



1           2.    The Examiners were authorized by the Director to  
2    conduct a market conduct examination of Respondent and have  
3    prepared a report entitled Report of Examination of the Market  
4    Conduct Affairs of Central Reserve Life Insurance Company  
5    (hereinafter "the Report").    The period covered by the on-site  
6    examination was July 1, 1988 through December 31, 1991.

7           3.    In 1985, Respondent developed underwriting  
8    guidelines related to Human Immunodeficiency Virus (hereinafter  
9    "HIV") and Acquired Immune Deficiency Syndrome (hereinafter  
10   "AIDS") that included high risk categories referencing national  
11   origin and/or sexual orientaion of the applicant.

12           4.    Respondent issued its master group contract in  
13    Ohio, with certificates of coverage to Arizona residents.    On at  
14    least 1,054 such certificates issued during the time period  
15    covered by the Report, Respondent failed to provide the following  
16    notice:    "Notice: This certificate of insurance may not provide  
17    all benefits and protections provided by law in Arizona.    Please  
18    read this certificate carefully."

19           5.    Respondent published and distributed 51 sales  
20    brochures for the products Respondent marketed in Arizona during  
21    the time period covered by the Report.    Respondent failed to  
22    include information in the 51 brochures which fully disclosed the  
23    exclusions and limitations of coverage contained in those  
24    products.

25           6.    The Examiner reviewed 81 complaints filed with the  
26    Department against Respondent during the subject time period.    Of  
27    those complaints, 56 related to claims processing.    Respondent  
28    . . . . .

1 failed to respond to 15 (26.8%) of the claims-related complaints  
2 within 15 working days.

3 7. The Examiner reviewed 244 claims denied by  
4 Respondent during the subject time period. As to the 244 denied  
5 claims reviewed, Respondent:

6 a. failed to notify the claimant of the acceptance or  
7 denial of the claim within 15 working days after  
8 receiving the proof of loss in 22 (9.0%) of the claim  
9 files; and

10 b. failed to complete the investigation of the claim  
11 within 30 calendar days after notification of the claim  
12 in six (2.5%) of the claim files.

13 8. The Examiner reviewed 189 claims paid by  
14 Respondent during the subject time period. As to the 189 paid  
15 claims reviewed, Respondent:

16 a. failed to notify the claimant of the acceptance or  
17 denial of the claim within 15 working days after  
18 receiving the proof of loss in 35 (18.5%) of the claim  
19 files;

20 b. failed to complete the investigation of the claim  
21 within 30 calendar days after notification of the claim  
22 in 11 (5.8%) of the claim files; and

23 c. failed to pay interest on claims paid more than 30  
24 days after the receipt of proof of loss from  
25 first-party claimants in 14 (7.4%) of the claim files.

26  
27 CONCLUSIONS OF LAW

28 1. The Director has jurisdiction in this matter.

1           2.    The HIV and/or AIDS underwriting guidelines  
2 published by Respondent that included high risk categories  
3 referencing national origin and/or sexual orientation of the  
4 applicant violates A.R.S. §§ 20-448 and 20-448.01.

5           3.    Respondent's failure to provide notice to Arizona  
6 certificate holders that the group policy issued outside this  
7 state may not provide all benefits and protection provided by law  
8 in Arizona, constitutes 1,054 acts in violation of A.R.S.  
9 § 20-1401.01(A).

10          4.    Respondent's failure to provide information in its  
11 sales brochures which fully disclosed the exclusions and  
12 limitation to coverage constitutes 51 acts in violation of A.R.S.  
13 §§ 20-442, 20-443(1) and 20-444(A), as well as A.A.C.  
14 R4-14-201(C)(2)(a) and R4-14-201(E).

15          5.    The failure by Respondent to respond within 15  
16 working days to the claims-related consumer complaints forwarded  
17 to Respondent by the Department constitutes 15 violations of  
18 A.A.C. R4-14-801(E)(2).

19          6.    The above-described conduct by Respondent  
20 constitutes a general business practice of failure to acknowledge  
21 and act reasonably and promptly upon communication with respect  
22 to claims arising under an insurance policy within the meaning of  
23 A.R.S. § 20-461(A)(2).

24          7.    The failure by Respondent to notify the claimant  
25 of acceptance or denial of the claim within 15 working days after  
26 receiving the proof of loss, constitutes 57 violations of A.A.C.  
27 R4-14-801(G)(1)(a).

28   . . . . .



1 that the group policy issued outside this state may not provide  
2 all the benefits and protection by law in Arizona; from failing  
3 to provide full disclosure of all applicable exclusions and  
4 limitations to coverage in any and all sales brochures and  
5 advertising materials of any type; from failing to respond to  
6 consumer complaints forwarded by the Department within 15 working  
7 days after receiving the said complaint; from failing to notify  
8 the claimant of acceptance or denial of the claim within 15  
9 working days after receiving the proof of loss; from failing to  
10 complete the investigation of claims within 30 calendar days  
11 after notification of the claim; and from failing to pay interest  
12 to a first-party claimant where the subject claim was not paid  
13 within 30 days after receipt of the proof of loss.

