction and with my participation and the participation of Sondra Davis, Market Examiner, the examination of Fidelity Security Life 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
Market Examinations Examiner-in-Charge

Subscribed and sworn to before me this 14 day of Feb, 2008.

Susan M Loesche
Notary Public

OFFICIAL SEAL
SUSAN M. LOESCHE
NOTARY PUBLIC - State of Arizona
MARICOPA COUNTY
My Comm. Expires June 4, 2010

My Commission Expires 6-4-2010

FOREWORD

This targeted market examination of Fidelity Security Life 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 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 major medical 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 examination of the Company covered the period from July 1, 2005 through June 30, 2006 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 6.

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 Audit Command Language (ACL) software and computer data files provided by the Company's Representative, Geri Davies, Manager, Contracts and Legal. 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 6, and the examination findings are reported beginning at page 4.

1. The Company failed Standard No. 2, in apparent violation of A.R.S. §§ 20-461(A)(15) and 20-2533(D), by misstating the time period for filing a first-level appeal on the

Explanation of Benefits ("EOB") form in 20 (100%) of 20 claims denied because benefits were excluded from coverage.

2. The Company failed Standard No. 2, in apparent violation of A.R.S. §§ 20-461(A)(15) and 20-2533(D), by failing to provide a notice of the member's right to appeal on the EOB form in six (100%) of six claims denied as "not covered."

3. The Company passed Standards 1 and 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 and complaint logs indicating it had processed four appeals from denied claims during the examination period. The Examiners selected all four appeal files for review. No apparent trends were noted from among the four files.

The Company provided a population of 309 Arizona claims denied during the examination period. The Examination Data Specialist used ACL software to analyze the 309 denied claims, and extracted a subpopulation of 104 denied claims by selecting the most commonly denied services by procedure codes and/or EOB denial reason codes. The Data Specialist then selected two samples totaling 35 denied claims for the Phase I review. As a result of the initial review by the Examiners, nine files were found to be duplicates and were therefore eliminated from consideration.

As a result of the review of the remaining 26 denied claims, the Examiners identified the following findings.

EXAMINATION FINDINGS – FAILED STANDARD 2

Based on the Examiners' review of the Company's EOB forms and denied health care 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)(15) and A.A.C. R20-6-801(G)(1)(a)

Excluded From Coverage

The Examiners reviewed a sample of 27 claims denied due to policy exclusions and omitted seven files from consideration as duplicates. The Examiners found that 20 (100%) of the remaining 20 files failed Standard 2. During the examination period, the Company used EOB Reason Code 21, which included a notice of appeal rights but which misstated the time period for filing a first-level appeal as 90 days, in apparent violation of A.R.S. §§ 20-2535(A) and/or 20-2536(A). This is an apparent violation of Standard 2, A.R.S. § 20-461(A)(15). Reference PF #002.

Subsequent Events

The Company agreed the time frame in the letters was incorrectly stated as less than two years required by A.R.S. § 20-2536(A) and has notified the Administrator personnel to immediately correct their automated letters. No further documentation has been provided to the Examiners.

Not Covered

The Examiners reviewed a sample of eight claims denied as "not covered" and omitted two files from consideration as duplicates. The Examiners found that six (100%) of the remaining six files failed Standard 2. During the examination period, the Company used EOB Reason Codes 17, 22, 3I, and 4U, and failed in all cases to provide the claimant with a notice of the member's right to appeal the denial, in apparent violation of A.R.S. §§ 20-2533(D). This is an apparent violation of Standard 2, A.R.S. § 20-461(A)(15). Reference PF #002.

Subsequent Events

The Company agreed with the finding, and stated in its response to the PF that it has notified the Administrator that a separate notice must be included to advise the insured and

provider of their right to appeal as required by A.R.S.§20-2533(D). No further documentation has been provided to the Examiners.

Recommendations

Within 90 days of the filed date of this report, the Company should provide documentation that procedures and controls are in place to provide a compliant right to appeal statement with all claim denials as prescribed by A.R.S. §§ 20-461(A)(15) and 20-2533(D).

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 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	