14 2. Respondent has revised, subject to the approval of  
15 the Department, its HIV and/or AIDS underwriting guidelines to  
16 comply with A.R.S. §§ 20-448 and 20-448.01, along with A.A.C.  
17 R4-14-1201 through R4-14-1205, which rules were adopted in 1994,  
18 subsequent to the time period covered by the Report.

19 3. Within thirty (30) days of the filed date of this  
20 Consent Order, Respondent shall develop a written action plan  
21 acceptable to the Department to monitor and ensure strict  
22 compliance with the notice requirements of A.R.S. § 20-1404.01  
23 and with the claims-processing requirements of A.R.S. §§ 20-461  
24 and 20-462, and A.A.C. R4-14-801.

25 4. Respondent has paid, unless the amount owed was  
26 under one dollar (\$1.00), the claimants of claims #32114, #50326,  
27 #25416, #44853, #34406, #44971, #38006, #29404, #33574, #18679,  
28 #29944, #38863, #40153, and #41025 interest on the amounts of the

1 claims unpaid on the 30th day after Respondent's receipt of  
2 proofs of loss containing all information necessary for claims  
3 adjudication. Interest has been paid at the rate of ten percent  
4 (10%) per annum calculated from the date the claim was received  
5 by Respondent to the date the claim was paid. These payments  
6 have been accompanied by a letter to the insured acceptable to  
7 the Director. A list of payments, giving the claim number for  
8 which made, and the amount of the interest paid, has been  
9 provided to the ADOI.

10 5. The Department shall be permitted, through an  
11 authorized representative, to verify that Respondent has complied  
12 with all provisions of this Order, and the Director may  
13 separately order Respondent to comply.

14 6. Respondent shall pay a civil penalty of FIFTEEN  
15 THOUSAND DOLLARS (\$15,000) to the Director for remission to the  
16 State Treasurer for deposit in the State General Fund in  
17 accordance with A.R.S. § 20-220(B). Said civil penalty shall be  
18 provided to the Hearing Division of the Department on or before  
19 August 26, 1994.

20 7. The Report of Market Conduct Examination as of  
21 December 31, 1991, responses to the Report and the Examiner's  
22 August 2, 1993, reply thereto, shall be filed with the Department  
23 as of the effective date of this Order.

24 DATED at Phoenix, Arizona, this 29th day of  
25 August, 1994.

26  
27   
28 \_\_\_\_\_  
CHRIS HERSTAM, Director

CONSENT TO ORDER

1  
2           1. Respondent, CENTRAL RESERVE LIFE INSURANCE  
3 COMPANY, has reviewed the foregoing Order.

4           2. Respondent is aware of its right to a hearing in  
5 this matter at which hearing Respondent may be represented by  
6 counsel, present evidence and cross-examine witnesses.  
7 Respondent has irrevocably waived its right to such public  
8 hearing and to any court appeals relating thereto.

9           3. Respondent admits the jurisdiction of the Director  
10 of Insurance, State of Arizona, and consents to the entry of this  
11 Order.

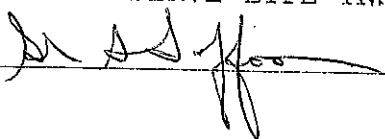
12           4. Respondent states that no promise of any kind or  
13 nature whatsoever was made to induce it to enter into this Order  
14 and that it has entered into this Order voluntarily.

15           5. Respondent acknowledges that the acceptance of  
16 this Order by the Director of Insurance, State of Arizona, is  
17 solely for the purpose of settling this litigation against it and  
18 does not preclude any other agency or officer of this State, or  
19 any subdivision thereof, from instituting other civil or criminal  
20 proceedings as may be appropriate now or in the future.

21           6.           Glen A. Laffoon  
22 as the           Chief Administrative Officer and  
23           Executive Vice President           of Respondent, CENTRAL  
24 RESERVE LIFE INSURANCE COMPANY, that he/she has been authorized  
25 by Respondent to enter into this Order for and on its behalf.

CENTRAL RESERVE LIFE INSURANCE COMPANY

26           8-17-94  
27           Date

By 



1 COPY of the foregoing mailed/delivered  
2 this 30th day of August , 1994, to:

3 Gay Ann Williams  
4 Deputy Director

5 Gregory Y. Harris  
6 Chief Administrative Law Judge

7 Erin Klüg  
8 Manager  
9 Market Conduct Examinations Division

10 Saul Saulson  
11 Supervisor  
12 Examinations Section

13 Bernard Hill  
14 Supervisor  
15 Property and Casualty Section / Life and Disability Section

16 Deloris E. Williamson  
17 Assistant Director

18 Rates & Regulations Division

19 Gary Torticill  
20 Assistant Director and Chief Financial Examiner  
21 Corporate & Financial Affairs Division

22 Ron Watkins  
23 Assistant Director  
24 Consumer Services and Investigations

25 Mary Butterfield (L&D Orders only)

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